IDEAS ON LIBERTY

FEE's Monthly Magazine

Full report on FEE Fest 2002, Ben Stein's Poem to FEE

- Are Capitalists Parasites?
- The Living Wage Folly
- Say It Isn't So, Jerry Lewis
- Lunch with a Free-Market "Subversive"

JUNE 2002

The Foundation for Economic Education cordially invites you to our FEE Summer Lecture Series.

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Lawrence W. Reed
President, Mackinac Center for Public Policy, and
Ideas on Liberty columnist
"Seven Principles of Sound Public Policy"

Wednesday, July 10, 7 p.m.

Burton Folsom
Chief Historian, Center for the American Idea, and
Ideas on Liberty contributing editor
"George Washington: Study in Character and Economics"

Thursday, August 15, 7 p.m.

Mark Skousen
President, Foundation for Economic Education
"The Big Three in Economics: Smith, Marx, and Keynes"

There is no charge to attend these events, but reservations are necessary. Please call Karin Krupinsky at 914-591-7230, ext. 214, or e-mail kkrupinsky@fee.org with acceptances only.

Light refreshments will be served.

IDEAS ON LIBERTY

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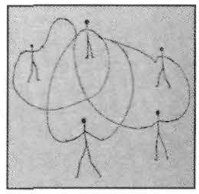
FEATURES



COLUMNS

DEPARTMENTS

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Cover adaptation of Fleeming Jenkin diagram by John P. Wattai.

PERSPECTIVE

No Responsibility, No Freedom

Andrea Yates was not the only person whose free will was on trial last winter. Thus the Yates murder case underscores the affront represented by the psychiatric (and any other reductionist-positivist) worldview. She drowned her five young children in a bathtub last year and pleaded not guilty by reason of insanity. (The jury nevertheless convicted her of murder.) The claim behind that plea is that mental illness prevented her from knowing right from wrong. (It's not clear if that also means she couldn't help it. Theoretically, one could be confused about right and wrong and still have control over one's actions. Conversely, in theory, one could know right from wrong but believe one had no choice but to commit an evil act. The issues are separable, and both came up at the trial.)

Why is this an affront? Living well requires effort—thinking about and planning one's future, getting out of bed on time every day, discharging one's responsibilities with care, managing interpersonal conflict, being decent to one's fellow human beings (even when they don't deserve it), and making sure there's sustenance for self and family. (If the effort at times seems minimal, that's because the activities have become habits, which are the products of earlier effort.)

But occasionally people rebel against life's demands. Some forms of rebellion (against particular, oppressive circumstances) are unobjectionable, even admirable. But some people simply resign from adult life and try to get others to care for them. If they fail at that, they may look for a way out by killing themselves or others.

The psychiatrists say that only a brain "disorder" can account for such behavior. This implies that those who live well—and let live—deserve no moral credit.

Then again, if Andrea Yates isn't responsible for killing her children, perhaps you and I aren't responsible for *not* killing ours. Philosopher John R. Searle writes, "It is an amazing fact that *everything* in our conscious life . . . is *caused* by brain processes." (Emphasis added; quoted in Thomas Szasz, *The Meaning of Mind,* p. 82.)

The brave new world is here. Mind is brain. Neurochemistry is destiny. No freedom, no responsibility. No responsibility, no freedom.

That's where this all leads.

* * *

Beginning in the late nineteenth century the states and then the federal government launched an all-out attack on . . . margarine. What was the threat from the butter substitute? Adam Young relates the tale.

It was a sad day when Jerry Lewis went hat-in-hand to Congress seeking taxpayer money for his hitherto private charity. P. Gardner Goldsmith still remembers the day.

The movement to foster a "living wage" gains momentum. Pressure mounts on cities to require their private contractors to pay wages higher than those set by the market. Charles Baird says the intended beneficiaries will suffer.

To catch perpetrators of victimless crimes the government must run sting operations. But such operations run afoul of a pillar of Anglo-American jurisprudence. Joseph Fulda explains.

The push for so-called economic human rights is garbed in humanitarianism. But at bottom, Thomas Woods writes, it's an effort to establish legal plunder on behalf of people who refuse to take responsibility for themselves.

There's a new kind of revolutionary at work in Peru. He runs a railroad and reads *Atlas Shrugged.* Bill Steigerwald spent time with him and filed a report.

The X-Files is going off the air. Was it a boon for devotees of the freedom philosophy? See what Ray Keating has to say.

A businessman predicts that the next Marx is out there somewhere. Norman Barry has an idea what he'll be like.

Should the state be able to deprive someone of the right to own a gun because he talks crazy? Scott McPherson looks at a case out of Alaska.

Opponents of capitalism have a nasty habit of picking out a group of human beings and branding them "parasites." David Levy and Sandra Peart bring the old story up to date.

Free-market advocates can demonstrate theoretically that tariffs, at best, do no good and, at worst, do much harm. Now, Larry Schweikart writes, in the case of two celebrated tariffs the data is available to illustrate the theory.

John Rawls renovated political philosophy in the 1970s with his book *A Theory of Justice.* It supposedly gave new life to the welfare state. But did it really? Robert Lawson takes another look.

China's separation of city dwellers and rural inhabitants has all the features of apartheid. Christopher Lingle explains how that holds back the country's progress.

Changes are brewing in our columns department. In this issue Dwight Lee wraps up his more than four-year run of "Economic Notions." We thank Dwight for his excellent primer in economic principles. Next month begins a new and exciting feature.

This month: Mark Skousen sees worth in the "behavioral economists." Lawrence Reed reports on free-market activity in Rwanda. Doug Bandow laments the war on charity. Donald Boudreaux wonders what the fuss is over "absorbing" immigrants. Russell Roberts asks if the invisible hand failed in Enron's case. And Aeon Skoble, hearing George Will's claim that capitalism is a government project, exclaims, "It Just Ain't So!"

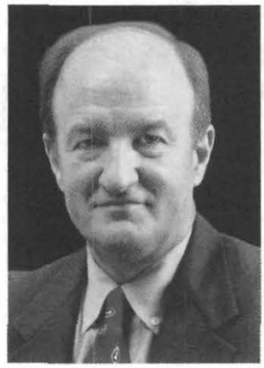
Our reviewers render verdicts on volumes about campaign-finance reform's threat to free speech, the war on drugs, the importance of free capital markets, Cuba, public works, and the capital structure.

—Sheldon Richman

From The President's Desk

IDEAS ON LIBERTY
JUNE 2002

by Mark Skousen



A Painless Way to Triple Your Savings

"The human mind is charming in its unreasonableness, its inveterate prejudices, and its waywardness and unpredictability."

—LIN YUTANG[1]

"Behavioral" finance is the hot new field in the rapidly growing "imperial" science of economics. Consider the titles of recent books on the subject: *Irrational Exuberance* by Robert Shiller of Yale University, who correctly warned investors that the bull market on Wall Street in 2000 was not sustainable, and *Why Smart People Make Big Money Mistakes* by Gary Belsky and Thomas Gilovich.

Essentially, these writers take issue with a fundamental principle of economics—the concept of "rational" predictable behavior. They argue that investors, consumers, and business people don't always act according to the "rational economic man" standard, but instead suffer from overconfidence, overreaction, fear, greed, herding instincts, and other "animal spirits," to use John Maynard Keynes's term.[2]

Their basic thesis is that people make mistakes all the time. Too many individuals overspend and get into trouble with credit; they don't save enough for retirement; they buy stocks at the top and sell at the bottom; they fail to prepare a will. Economic failure, stupidity, and incompetence are common to human nature. As Ludwig von Mises notes, "To make mistakes in pursuing one's ends is a widespread human weakness."[3]

Fortunately, the market has a built-in mechanism to minimize mistakes and entrepreneurial error. The market penalizes mistakes and rewards correct behavior (witness how well business responded to the Y2K threat in the late 1990s). As Israel Kirzner states, "Pure profit opportunities exist whenever error occurs."[4]

But the new behavioral economists go beyond the standard market approach. They argue that new institutional measures can be introduced to minimize error and misjudgments, without involving the government.

At the American Economic Association meetings in Atlanta in January 2002, Richard Thaler of the University of Chicago presented a paper on his "SMART" savings plan, which is being tested by five corporations in the Chicago area. Thaler, author of *The Winner's Curse* and a pioneer in behavioral economics, has developed a new institutional method to increase workers' savings rates. Thaler noted that the average workers' savings rates are painfully low. I blame the low rate on high withholding taxes, but Thaler suggested that part of the problem is the way retirement programs are

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administered. He convinced these corporations to adopt his plan to have their employees enroll in an "automatic" investment 401(k) plan. Most corporations treat 401(k) plans as a voluntary program and, as a result, only half choose to sign up. In Thaler's plan, employees are automatically invested in 401(k) plans unless they choose to opt out.

Result? Instead of 49 percent signing up (as they do in a typical corporate investment plan), 86 percent participate.

Raises Invested

In addition, Thaler has participating employees automatically invest most of any pay increase in higher contributions to their 401(k) plans, so they never see their paychecks decline, even though their 401(k) plans are increasing. Consequently, employees under this SMART plan have seen their average savings rate increase from 3 to 11 percent.

Robert Shiller was a discussant at the session and rightly called Thaler's plan "brilliant." I agree. Having authored several investment books advocating "automatic investing" and dollar-cost-averaging plans,[5] I applaud Professor Thaler for taking the concept of automatic investing to a new level. If companies everywhere adopt his plan, it could indeed revolutionize the world and lead not only to a much more secure retirement for workers but to a higher saving and investment rate. The result could be a higher economic growth and standard of living throughout the world.

Most important, Thaler's plan is a private-sector initiative and does not require government intervention. In short, through innovative management techniques and education, individuals can solve their own financial and business problems without the help of the state. □

1. Lin Yutang, *The Importance of Living* (New York: John Day Company, 1937), p. 57.
2. References to "animal spirits" and "waves of irrational psychology" can be found in John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Macmillan, 1973 [1936]), pp. 161–62.
3. Ludwig von Mises, *Theory and History* (New Haven: Yale University Press, 1957), p. 268. However, Mises refuses to call bad decisions "irrational." He states, "Error, inefficiency, and failure must not be confused with irrationality. He who shoots wants, as a rule, to hit the mark. If he misses it, he is not 'irrational' he is a poor marksman."
4. Israel M. Kirzner, "Economics and Error" in *Perception, Opportunity, and Profit* (Chicago: University of Chicago Press, 1979), p. 135.
5. Mark and Jo Ann Skousen, *High Finance on a Low Budget* (Chicago: Dearborn, 1993) and *Mark Skousen's 30-Day Plan for Financial Independence* (Washington, D.C.: Regnery, 1995).

Capital Formation

A society that looks upon thrift and frugality as social virtues, that believes with Benjamin Franklin "if you know how to spend less than you get, you have the philosopher's stone," such a society cannot escape the rich rewards that come from capital formation. On the other hand, a society whose habits are not thrifty will soon be poverty-stricken.

—HANS F. SENNHOLZ

Capitalism Is a Government Project?

It Just Ain't So!

As readers of *Ideas on Liberty* all know, politics cannot always be analyzed in simple left-right terms. But professional pundits like to choose up sides, with the "liberal" commentators traditionally being critical of capitalism and the "conservative" commentators supporting it.

Lately, though, there's been a disturbing amount of anti-free-market opining from the conservative team. Some writers for *National Review* and *The Weekly Standard* have contributed to this, but the conservative with the highest profile and greatest exposure (and greatest mainstream credibility), George F. Will, now joins this unfortunate chorus. In his January 15 column, he wrote of the Enron affair that "It will remind everyone—some conservatives, painfully—that a mature capitalist economy is a government project." If even the conservatives are now claiming that we need the state to run the economy, then it is clear that some economic education is in order.

Of course, there is one sense in which capitalism is a government project: the Marxist sense. According to Marx, "capitalism" is defined as a system of exploitation that requires the "bourgeois" state to enforce it. What we think of as property rights are merely the legal fictions that perpetuate class conflict and keep all wealth in the hands of the rich. Once we proceed to communism, the central planners of the economy can arrange things so as to eliminate exploitation and ensure the correct distribution of all resources. Although it sounds as if this too would have to be a government project, Marx argues that everyone would then see the exploitation that had previously been obscured and enthusiastically embrace the new order, and so it would no longer require the state. On this theory, planned socialism is the voluntary social order and capitalism is the government project. But one suspects that George Will is not a Marxist.

But if Will is not a Marxist, then his conception of the role of government in creating the free market must reflect an incomplete understanding of both. Will writes that "A properly functioning free market system does not spring spontaneously from society's soil as dandelions spring from suburban lawns." The clever simile notwithstanding, that's precisely what a free market does. No one determines the amount of a good to be produced, or how much it will cost, or who will compete for the buying and selling of it and competing goods.

As Leonard Read pointed out in these pages many years ago, millions of individual decisions come together to create the amounts and prices of goods without any central planning. The free market is just the totality of all these individual decisions, which end up yielding results no planner could determine. The free market is, to use a phrase popularized by a better economist than Marx, a spontaneous order. What that means is that there is an orderliness to the way it works, without that order being the product of conscious design. Supply is coordinated with demand, and prices and wages reflect both in a much more accurate way than any one person could determine.

What would it mean, then, to say that the free market is a government project? Certainly governments can run a market, setting prices and quantities itself. But the very idea of a *free* market is that individuals make choices about their own preferences, and the confluence of the many individual choices is what determines the outcomes. If the government dictates prices and quantities, some individual will necessarily be deprived of his autonomy, which is bad enough in a free society. Moreover, the planned outcomes will be less efficient, because the outcomes will be based on insufficient information.

Laws and Mores

Will is undoubtedly aware of the superior efficiency of the free market over central planning, and he makes a more specific claim about the relationship between the government and the free market. Rather than it being literally a government project, he suggests a mediated sense in which it depends on government. He writes that the free market is "a complex creation of laws and mores." In other words, even if it's true that free markets allocate resources more efficiently than central planning, we need government to create the free market, because it is the government's provision of laws and mores that make the free market possible.

First of all, unless Will wants to argue that government creates customs and morality, it's a sleight of hand to run "laws and mores" together as he does. But taking his point as is, it's true only in a very limited sense, one that doesn't warrant his conclusion. There is a sense in which the free market depends on laws and mores, namely the fact that in every human society, rules governing trade develop in ways that facilitate that trade: rules about contracts, for example, or rules discouraging fraud. But the development of those rules is not, historically, a government project. They, too, emerge spontaneously from the variety of human activity.

The same process by which markets "determine" prices accounts for the emergence of social rules—the common law—that facilitate human interaction, a bottom-up process of unplanned yet efficient outcomes, not a top-down process imposed by some authority. Both the common law and the market are examples of coordinated yet unplanned human interaction that reflect individual choice-making. So of course the market depends on laws and mores, but it's not a "creation of" laws and mores. That's not nitpicking about word choice; it's a crucial distinction, one which reveals much about a person's understanding of the relationship between order and authority.

Will points out examples of managerial misconduct in the Enron case, but then makes the non-sequitur inference that "government can strengthen an economic system that depends on it." It's not clear just what he thinks that would entail. Fraud and theft are already illegal. Mismanagement isn't, nor is it possible to make it so, since the information necessary to prevent and punish such a crime is the sort that is literally impossible to obtain. In addition, the necessarily clumsy and incomplete attempts to do so would entail interfering in the individual choice-making that defines a free market.

So his inference fails on two counts: its mistaken premise that the economic system depends on the government, and its misguided call for government action. Socialist critics of the free market can argue that people should not have the freedom to make certain choices, or that central planning produces superior outcomes than the agglomeration of individual choice that is the market. These are flawed criticisms, but they at least acknowledge that markets emerge from free human interaction. If conservative commentators fail to acknowledge it, it's no wonder capitalism is getting a bad reputation. Defenders of the free market have to be more forthright about the market's independence from state power.

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The War on Margarine

by Adam Young

This year marks the 116th anniversary of the Federal Margarine Act of 1886, part of an 80-year war on butter's toughest competitor.

The Act was the capstone of a movement to prevent consumers from enjoying the cheaper spread, which was introduced in 1874. The advocates of the Act, and of earlier state laws regulating the packaging and sale of margarine, argued they were preventing unscrupulous wholesalers and retailers from masking margarine as the more expensive dairy butter and duping unwitting consumers. The media and public generally assume that bureaucracy and regulation are benevolently aimed at making a safer world. But that wasn't the true motive at all.

Margarine, or oleomargarine as it was called in those days, was invented by a French chemist named Hippolyte Mège-Mouriès when he observed that even starved cows produced milk rich in butterfat, which originated in their body fats. He had the idea that pure oil resembling butterfat could be extracted from beef fat. This beef oil could then be combined with milk to form a cheap butter-like substitute.

Mège-Mouriès was given a French patent for his process in 1869 and a U.S. patent in 1873. His American patent was bought in 1874 by the U.S. Dairy Company, which went on to introduce margarine to the United States. The company opened 15 factories over the next seven years, with five in New York state. It and its subsidiary, the Commercial Manufacturing Company, made both margarine oil and margarine butter and led the industry with nearly 10 percent of the market. By 1882 the firm produced 50,000 pounds of margarine butter a day and more than half the 20 million pounds annually produced in New York state alone.*

As margarine prices fell, consumers were won over, especially poor individuals and families who preferred it to the cheap low-grade dairy butter produced by small family farms. The larger high-grade producers were also threatened.

In 1882, at a meeting of the House Ways and Means Committee, the vice president of the New York State Dairy Association, Professor L. B. Arnold, testified that the availability of margarine had caused producers of creamery butters to increase their quality in order to maintain their comparative advantage. This in turn would harm small family-run producers of lower-grade butters as they were out-competed by the larger, better-capitalized, and efficient industrial producers of the higher-grade butters. Although the production of margarine was capital-

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*Celia Bergoffen, "Margarine Wars," *Audacity: The Magazine of Business Experience*, Summer 1995, p. 55. Quotations and particulars are from this article (pp. 52–61). The National Association of Margarine Manufacturers' website at www.margarine.org/historyofmargarine.html was also helpful.

intensive and the profit margins, at least initially, were slim, margarine production boomed during this time—the late 1870s and early '80s—and meatpacking houses like Armour & Company in Chicago entered the market as a side business.

Also at this time American exports of agricultural and dairy products exploded in response to a series of bad harvests in Europe. (Thanks to international trade there were no famines as in the old days.) Among the products exported were low-grade dairy and margarine butters. As this low-quality butter was outflanked in the marketplace by margarine at home, the small producers sought foreign markets for their product. In the British House of Lords in 1881, the superintendent of the Manchester and Salford markets voiced a concern about the quality of this butter: "I seized thirteen tubs of butter at a wholesaler confectioner's bakery. It . . . stunk fearfully and was of many colors. . . . Tons of this stuff is used by many of the wholesale confectioners in all the large towns. I believe it consists of the scrapings of butter from grocer's shops, mixed with the inevitable dirt, and has as such become rancid, and altogether too bad to be used in the ordinary way."

There is reason, of course, to question this report. Imports of butter from American producers increased from a million pounds in 1869 to over 38 million pounds by 1879, and the superintendent's outcry could be interpreted as protectionist hysteria. One member of Parliament commented at the time, "It could not be believed that the importation of genuine butter had increased thirty-eight fold in that short period."

Margarine Sold as Butter

Margarine exports were also increasing, reaching 16 million pounds annually in 1880. Most of this was in the form of oil, which was shipped to Holland and Britain for final production into margarine butter. The European producers usually sold margarine as ordinary butter, and some American butter producers followed suit.

The dairy lobby began to worry that the British and other Europeans might ban American butter. The Dairy Association quickly blamed margarine for low-grade butter's bad press and the British and Dutch importers for defrauding the consumer. To stave off action in its export markets, the dairy industry lobbied heavily for legislative controls on domestic margarine producers. The first interventions came when New York and Maryland enacted labeling laws in 1877. Within the next few years several more states acted. In Celia Bergoffen's words, the laws required that "oleomargarine sold at wholesale or retail . . . be marked, stamped, and branded as such, under penalty of $100, and imprisonment for thirty days."

To this first volley in the "Butter War" a spokesman for the margarine producers calmly responded, "Of course, [the labeling laws] had for a time its effect upon the sale of the product; but as oleomargarine is a pure and wholesome article of food, possessing all the qualities of good dairy butter, the people have overlooked the name and have decided to eat it."

Having failed, the dairy lobby rolled out a new front. In the era before refrigeration, butter and margarine were stored in and doled out from large barrels, the lids of which were interchangeable. Enforcement of the label laws was unknown. So the dairy industry lobbied for state inspectors, who as it happened would be from the dairy associations. Many states already had dairy associations ready to be pressed into the Butter War. And in 1882 a national association was formed to destroy by stealth the margarine market: the National Association for the Prevention of Adulteration of Butter.

In 1884 a committee of dairy farmers petitioned the New York state assembly to ban margarine. The law, the first in the nation, stated: "No person shall manufacture, out of any oleaginous substance or substances or any compound of the same other than that produced from unadulterated milk or of cream . . . any article designed to take the place of butter . . . or shall sell or offer for sale the same as an article of food."

Throughout 1884 and 1885, following the

path blazed by New York, state after state banned margarine at the behest of local dairy associations. Maine, Michigan, Minnesota, Pennsylvania, Wisconsin, and Ohio all banned both the manufacture and the distribution of "artificial butter."

But the New York law was struck down as unconstitutional within six weeks of its enactment. The Court of Appeals ruled that the claim margarine was unwholesome had not been proven and, anyway, the government could not shut down one industry just to protect another.

Out of Business

The damage had been done. By this time two-thirds of margarine manufacturers in the battleground states had been driven out of business. The greatest of them all, the Commercial Manufacturing Company, disappeared in 1885.

The dairy lobby had moved to bury the margarine industry forever by waging a slanderous disinformation campaign. Dairy industry association newspapers published lurid tales of margarine production designed to incite and horrify the public. Margarine was described as "the slag of the butchershop . . . a compound of diseased hogs and dead dogs." Reports claimed margarine produced insanity and even "contained the germs of cancer."

Not to be outdone, amateur scientists lent their dubious credibility to the debate. One Professor Piper published drawings of his alleged findings in a Chicago newspaper. These "startling drawings" revealed a host of contaminants: "The best samples had many kinds of living organisms in them, with masses of dead mould, bits of cellulose, various colored particles, shreds of hair, bristles, etc., while other samples teemed with life; doubtful portions of worms were also noticed . . . corpuscles from a cockroach, small bits of claws, corpuscles of sheep, the egg of a tape-worm . . . a dead hydraviridis."

Although Piper and others like him were refuted by more rigorous testing, often by state boards of health themselves, the relentless campaign exacted its toll. It was around this time that the Commercial Manufacturing Company was driven under by the repeated blows of the state's assaults and the disinformation campaign. An enemy remarked that the firm went under because of "new patents" for margarine that permitted it to be made from "material more fit for the soap boiler than for human consumption."

Dairy propaganda political cartoons at the time featured elaborate "artists' recreations" of margarine factories, showing how fantasy ingredients were made into margarine—stray cats, soap, paint, arsenic, old boots and hats, animal intestines, even sheep heads and wool. Hogs were called "Butterine Cows." Animal fats were shown being dragged through filthy rundown factories and through the streets in reeking "fat-collection wagons." And of course similar pro-dairy propaganda cartoons were published describing dairy butter in glowing terms like "pure" and "farm fresh" and including drawings of kind, fatherly grocers only too ready to serve the neighborhood.

After the constant legal and marketing barrage had driven the margarine industry to a shadow of its former glory, Uncle Sam weighed in. In 1886 the Federal Margarine Act slapped a special two-cent tax on margarine and required annual license fees. Margarine butter producers were now forced to pay $600 a year; wholesalers, $480; and retailers, $48, simply to be allowed to sell margarine!

This had a devastating impact on what remained of the oppressed margarine industry. Within a year of the law's passage, only one of New York City's six margarine manufacturers existed. The New York state margarine industry went from producing 20 million pounds a year in 1882 to only 100,000 pounds. Soon margarine producers abandoned New York state altogether. Illinois, with its booming meatpacking business, became the center of American margarine manufacturing.

By then, most states had abolished their anti-margarine bans under appeals court pressure. The exception was Massachusetts, which took its claim of authority to outlaw out-of-state products all the way to the U.S. Supreme Court. In 1894 the Court ruled that states could prohibit the importing of artificially colored margarine but not uncolored margarine! The supposed reasoning was that since uncolored margarine was easily distinguishable from normal dairy butter, consumers couldn't be defrauded. But the entire fraud complaint was simply a ploy to destroy the margarine industry.

Anti-Color Laws

State legislatures saw a loophole large enough to hang a man from, and by 1895, 19 states had adopted anti-color laws. Over the next five years 11 more states followed suit.

The dairy lobby once again assumed the consumer would come running back to butter. Dairy buttermen even used the additive annatto, a strong yellow coloring agent to give their butters a rich summer gold hue. They had learned of annatto from margarine producers and now moved to monopolize the process. Margarine producers complained, but to no avail.

Then some legislatures began to demand that margarine be dyed an entirely different color. Five states passed laws that margarine be dyed pink. Others wanted it dyed red or black. Imposing these absurd colors was an attempt to stigmatize margarine consumers by implying that they couldn't afford the more expensive dairy butter.

In the following decades the federal government kept up its attack on margarine—and by extension, on poor consumers—by twice amending the 1886 Act to tighten the screws on the industry. An amendment in 1902 targeted the production of artificially yellowed margarine. The amendment imposed a ten-cent tax on (butter-colored) margarine and slashed the tax on the uncolored variety. In response, producers began experimenting with various vegetable oils that would give their product the desirable yellow color but would escape the new tax.

By World War I, all-vegetable-oil margarines (made from peanut, corn seed, hazelnut, and other oils) dominated the margarine market. The industry's latest act of ingenuity was met in 1931 by a new amendment to the 1886 Act, which closed the loophole for naturally yellow margarine by taxing all yellow margarines. Production was stopped.

But the besieged margarine industry picked itself up and struck back. There was no law against adding yellow coloring to margarine at home. So the manufacturers provided yellow coloring packets with their margarine. With uncolored margarine safely under the tax radar, market share began to climb again, as Depression-era consumers warmed to margarine's value right through World War II—all the while wondering "why don't they just make the margarine yellow at the factory?"

By the late '40s producers had begun to process domestic oils—corn seed, soybean, and others—into margarine, winning the support of farmers groups and labor unions for the repeal of the state and federal regulations on margarine production and consumption.

Years of lobbying would be needed to dislodge these interventions, including marches and demonstrations by housewives carrying placards with slogans like, "We Want Yellow Margarine Tax Free!," and signature-collection drives on cards reading: "Dear Mr. Congressman, Who comes first . . . the consumer or the butter lobby? Please remove the unfair restrictions on margarine."

Finally, in 1949 and 1950 Congress narrowly voted to repeal the tax on colored margarine and President Truman signed the new Margarine Act into law. By 1955 every state but Minnesota and Wisconsin had repealed its anti-margarine color laws, with Minnesota holding out until 1963 and Wisconsin—"the Dairy State"—not relenting until 1967.

And so ended the dairy industry's 80-year war on margarine and America's consumers, especially the poorest among them. □

IDEAS ON LIBERTY
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Say It Isn't So, Jerry Lewis

by P. Gardner Goldsmith

It was a disappointing day for me, that day last year when comedian Jerry Lewis testified before a Senate subcommittee seeking taxpayer funding for muscular dystrophy research. It drove home how in the past 70 years the virtue of charity has been corrupted from a matter of individual choice and initiative to one of group ethics and majority control.

During his 1998 telethon, Muscular Dystrophy Association (MDA) chairman Jerry Lewis proudly announced that the MDA did not take a dime of government money. Everything his organization received came from the kindness and charity of individual people. MDA could rightly be characterized a "charitable" organization.

But that changed on September 24, 2001, when the U.S. House of Representatives passed H.R. 717, the "MD-Care Act," which expanded the existing purview of the National Institutes of Health's (NIH) research budget to cover the nine forms of muscular dystrophy. In pushing for the bill, MDA advocates asked for an additional $100 million to be added to the NIH budget, all targeted toward MD research. The House version moved smoothly through the Senate, and on December 18, 2001, President Bush signed the resulting increase into law.

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While some Americans might hear this news and believe "the nation is finally doing something, recognizing how important it is to cure MD," others will be disappointed, indeed, frustrated, that once more the definition of charity has been twisted out of shape.

Charity is based on volition. Without choice, one cannot act on one's own moral prerogatives. Government decrees represent the opposite of choice. With government funding we are supposed to believe that "America cares," when, in fact, nearly half of Americans might not care or they might have other priorities. Given the political nature of the House and Senate, and that less than half of Americans vote, the idea that a bill passed by both houses to fund a particular charity somehow represents the "collective will of the people" is fanciful.

But during the twentieth century, Americans have come to view the collective will—as expressed through the political gamesmanship of Washington politics—as representative of society's values. This could not be further from the truth. Society, as most Enlightenment thinkers correctly recognized, is something apart from government. It is the realm in which we interact consensually. One cannot have a fully flourishing society when the burdensome mechanism of government supersedes individual choice, and one certainly cannot claim that a society "cares" based on the priorities of illegitimate wealth redistributors.

Celebrate Witnesses

Seeing Mr. Lewis testify before a Senate subcommittee in favor of government funding for MD research was disappointing. Likewise, hearing word of his associate, and MDA board member, Ed McMahon testifying before a House subcommittee inspired a sense of sadness. But these men, who do wonderful work outside the government arena, are certainly not alone. Over the past few years celebrity appearances before government committees have become commonplace, including Michael J. Fox lobbying for greater research on Parkinson's disease and Christopher Reeve imploring the government to spend more money on spinal chord research. What is overlooked in every case is that there is no such thing as "government money." It all comes from individuals, who are deprived of free choice whenever the government takes the fruits of their labor and spends them on whatever it believes to be best.

When the Red River flooded four years ago, smothering portions of Grand Forks, North Dakota, and Minnesota with ice, water, and mud, one of the mayors in the area said the congressional vote to provide more federal dollars in aid signified how much Americans cared.

Wrong.

One does not determine the measure of a society's compassion by how much its government seizes from individuals and gives to others. No matter the motive, that is not charity. It is theft. □

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A Privatization Revolution in a Most Unlikely Place

When Mount Nyiragongo suddenly gushed red hot lava down its southern slope and destroyed the town of Goma in the Congo last January, hundreds of thousands of refugees poured into tiny neighboring Rwanda.

It was the first time since 1994 that Rwanda had been on the front pages in America, and most of the stories reminded readers of the awful circumstances of the previous occasion. In 1994, nearly a million of the country's eight million citizens were slaughtered in ethnic violence between the Tutsi and Hutu tribes. Perhaps in reading the news of this most recent tragedy, Americans wondered if anything good ever happens there.

I was in Rwanda last January to observe in the wild some of the only 670 mountain gorillas left in the world. They live on a string of lush, rain forested-volcanoes along the border with Uganda and the Congo. Mount Nyiragongo, adjacent to the volcano I climbed to see the gorillas, blew up just three days after I left. But the purpose of this column is not to bring more bad news from Rwanda; the purpose is to share some incredibly *good* news, which deserves far more attention than the few paragraphs it has so far garnered in the Western press.

Hints of this good news came my way weeks before even arriving in Rwanda. Making reservations for my gorilla safari via e-mail, I learned that all gorilla safaris are conducted by private, native-owned, and locally run companies. (Part of the fee goes to the government for distribution in salaries to national park employees and for programs that protect gorilla habitat. Such programs are substantially supplemented by the efforts of private, nonprofits that get support from around the world.) Three years ago two Rwandan entrepreneurs started the firm I signed up with, Primate Safaris. With six employees, they provide everything a gorilla safari enthusiast in a Third World country could hope for—a competent guide with a four-wheel drive, good meals, and comfortable though Spartan accommodations. The lodge where I stayed at the base of one of the volcanoes is owned by a Rwandan women's association now, but at the time they bought it two years ago it was government property.

One of the first road signs a visitor sees upon arriving at the airport outside the capital of Kigali reads, "Privatization: A Loss? No Way." Another one a couple miles away in the downtown area declares that privatization fights laziness, poverty, smuggling, and unemployment. This is the good news to which I've referred: Rwanda, in the heart of Africa, is engaged in the continent's most ambitious privatization campaign. It may be the *most* ambitious and systematic of any country anywhere. After experiencing the kind of stifling socialist rule that consigned virtually all of Africa to grinding deprivation for ages, this is a country that is embracing the private sector with deliberate policy and enormous enthusiasm.

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A photojournalist with dual American and Canadian citizenship, David Pluth, has spent a great deal of time in Rwanda in recent years. As he sees it, the country had nowhere to go but in the direction of free enterprise. What Rwanda has now embarked on is, in his words, "a great experiment" and one that so far seems to be gathering momentum every day.

Robert Bayigamba runs the Privatization Secretariat, the national agency of the Rwanda government that is supervising a continuing selloff of state companies and assets. His 24 employees draw up requests for proposals, solicit bids, monitor contracts, and slice through red tape to facilitate foreign investment in the country. During a two-hour interview with Bayigamba in Kigali, I learned that the privatization campaign has the full support of Rwanda's extremely bright, 44-year-old, tennis-playing president, Paul Kagame, who holds a degree in professional management and business studies from the Open University of London. Under Kagame's direction, laws that define and protect private property and the sanctity of contracts have been crafted, replacing a ramshackle legal system that once put political connections ahead of justice and order.

Six times a year Bayigamba's office produces a 16-page glossy magazine called *Rwanda Privatization.* In a May/June 2001 editorial about the impending sale of one of the few profitable government ventures, the Karuruma tin-smelting factory, *RP* asked, "Why should you sell a viable company that makes a profit?" Answer: "This privatization only confirms the strong determination of the Government to pull out of all its industrial and commercial activities. Moreover, in transferring these companies to the private sector, the Government wants to consolidate their future."

Embarrassing Failure

By the late 1990s, the Rwandan socialist experiment had become a failure too embarrassing to hide or ignore. With a few exceptions like Karuruma, state enterprises were slothful, backward, money-losing albatrosses. For the country to survive, the government recognized it had to revive private enterprise and get out of the way.

Bernadette Muhimakazi, executive secretary of the Association of Rwandan Businesswomen, says privatization is seen as "liberating the State from the execution of tasks that are not its job, reducing the waste of resources that constitutes a heavy burden. A private investor gives his all for his business, so he will do a better job and the quality of the work will improve." Muhimakazi herself personifies the new appreciation of enterprise in Rwanda. Until recently, a woman's involvement in business was a professional taboo; now, it's widely encouraged.

In 1999 the bankrupt state oil company, Petrorwanda, was liquidated. Shell Oil bought a portion of its assets and has completely renovated 14 of the defunct firm's decrepit and environmentally hazardous gasoline stations.

Tea is a top Rwandan export, and it too is going private. Ten tea factories exist there—nine owned by the government and one, Sorwathé, in private hands. With only 10 percent of the national tea plantation acreage, Sorwathé produced 17 percent of the nation's black tea in 1999 and boasted a yield that was more than double the national average per acre. So last year the government began selling its eight tea factories and most, if not eventually all, of its tea plantations.

Since the privatization drive started in 1996, other assets sold by the Rwandan government include its hotels, a fruit-juice factory, a printing firm, and companies that make insecticides, tobacco products, sugar, dairy products, processed fish, and coffee. Among many others slated for the auction block over the next couple of years are chicken hatcheries, paper mills, rice products, the national telecommunications company, and even all water distribution and electricity generation. Bayigamba says the country will remain on this path until it creates a genuine free-market economy complete with something else it has never had before—a stock market. □

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The Living Wage Folly

by Charles W. Baird

As of July 2001, 62 municipalities (cities, counties, and government school districts) in 24 states had enacted "living wage" regulations affecting all private and nonprofit enterprises with which they do business. California, Michigan, and Wisconsin have more living-wage ordinances (LWOs) than other states, but LWOs are spread widely over the entire country.

Moreover, there are active campaigns to establish new LWOs in all states except Alaska, Idaho, Wyoming, North Dakota, South Dakota, Mississippi, and West Virginia. It is only a matter of time before municipalities in those states are targeted. According to the Employment Policy Foundation (EPF), which is the best single source of data on LWOs, a total of 75 living-wage campaigns are now active in 37 states. There even are or have been campaigns to adopt statewide LWOs in 16 states. (EPF data and commentary on the issue can be found at www.livingwageresearch.org.)

An LWO requires that all enterprises doing business with the municipal authority pay their employees no less than the specified living wage, which differs from jurisdiction to jurisdiction. There are stiff penalties, including back-pay awards, fines, and loss of contracts, imposed on firms that violate LWOs. Typically an imposed living wage is 50–100 percent higher than the current federal minimum wage of $5.15 per hour. An LWO is nothing other than a minimum-wage regulation imposed at the local level, rather than the state or federal levels, with the exception that it applies only to firms doing business with the municipal authority that imposes it. State and federal legal minimum-wage statutes pre-empt local wage ordinances as they apply to other private firms. However, 12 private universities, including Harvard and Stanford, as well as several private enterprises, have been importuned to adopt their own living-wage policies without government mandates. LWO campaigns undertaken at private firms are modeled after the old union "corporate campaigns" of the 1970s and 1980s. They involve concerted efforts to ruin the reputations of those who do not surrender, as well as picketing, demonstrating, boycotting, and other forms of harassment. All, of course, in the name of "social justice." In all settings other than labor such actions are called extortion.

The Association of Community Organizations for Reform Now (ACORN) initiated the living wage movement in the late 1980s. ACORN calls itself a "grassroots" organization, but it is mostly a collection of 1960s radicals who, since the worldwide collapse of socialism, need other ways to pursue their anti-market agenda. Its crusade was soon joined by John Sweeney's AFL-CIO and sev-

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eral of its constituent unions together with welfare advocacy groups of various descriptions and the usual coterie of well-meaning but economically benighted religious groups.

John Sweeney has always identified himself as a proponent of democratic socialism and an opponent of free markets; so he is a natural ally of ACORN. The payoff to individual unions, such as the Service Employees International Union, is threefold. First, living-wage ordinances increase the price of union-free labor relative to unionized labor, thus increasing the demand for unionized labor. This has always been a major reason for the unions' support of legal minimum wages. The unions are impatient with the federal and state governments' slow and, to them, meager increases in legal minimum wages and are delighted to endorse the more radical increases proposed by ACORN.

Second, LWOs often include requirements that covered employers remain neutral in any union-organization campaigns. Unions have been losing market share in the private sector ever since the mid 1950s, and that decline accelerated during the 1980s and 1990s. Thus they are eager to prevent employers from being able to explain the downside of unionization to their employees.

Third, LWOs involve the creation of committees to oversee their implementation. Unions are always heavily represented on such committees, and they dominate many of them. In such cases unions effectively have veto power over both the level of the living wages imposed and the determination of which firms are eligible to get municipal contracts.

Many self-identified welfare advocacy groups—for example, Jesse Jackson's Rainbow/Push Coalition—are more interested in the preservation of their own continued existence and visibility in the press than they are in the actual welfare of low-income people. Welfare-advocacy groups that really are interested in promoting the interests of low-income people and support the imposition of living wages simply are unaware that, like all minimum-wage statutes, LWOs hurt the very people they are intended to help.

Religious groups that support LWOs are also ignorant of their actual, rather than their intended, effects. The Catholic Church and most other Christian denominations claim to have a "preferential option for the poor." Inasmuch as it is indisputable that economic systems built on private property, voluntary exchange, and the rule of law have consistently created much more wealth, and "distributed" it much more widely than command-and-control systems of all kinds, it seems to me that actually to exercise a preferential option for the poor, one must oppose LWOs and all kindred anti-market government policies.

The Alleged Need for LWOs

Proponents of LWOs start by doing some simple arithmetic. Full-time work is defined as at least 2,000 hours per year. The federal minimum wage is $5.15 per hour. This means that a full-time minimum-wage worker may earn only $10,300 per year. That figure is below the 2001 Department of Health and Human Services poverty threshold for all family sizes larger than one. The threshold for a family of four was $17,650 (see www.census.gov). Clearly, according to LWO proponents, this is unacceptable. Just to reach the poverty threshold for a family of four the wage must be $8.82 per hour, and a decent "living wage" should be significantly more than that. Following the arithmetic, living-wage proponents usually add a few uninformed words about employers exploiting labor, which amount to a definition of exploitation as a wage that is less than that of which they approve. That is essentially the whole argument offered in support of LWOs.

Living-wage proponents paint a purposefully misleading picture of the situation of minimum-wage earners. They strongly imply that the typical full-time minimum-wage earner is the sole earner in a family of four. Moreover, their peripheral rhetoric suggests that the typical full-time minimum-wage worker is a single mother struggling to make ends meet against all odds. EPF research demonstrates this is simply not the case. A household with two full-time minimum-wage workers earns $20,600, well above the

It is well documented how increases in legal minimum wages affect the employment prospects of workers who are least experienced, least well trained, and who have not developed good work habits and attitudes. Each 10 percent increase of a legal minimum wage results in job losses of 1.3 to 2 percent.

2001 poverty threshold for a family of four. When opportunities for overtime are considered such households can easily have earnings that exceed the 2001 poverty threshold for a family of five. Only 7 percent of people who are paid between \$5.15 and \$7.15 per hour are single parents, and half of workers who earn \$7.15 per hour or less live in households with annual incomes over \$42,671. Approximately 40 percent are children or other relatives of a family head who earns much more than the legal minimum wage. And none of these figures take into account employer and government benefits received by low-income households.

The crisis to which LWOs are alleged to be the solution simply doesn't exist. Some poor will always be among us, but the force that ameliorates poverty better than any other is economic growth. Measures that impede economic growth, such as LWOs, which corrupt the information content of wages and prices and distort incentives to work and acquire marketable skills, ultimately hurt the very people the proponents of LWOs assert they wish to help.

Some Economic Effects of LWOs

It is well documented how increases in legal minimum wages affect the employment prospects of workers who are least experienced, least well trained, and who have not developed good work habits and attitudes. Each 10 percent increase of a legal minimum wage results in job losses of 1.3 to 2 percent. Moreover, as noted, LWOs impose wages that are significantly higher than ordinary legal minimums. Economic theory tells us the negative responsiveness of jobs to increases in wages (elasticity) is greater at higher wages than at lower wages. So LWOs are even more destructive to jobs than increases of ordinary legal minimum wages.

Profit-seeking employers are willing to continue the employment of a worker only if the cost to the employer of the worker's services is not greater than the amount of money the employer would lose from sales (net of the cost savings on materials and supplies no longer used) if he lays off the worker. So when increases of legal minimum wages are imposed in any form, including living wages, some workers will be let go. The ones that are always let go first are those who are the least productive. (The lost output and sales that follow on letting a worker go will not amount to much with a worker who isn't very productive.)

Not only will the least productive workers lose their jobs, every time a legal minimum-wage increases, young people just entering the labor force with little experience and training will find it more difficult to get first jobs. The surest route to becoming a productive worker for a person who has little training and education is on-the-job experience. All increases in legal minimum wages make it more difficult for the disadvantaged to follow that route.

Sometimes profit-seeking entrepreneurs will try to avoid layoffs by cutting nonwage compensation paid to workers. For example, reductions in paid vacation time, employer contributions to retirement funds, employer-paid medical insurance, and rates of sick leave accrual can sometimes offset the effect of a higher legal minimum wage. If so, affected workers will keep their jobs, but they will not be any better off than they were before the minimum-wage increase. In fact, they will probably be worse off because more of their compensation will be taxable than before.

Profit-seeking entrepreneurs also try to avoid layoffs by attempting to pass the wage increases on to customers in the form of higher prices. In the private sector this is often difficult to do because of competition. Competition among American firms is not much of a problem in the case of an increase of the federal minimum wage, because it applies to all American firms alike. Firms affected by state minimum wages, to the extent they are not less than the federal minimum, are somewhat constrained from passing on cost increases to customers by interstate competition. It is much easier for governments to pass costs forward to consumers, because the consumers are taxpayers who do not have the option of refusing to pay. Firms affected by municipal LWOs may simply respond by raising the prices they bid for municipal contracts. Municipalities that try to offset those higher costs with higher taxes face jurisdictional competition within their own states as well as others. People can simply vote on the resulting tax burdens with their feet. But this discipline is not always effective. LWOs are often followed by municipal tax increases.

EPF researchers have pointed out a unique harm done by LWOs. The high school dropout rate of workers who earn between $5.15 and $8.15 per hour is double that of workers earning between $8.15 and $10.15 an hour. To the extent that an LWO results in increasing the number of high school dropouts receiving more than $8.15 per hour, the wrong message is sent to both groups. High school dropouts learn that in wage determination, politics trumps education and training, and the more productive learn that their training and education provide fewer advantages than before. The productivity of both groups will decline, and younger people still in school will have less of an incentive to stay there.

The living-wage folly is undoubtedly in the interests of unions, 1960s radicals, and other enemies of free markets, but it is certainly not in the interests of all the disadvantaged workers and taxpayers who are harmed. Of all the arguments of socialists and their contemporary successors, it seems that those based on confusions about labor and labor markets are most enduring. I think that is because humans everywhere are prone to envy. If A earns more than B, and B doesn't like it, there is a perverse profit opportunity for anti-market entrepreneurs to blame it on the alleged injustice of free markets.

The record is clear: The pursuit of economic equality through the political marketplace eventually results in almost everyone, except political elites, having less than they otherwise would. In contrast, individual pursuit of economic success in free markets under the rule of law never leads to equality of results for everyone, but it always results in almost everyone having more than they otherwise would have had. Let's hear it for the Tenth Commandment. □

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Sting Operations and the Separation of Powers

by Joseph S. Fulda

To detect and prosecute laws prohibiting victimless crimes, government typically curtails civil liberties and, by standing in for a real victim, creates opportunities for abuse and corruption in sting operations. Sometimes, prosecution of these crimes is furthered by offering various considerations to one member of the conspiracy at the expense of the others. This would normally be called *bribery* and *subornation of perjury* and is likely illegal, although commonplace.[1]

The easiest and most effective way to present a case against a criminal conspiracy to a jury is to capture the whole thing on tape; that way no one need turn state's evidence, and the direct participation of the officers performing the sting can be kept to a minimum. Unfortunately, this, too, has its problems: It undermines the separation of powers mandated by the U.S. Constitution and most state constitutions. "Were the power of judging . . . joined to the executive power, *the judge* might behave with all the violence of *an oppressor*," wrote "The oracle who is always consulted and cited on this subject [the separation of powers] . . . the celebrated Montesquieu."[2]

Let us see how this applies to the common sting operation where the participants' behavior is captured on tape. The fundamental search-and-seizure principle is that an executive officer is to give evidence of probable cause to a "neutral" and "detached" judicial officer, after which the magistrate will decide whether the evidence warrants search or seizure.[3] Thus, the U.S. Supreme Court overturned a conviction in which a warrant had been issued by the state's attorney general—who also happened to be a justice of the peace—since he could not possibly be and, in the facts of that particular case, was not a neutral and detached judicial officer, but rather the chief law-enforcement officer of the state.[4]

This provision, however, is rendered a dead letter under federal law and in those states—and there are many—that permit one-party taping; that is, where it is legal to record a conversation provided just one party gives consent and to introduce the resultant recording in court. Why? Since one party to the conversation is a law-enforcement agent and, of course, he permits—indeed, he arranges—his conversations with the suspects to be recorded. Out goes the necessity of a warrant, and the executive branch is thus able to act as both prosecutor and judge, thereby trampling on suspects' Fourth Amendment rights. In every sting operation involving tapes, probable cause before a judicial officer is not required. All that is required is for the executive-branch officer—a detective or an undercover

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police officer, typically—to approve the taping, entirely on his own accord. This throws out the basic principle of a judicial check on executive arrogance, which Montesquieu thought so important to the constitutions of free states everywhere. □

1. See my "The Pernicious Nature of Victimless Crime Laws," *Ideas on Liberty*, April 2002, and "The Courageous Decision That Lasted But Nine Days," *Ideas on Liberty*, May 2002.
2. James Madison, Federalist 47.
3. The language is from *Johnson v. United States*, 333 U.S. 10 (1947).
4. *Coolidge v. New Hampshire*, 403 U.S. 443 (1971).

The Economics of Infantilism

by Thomas E. Woods Jr.

While this year's Winter Games were still going on, the website of the National Organization for Women was complaining that with all the Olympic coverage, the press had neglected to notice the 400-person rally, dubbed the "March for Our Lives," held simultaneously in Salt Lake City. Led by organizations from the Poor People's Economic Human Rights Campaign, part of something called the Kensington Welfare Rights Union (KWRU), the event sought to call attention to the countless violations of "economic justice" that exist throughout the country. Eventually, the organization hopes to submit to the United Nations a list of "human rights abuses" throughout the United States and then to file "a formal suit against the United States through international legal channels."

What exactly constitute "economic human rights"? The KWRU website points to Articles 23, 25, and 26 of the United Nations' Universal Declaration of Human Rights in support of "the rights due every human being." They include food, clothing, housing, medical care, "necessary social services," education, work, favorable conditions of work, "just and favorable remuneration," and the like. Naturally, no one at the organization bothers to justify the grounds on which "every human being" possesses these "rights" other than by this argument from authority.

The closest the site comes to an "argument" is the assertion that the people for whom the organization speaks want things, and some other people have lots of things, so these latter people should be required to give up some of them. Never raised is the question of whether these people with lots of things acquired them honestly or, if so, on what precise grounds the KWRU is justified in demanding that these goods be violently seized from peaceful and honest people.

That so-called "welfare rights" are philosophically fraudulent can be demonstrated by imagining everyone exercising them simultaneously. Surely a *right* that belongs to human beings qua human beings, such as life itself, ought to be able to be exercised without difficulty by every human being at the same time. If everyone demanded the same welfare right at the same time, no one would get anything, as everyone simultaneously attempted to coerce everyone else.

The libertarian philosopher Frank van Dun recently offered a helpful example. Imagine two people on a desert island: "One can imagine what will happen if they sit there insisting on their 'right' of being employed by the other at a just and favorable wage, or to receive unemployment compensation high enough to allow them an existence worthy of their dignity. One can also imagine what will happen if, instead of

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just sitting there, they attempt to enforce their human rights against one another: their own version of Hobbes' war of all against all."[1]

It is also completely senseless to claim that human beings possess "rights" to goods that in some times and places were not available at all or could be acquired only with the most strenuous toil. Rights obviously cannot be universal or natural to man if they cannot be exercised in all times and places—the very definition of *universal.*

If in some cases the less fortunate may have a *moral* claim on the generosity of their fellows, this is a far cry from staking a *legal* claim to the fruits of someone else's labor. Forcibly confiscating the justly earned goods of someone you have never met and who has done you no wrong really does require some kind of philosophical justification beyond simply, "We want free stuff!"

This is especially true when we recall the true nature of poverty in the United States. By any conceivable standard, the "poor" in America enjoy a standard of living that people in previous ages (and indeed elsewhere in the world today) could scarcely have imagined. Some 41 percent of our "poor" own their own homes, with another 75 percent owning automobiles and VCRs, and two-thirds having air conditioning and microwave ovens. Virtually all own telephones, refrigerators, and television sets, all of which were once considered luxuries. The *average poor person in America* has more living space and is more likely to own a car and a dishwasher than the *average European.* Recalling that we live in a society in which among the poor obesity is a greater problem than malnourishment further helps to put the alleged poverty problem here into perspective.[2]

Job Training

It is almost charming that the KWRU can seriously propose increased spending and a federal commitment to job training as the solution to "poverty" without so much as hinting at the $5.4 trillion dollars spent on various federal, state, and local welfare programs since 1965 or the more than 60 different federal job-training programs that currently exist for welfare recipients.[3]

And no wonder the activists would rather make placards demanding job training than actually discuss the programs that already exist: federal job training has been one of the most notoriously wasteful government boondoggles of the past 35 years. Consider the Job Corps, a well-known vocational training program for the unemployed that began in 1965. Early on, studies found that those who completed the program had no better success in the job market than so-called "no shows" (people who had been accepted into the Job Corps but who had never shown up), despite the fact that the program cost about the same as providing a Harvard education for every participant. Worse still, throughout the program's first decade two-thirds of participants never even finished.[4] Is it a hate crime to suggest that perhaps we have happened upon one of the reasons they have had such difficulty finding work?

We might also recall the Boston Compact, a much smaller program in the early 1990s in which private employers guaranteed a job to anyone who graduated from high school. The dropout rate actually *rose* after the Compact was announced.[5] Such examples could be multiplied ad infinitum.

In many cases, perfectly respectable jobs that require only the most basic skills are easily available, but applicants lack even these. Unless agitators for "economic human rights" are prepared to argue that the poor are complete imbeciles who cannot even be expected to learn basic math, these unsuccessful job seekers can hardly be held blameless for their situation. According to Myron Magnet, the "higher skills" that a steel mill near Chicago recently needed but could not find "amounted to little more than being able to divide 100 by four and, going one step further, to understand the concept of 75 percent." Moreover, it generally takes "only basic math for a worker to handle the statistical process control that is one of the key recent technological advances in manufacturing."

Magnet continues: "One didn't think of secretarial skills as being particularly elevated until recently, when corporations in big cities found that increasing numbers of applicants lacked them. Now anxious companies pay their employees bounties for bringing in qualified applicants for secretarial jobs. Anyone who wants her children . . . to escape poverty needs only to make sure they learn basic literacy, computer typing, and polite, businesslike demeanor in high school."[6]

Can that really be too much to ask?

Staying Out of Poverty

A grand total of 3 percent of married couples who have a high school education are poor.[7] Just complete high school and get married, and you have a 97 percent chance of not being poor. (*The Economist* reported in 1988 that an American had a less than 1 percent chance of being poor if he simply completed high school, got and stayed married, and held a job, even a minimum-wage job, for at least a year.[8])

To be sure, we're probably violating the "rights" of the clients of the Poor People's Economic Human Rights Campaign by demanding anything of them; the logic of their position requires them to believe that for doing nothing at all they are *entitled* to food, clothing, a home, an education, comprehensive health care, and perhaps 77 other things. Still, sensible people probably don't consider marriage and a high school education to be insuperable hurdles or a society that demands them akin to Nazi Germany.[9]

The fact that a few people own yachts is not a cause of the condition of the poor, nor is it just cause for resentment. But it isn't difficult to find things that do worsen the condition of the poor. For one thing, the various job benefits that the economic human rights advocates demand naturally make it more expensive and less desirable to hire people in the first place, and therefore create more unemployment. This is one reason that some companies have simply left the United States altogether, all too happy to leave the yelping "social justice" advocates behind. For its part, the Federal Reserve system has consistently and drastically undermined the value of the currency we use, a fact that is likely to be felt more acutely by those with less money.

The suffocating effects of federal regulation also reduce our standard of living. The 1994 *Code of Federal Regulations*, which lists all federal regulations currently in effect, comprised some 201 books, taking up an incredible 26 feet of shelf space. Its index alone numbers 754 pages.[10] This makes business more costly and all of us less wealthy; some businesses never get started at all because they cannot survive the regulatory regime that has been fastened on us. Social Security confiscates wealth in exchange for a pitiful return (and indeed very likely for no return at all given the way the program is going). In what way can one suggest even jokingly that such a program does anything but defraud the poor, taking money from them that they need in the present in exchange for some indeterminate but certainly minuscule return in the future?

As libertarians well know, the only way to bring about permanent increases in wages across the board is to create a business climate in which capital investment is as unhampered as possible. Increasing the amount of capital equipment at workers' disposal increases labor productivity and hence wages. With a forklift, a worker may well be able to move enough pallets to earn \$25 per hour; without it he'd be lucky to get \$8. If someone's labor is worth only \$8 per hour, all the screeching, protesting, and labor organizing in the world won't get him \$25 per hour.

Advocates of economic human rights would doubtless be at a loss to explain why, when unionism was numerically negligible and federal regulation all but nonexistent, real wages in manufacturing climbed an incredible 50 percent in the United States from 1860 to 1890, and 37 percent more from 1890 to 1914, or why American workers were so much better off than their much more heavily unionized counterparts in Europe.[11] It is probably safe to say that few if any of these advocates are even aware of this fact, and probably somewhere around zero ever make mention of it.

It's time such people learned that stomping one's feet, shouting demands, and grabbing other people's things isn't really how wealth is created, or an especially dignified way for grown men and women to behave. □

1. Frank van Dun, "Human Dignity: Reason or Desire? Natural Rights versus Human Rights," *Journal of Libertarian Studies*, Fall 2001, p. 10.

2. For a proper perspective on rich and poor in the United States, see W. Michael Cox and Richard Alm, *Myths of Rich and Poor: Why We're Better Off Than We Think* (New York: Basic Books, 2000).

3. The $5.4 trillion figure covers only through 1995 and is cited in Michael Tanner, *The End of Welfare: Fighting Poverty in the Civil Society* (Washington, D.C.: Cato Institute, 1996), p. 69.

4. Allen J. Matusow, *The Unraveling of America: A History of Liberalism in the 1960s* (New York: Harper & Row, 1984), pp. 237–39.

5. Jared Taylor, *Paved with Good Intentions: The Failure of Race Relations in Contemporary America* (New York: Carroll & Graf, 1992), p. 292.

6. Myron Magnet, *The Dream and the Nightmare: The Sixties' Legacy to the Underclass* (San Francisco: Encounter Books, 2000 [1993]), pp. 48–49.

7. Linda J. Waite and Maggie Gallagher, *The Case for Marriage* (New York: Doubleday, 2000), p. 122.

8. "Politics Without Economics," *The Economist*, August 6, 1988, p. 8.

9. U.S. Rep. John Lewis once claimed that those who would cut welfare payments are like Nazis. See L. Brent Bozell III, "The Obvious Politics of the Gaffe Patrol," April 13, 1995, www.mediaresearch.org/columns/news/col19950413.html.

10. Hans-Hermann Hoppe, *Democracy: The God that Failed* (New Brunswick, N.J.: Transaction, 2001), p. 62.

11. George Brown Tindall and David Emory Shi, *America: A Narrative History*, vol. II, brief 5th ed. (New York: W.W. Norton, 2000), p. 692.

IDEAS ON LIBERTY
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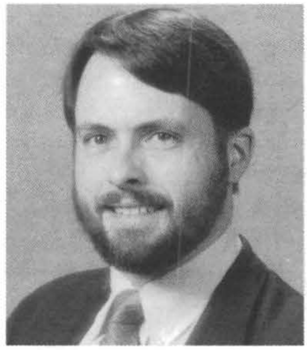
Current Events



The War on Charity

"Congress is going to rebuild Afghanistan for billions, and they can't take care of 3200 people," complained Kenneth Foster, husband of one of the September 11 victims, at a public hearing earlier this year. In his view, and that of many other victims' families, who vigorously applauded his remarks, the September 11 Victims' Compensation Fund was being far too stingy, even when handing out multimillion dollar awards. Some beneficiaries also whined that payments would be reduced by pensions, life insurance, and death benefits.

But Kenneth Feinberg, the Fund's "special master," also has been attacked for handing out too much money, at least for the deaths of wealthier people. Compensation for so-called economic losses, what victims might have earned, ranges from $300,000 to $3.8 million. That nearly 13-fold spread galls some families of firefighters, police officers, and restaurant workers killed in the attacks.

Economists attending the January American Economic Association meeting offered their own critique. The Fund's calculation of "life-cycle earnings," they argued, inaccurately relied on data from the public rather than the private sector, artificially depressing awards. But forensic economist Donald Frankenfeld made the opposite claim, that the Fund had overestimated likely salary growth.

Representative Peter King of New York went so far as to snarl: "It would be terrible if the families of those victims were victimized again by the regulations that are being enacted by the special master." Victimized again? Apparently receiving a few hundred *thousand dollars, gratis, from the taxpayers*, is equivalent to being murdered by terrorists.

In fact, the problem is not that the federal government's compensation rules are unfair one way or the other. The problem is that there are federal compensation rules at all.

The terrorist attacks of September 11 were uniquely hideous, but not unique. Americans frequently have been targeted at home and abroad with tragic results.

But until now it has never been the federal government's job to compensate the unfortunate victims, even in the Oklahoma City bombing, an attack on a public building, in which federal employees received $100,000 each and nonfederal employees collected nothing. Responsibility has rightly rested on individuals—that's why life insurance exists—as well as their charitable neighbors.

Nearly two centuries ago the French observer Alexis de Tocqueville remarked on the unique willingness of Americans to organize themselves to meet community needs. And Americans responded in a staggering variety of ways after September 11, creating special funds, hosting car washes, providing food, donating blood, and doing much more. All told, Americans gave some $1.5 billion to charity.

The private relief efforts have not been without well-publicized problems. Yet criticism and threats to cut off offending organizations, such as the Red Cross, disciplined

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the errant groups. Individual Americans actually control the philanthropic process, deciding which organizations get how much money. People have no similar influence over the federal effort.

The federal compensation plan has hopelessly politicized relief efforts. After all, fairness and need are not easily calculated, even in the best of circumstances.

For instance, the family of someone who is a high earner will suffer more economically from his or her death. And that is an appropriate standard for holding to account someone who kills, whether negligently or intentionally.

But the answer is not so obvious for a government program. Why should low-income taxpayers have to make the rich whole? Still, it hardly seems fair to tax the wealthy to compensate others if their losses are shortchanged. And should the prudent, who purchase, say, life insurance, receive less because they are prudent? The entire process inevitably degenerates into a vicious cat fight.

Crowding Out

There is another, even more pernicious impact of the government's "generosity," however. Uncle Sam's determination to dominate charity marginalizes private efforts.

Asks Andrea Neal of the *Indianapolis Star*, "If we'd known the government was going to give $1.6 million on average to the families of each Sept. 11 victim, would we Americans have donated $1.5 billion in disaster charity funds?" Not likely, she answers, "when there are programs for homeless families and drug addicts and disadvantaged youth" nearby "that could use the money more."

IOL columnist Russell Roberts, an economist at Washington University's Weidenbaum Center, has documented how private charitable donations fell as government relief expenditures rose. In recent years government has been steadily supplanting private voluntarism by giving grants to private groups and paying for "volunteers" for those same organizations through AmeriCorps. Now it is taking over the quintessential private act of donating to help in an emergency. Giving away money has always been surprisingly hard work—at least giving it away to deserving people in a way that keeps them independent.

As the *New York Times* recently documented, the National Association of Home Builders wanted to donate $10 million. It first planned to work through groups like the Red Cross, but then decided that it could do better handing out the money directly. The result, reported David Barstow, was "a story of grit and perseverance, and in the end they brought a modest measure of financial relief to hundreds of families."

Such a process might be frustrating, but forcing givers to exhibit such grit and perseverance is actually another benefit of private charity. Real compassion requires personal sacrifice and effort, as donors assess the need, compare the worthiness of charities, and commit their time and emotions to help. The sinews of community are strengthened as the disadvantaged are aided.

Uncle Sam's reaching into people's pockets provides none of these ancillary benefits. As economist David Henderson observes, the federal fund is "certainly not generosity," either on the part of the taxpayers, who had no choice, or "on the part of the politicians who voted for the program, because it wasn't their money."

September 11 was a tragedy, unique not so much in terms of how many people died—more Americans are murdered every year, and far more people die in an endless number of natural disasters and civil disorders around the globe. September 11 was unique in that the deaths occurred in front of all of us. Americans responded with the generosity for which they have long been renowned. But if legislators want that generosity to continue in the future, they must stop acting as if political pork-barreling is a substitute for genuine compassion. □

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Lunch with a Free-Market "Subversive"

by Bill Steigerwald

CHOSICA, Peru—As the old steam locomotive pulls a single passenger car slowly up a steep grade in the foothills of the Andes, the Latin American revolutionary is inside having lunch with several men.

He doesn't look dangerous. He carries no guns and leads no left-wing guerrilla army. He wears a suit and a necktie and is armed only with ideas.

But in a poor country like this, where many of the bogus theories and broken promises of socialism are still frozen into law, businessman Juan Olaechea is definitely an enemy of the Peruvian state.

Olaechea, 45, is much more than the CEO of the Ferrocarril Central Andino, a small, recently privatized freight railroad that hauls mostly horrible industrial things like acid and zinc and lead concentrates between Lima and the mountains. He's also a fire-and-brimstone free-market capitalist who speaks out boldly—some say rudely—in Lima's newspapers and in Peru's Congress against the evils of protectionism, socialism, and laws designed by politicians to benefit certain industries, including his own.

Olaechea is taking a special luncheon train ride with his friend, business partner and fellow revolutionary, Henry Posner III, a global railroad entrepreneur from Pittsburgh. Posner is president of Railroad Development Corp., a tiny international railroad investment and management company that owns one-sixth of the Ferrocarril Central Andino and operates it under a 30-year concession granted by Peru's government in 1999.

Posner, the son of a well-known Pittsburgh businessman and philanthropist, makes his living running privatized railroads in Third World countries like Peru, Guatemala, and Malawi. Last fall he was in Peru to inspect and joy ride on the Ferrocarril Central Andino, one of the most spectacularly engineered railroads on earth. It's also the highest, climbing from the seacoast to more than 15,600 feet into the Andes.

Posner, Olaechea, and their consortium of British and Japanese investors are risking what once was thought impossible—trying to create a profitable business in an economy still hamstrung by regulation and crippled by a paternalistic government elite prone to play dirty and to play favorites.

It's not easy. But Olaechea doesn't take guff from anyone—which has put his railway in peril. When he debated a congressman on TV and made the official look bad, the congressman began an investigation of his railroad. Nothing came of it. It was just the age-old way for the politician to show the businessman who's boss, Olaechea says. His message to Peru's government is simple: "Stay away. Don't do anything for us. If we fail, we fail."

Meanwhile, he and Posner are working to

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make their unsubsidized company more efficient, more worker-friendly, and more profitable. As Olaechea told a Peruvian transportation subcommittee last fall, the freight trains of the Ferrocarril Central Andino run faster and safer than government trains did. And spills of their cancerous cargoes have been cut to virtually zero.

Yes, there are fewer workers employed, now that the railroad must pay its own way and no longer serves as a fat farm for relatives and pals of politicians. But Olaechea says the 170 who remain on the payroll are paid better wages and have fewer accidents. They also get basic benefits they didn't get before (like steel-toed shoes).

As for the bottom line, for-profit management clearly proves the benefits of the privatization revolution that swept South America in the 1990s, a decade that began with nearly every railroad in state hands. Now, thanks to pioneering privatizers like Posner's company, everything's been turned upside down. As Lou Thompson, the railway adviser to the World Bank, says, now every significant railway in the Americas is in private hands, "except for Cuba—and Amtrak."

Under state mismanagement, Peru's railroads were as bad as the rest of the continent's. They rang up $437 million in losses during the 31 years of government ownership that ended in 1999. In the two years since they went private, Ferrocarril Central Andino alone has paid Peru's government about $2 million in concession fees.

Student of History

Olaechea runs a railroad. But he is also a student of Peru's history, which he says is a long, grim tale of the evils of centralized statism, from the Incas to the Spanish viceroys to the socialized republic of today.

With no prompting he will regale you with how Peru's mindless federal government went bankrupt in the late 1800s building the very railroad he now runs. And how the government became so impoverished from building railroads it didn't need that it couldn't defend itself from Chile, which whipped Peru in the War of the Pacific in 1879–84 and seized its valuable mineral land.

Olaechea is a man of privilege, a lawyer who studied at Harvard. His oligarchic family, which was living in Peru 50 years before the Pilgrims ever heard of Plymouth Rock, has both benefited and suffered at the hands of government for centuries.

He is an unapologetic capitalist who says clever things like, "Socialists love the poor. That's why they create so many." The centralized, all-powerful governments in Latin America are all alike, he says, and it is they who created and perpetuate Third World poverty. "I've grown up in a socialist country. The more socialist we got, the richer the right wing got—not because of the wealth they created, but because of their political connections."

Olaechea, who was halfway through reading the copy of *Atlas Shrugged* that Posner gave him, says it's a myth that only the left truly cares for the poor. He won't let anyone accuse him of selfishness or heartlessness. "I'm personally repulsed by seeing poverty and I am convinced that all the measures of the last 40 years to reduce poverty in Peru are the wrong ones and only increase poverty and injustice."

Olaechea talks the classical-liberal talk. But is he for real? Is he really a principled free-marketeer? Although Hernando De Soto, Peru's great defender of free markets, says he doesn't know Olaechea personally, he told me to be wary of men who speak like him. The libertarian clubs in every major Latin American city are full of rich businessmen, the author of *The Mystery of Capital* and intellectual patron of Lima's sidewalk-vending entrepreneurs said. But they are not really seeking open markets and true laissez faire, at least not for small merchants and street entrepreneurs. They seek the usual gifts governments dole out to elites who run mercantilistic states like Peru—favors, subsidies, and protection from competition.

But unless he is the greatest Latin actor since Fernando Lamas, Olaechea is not one of those libertarian pretenders. And though he's read F.A. Hayek and Milton Friedman, he did not acquire his faith in freedom and market capitalism at Harvard or from reading books. "My school is life. When you talk to a bureaucrat, he talks upside down. And when he talks about honesty, he lies."

More Capitalist Revolutionaries

Olaechea is doing his small bit to drag Peru out of its statist past and into the modern free world, but he knows there are not nearly enough people like him at the top of his country's society. He knows that if Peru is to join the world's prosperous nations, it's going to need thousands of capitalist revolutionaries like himself.

Nearly the size of Alaska, Peru is an official member of the Third World, with more than half of its 27 million people living below the poverty level and an average annual per capita income about a tenth of North America's.

Peru's economy, which is tied to the U.S. dollar, runs primarily on minerals, petroleum, fishing, and agricultural commodities like coffee. The economy has been significantly freed up since 1990, when reforms under ex-President Alberto Fujimori began lowering trade barriers, lifting investment restrictions, and allowing government-owned businesses like the phone company to become privatized.

Fujimori's fall and the election of Alejandro Toledo as the new president are about the only news from Peru that has made it to America of late. Beside llamas, wool sweaters, and coca leaves, the country is best known for the Inca ruins at Machu Picchu, which tourists visit in herds.

In terms of civil and political rights, Peru is less oppressive than it used to be, but according to Freedom House, it still is nowhere near as free as America or even Mexico. Soldiers with submachine guns, police, and security guards are ominously conspicuous in Lima, a sprawling but vibrant city of eight million mostly poor people. So are the armored cars guarding the side streets around Peru's Congress.

Olaechea is not counting on a top-to-bottom free-market revolution in Peru anytime soon. But in the long run, he is optimistic. The world is globalized. Millions of Peruvians have emigrated. Almost 250,000 live in North America. The United States has its failings," he says, "but it is to us a free country.

"The poor of Peru watch the same news and same TV shows as Americans and they'll push away the politicians who try to bribe them. For now, however, the rich and the poor want the same thing: to get out of Peru."

Olaechea the subversive capitalist is not going anywhere, however.

"Every day," he says, "I wake up and ask myself the same question: 'Where is the monkey wrench you need to get the system moving?'" He couldn't run for political office, because he'd never win. "I would be a revolutionary," he says. "But it's not the guns, but the freedom of the country that makes it work." □

On Property

That is not a just government, nor is property secure under it, where the property which a man has in his personal safety and personal liberty, is violated by arbitrary seizures of one class of citizens for the service of the rest.

—James Madison

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Trust No One—Including *The X-Files*?

by Raymond J. Keating

I have two favorite moments from *The X-Files*.

In one of the television episodes ("Arcadia," which aired in 1999), FBI agents Fox Mulder (David Duchovny) and Dana Scully (Gillian Anderson) go undercover in a planned residential community. Posing as the Petries—that's right, same names as Rob and Laura from the old *Dick Van Dyke Show*—they are investigating the mysterious disappearances of several couples.

The community has strict regulations, and those who challenge the rules meet their doom at the hands of a thought-created monster conjured up by the strict homeowners' president. Mulder fleshes out the creature by threatening to put up a portable basketball hoop and by knocking his mailbox out of alignment.

Rather than an attack on private communities, as might be expected from Hollywood, this comes across much more as a wonderful indictment of busybodies in local government and civic groups who try to impose their own views and tastes on their neighbors.

My other favorite moment took place in the 1998 film *The X-Files: Fight the Future*. This movie was fully immersed in "X-Files" lore, featuring a web of alien invasion and complex conspiracy. At one point, a shadowy figure tells Mulder that at the heart of the conspiracy is the Federal Emergency Management Agency. Mulder is warned, "FEMA, the secret government."

With *The X-Files*' nine-year pursuit of UFOs, conspiracies, and the paranormal now over (though additional films are distinct possibilities), it's time to ask if this is a TV show that libertarians (or conservatives) could embrace.

The X-Files certainly had many moments—like those previously mentioned—that generate agreement or chuckles from libertarians. However, a compatible, broad philosophy is not to be found there.

Oh sure, there were various government schemes and conspiracies that regularly popped up, and the show's message of "trust no one" very much applies to government. This held obvious appeal for freedom-loving folks.

However, at its core, *The X-Files* should have appealed most to two other camps. The first, most assuredly, are those who believe that the government carries out massive conspiracies of a wide-ranging nature. In contrast, most libertarians understand that not only is government too inept to successfully pull off vast conspiracies, but also that people have incentives—including monetary rewards—to reveal the truth about such skullduggery. In *X-Files* lingo, one might say that the truth is out there—for a price. It is similar to so-called price fixing or collusion in the market, in that someone always has an

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incentive to break with the conspirators to gain market share, revenues, and profits.

The second group that should have embraced *The X-Files* is liberals (in the modern-day, big-government sense). They regularly acknowledge that corruption and even inefficiencies exist in government. However, they believe that if the right people—particularly, smart people—are in office, government will work just fine.

At its core, one would have to say that *The X-Files* was guilty of the same conceit. After all, Mulder and Scully themselves are smart government agents hard at work trying, in part, to fix government gone awry. They are goo-goos—good-government reformers—for the UFO set.

To the contrary, libertarians generally understand that corruption and waste in government exist because of perverse incentives intrinsic to government. That's why they recognize that the best—indeed, the only—way to clean up government is to limit its size.

While fun to watch, Scully and Mulder over the years have not been working to cut government spending. Instead, whenever the FBI closed down the *X-Files* office, the two were always looking to get their program reinstated.

Hmmm, a taxpayer-funded government program in the basement of the FBI building pursuing tales of UFOs and the paranormal. In the real world, that would be a boondoggle worthy of investigation by libertarians. □

FEE TODAY

Bringing Freedom to Life

www.FEEnews.org June 2002

FEE Fest 2002: Special Report

The reports are coming in fast and furious about the first FEE Fest:

"What a super, fantastic, great convention FEE put on—a very energizing three days. I loved it!"

"The best convention I've ever attended. Bravo!"

"I can't wait for next year's FEE Fest—I'll be sure to bring my family and friends."

"I have done nothing but talk about the convention for the past four days."

We couldn't have been more pleased with the way our first annual national convention turned out, from the huge turnout for our pre-conference FEE course in free markets to the closing ceremonies on Sunday. With only four months to plan our first FEE convention, we were able to register nearly 900 attendees, nearly doubling our original target. The biggest complaint? Too much to see, too little time!

Nathaniel Branden, a keynote speaker at the Saturday night banquet, described the atmosphere well when he said, "I feel an electricity here that I haven't sensed at libertarian meetings for a long time." And he was right. Many commented on the sense of reunion they felt as they met with old friends, listened to speakers whose writings they have read for years, and basked in the enjoyment of being among like-minded people who love liberty and intellectual pursuit. It was electrifying and re-invigorating. And over far too soon.

Read Ben Stein's poem, written especially for the FEE Fest, on the next page.

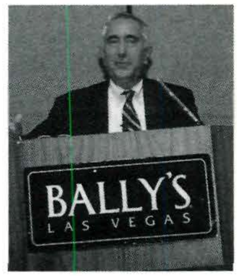
Standing "O" for Ben Stein

Ben Stein, character actor, game show host, former Nixon speechwriter, and economist, charmed the audience with a poem he wrote for FEE on his way to Las Vegas (next page). Stein opened with a few jokes, then discussed the problem of "Why Bashing Big Business Is Big Business in Hollywood." He pointed out the irony of this very wealthy industry being so critical of business people, and suggested that envy on the part of Hollywood writers is the main source of this negativity. Stein was asked what advice he might give to a 20-year-old Ben Stein. His response was moving: "Thank your parents more," he stated. "I don't think I ever appreciated my parents enough, or told them enough."

IT'S ALL ABOUT FREEDOM AND CHOICE

A Poem by Ben Stein

Special for the FEE National Convention, May 3, 2002, Las Vegas, Nevada



Here we are in this desert oasis,
Far from Washington, most scary of places.
Here we are in a town where joy is boss,
Where people party and play, smile with wins,
cry with loss (but not for long).

But here's the thing about Vegas that makes my heart sing:
It's about money and chorus girls and having a fling.
It's not about prisons or gulags or firing squads.
It's not about forcing people to be little socialist gods.
You might lose your paycheck or fall drunk on the floor,
But you'll never have the KGB or the Gestapo knocking
on your 4 a.m. door.

No one will take you to the Lubyanka to be shot in the head,
Or tear you away from your children and your family bed
Because you made a joke about Stalin or Marx,
Or breathed a lie to Beria in the 4 a.m. dark.

In a place of pure freedom, early and late,
We're in a market of sorts, but a market for fun,
Where buyers and sellers of risk meet in the sun.
And as with all markets, it's about freedom and choice,
Not about compulsion or violence or the *Sieg Heil* voice.

It's about the best of human spirit and heart,
The strongest, safest most noble part,
The wish to take chances, to roll the dice:
Willing buyers and sellers, fighting not over lives but over price.

This is how it should be in all good markets on earth and in heaven too,
Free marketers' paradise for me and for you.
And think of how that psycho Marx would spin in his grave,
If ever he saw this motto in America saved,

"Here in Vegas we shoot craps, not 'bourgeois spies,'
And we choose freedom as the highest value of all,
And leave socialism and state planning to its deathly pall,
Far from the vibrant glowing colors of freedom in this desert shrine,
To all that's true and free, and by that divine."

Following Ben Stein's presentation, the Institute for Humane Studies, Young America's Foundation, Intercollegiate Studies Institute, and FEE cosponsored a student party, with FEE Trustee Tom Palmer as the featured speaker. About 70 students attended the event. We hope to have many more social events like this at our next convention, for students and adults alike.

FEE Fest on C-SPAN 2 Book TV

Famed Las Vegas magicians Penn and Teller arrived to hear Harry Browne's presentation, "How I Found Freedom

Karen Krupinsky, director of member relations at FEE, and Dinesh D'Souza in the midst of the busy exhibit hall

in an Unfree World." C-SPAN Book TV videotaped Harry's presentation, as well as those presented by authors Michael A. Ledeen, "The Brilliance of Alexis de Tocqueville and America's Fatal Weakness"; Mark Skousen, "The Big Three in Economics—Smith, Marx, and Keynes"; Dinesh D'Souza, "What's So Great About America?"; Charles Murray, "The Growing Controversy of the Bell Curve"; and Tom DiLorenzo, "The Real Lincoln." These presentations will be broadcast on C-SPAN 2 Book TV several times over the next few weeks. For scheduled broadcasts, check www.FEEnews.org and www.booktv.org.

Over 100 Speakers and Sponsors

The FEE Fest was packed with workshops, panels, and debates on philosophy, history, economics, finance, education, art, and public policy. We were there to learn, as Leonard Read would say. Highlights included a standing-room-only crowd for a terrorism panel on Friday, the Latin American panel on Saturday, an educational panel on Sunday, and a challenging debate on the "Selfishness and the Best Moral Case for Capitalism" between Dinesh D'Souza and David Kelley, with George Gilder moderating.

Gerald O'Driscoll, Jr., discussed in detail the "World Map of Economic Freedom" published annually by the Heritage Foundation and the *Wall Street Journal*. We published the 2001 map in the May issue of *FEE Today*, calling it "The Map that Predicted the Terrorist Attacks." We reprinted 2,000 copies of the special 4-page *FEE Today*, which disappeared rapidly at the convention. (With your help, we plan to mail out hundreds of thousands of copies of this special *FEE Today*. Please use the enclosed envelope to support this good cause—or call Karen Krupinsky at 800-960-4FEE, Ext. 214.)

The Exhibit Hall was a busy place for socializing and networking, with over 60 think tanks, colleges, and other organizations, as well as the Laissez Faire Bookstore.

Join the 1776 Club

One feature that everyone seemed to enjoy was the 1776 Club, a new FEE program devoted to helping deserving students study free-market economics as we "proclaim liberty throughout all the land" (the words found on the Liberty Bell). Attendees were invited to join the club with a donation of 76 cents, \$1.76, \$17.76, or any increment of that famous number. After dropping a donation into the box, the new club member was then invited to ring the FEE Liberty Bell and win a prize. Those who donate \$1776 become Founding Members of the 1776 Club, and are invited to ring the bell 21 times (the sum of 1 + 7 + 7 + 6). Our goal was to *Let Freedom Ring* throughout the conference. Film producer Conrad Denke became the first Founding Member of the 1776 Club, a number dear to his heart (his personal phone number and his cell phone both end in 1776). Bert Dohmen followed close behind with not only 21 chimes, but also a salute to freedom with each ring of the bell. Want to become a Founding Member of the 1776 Club? Send your check for \$1776 to FEE today!

A Night to Remember

When we opened the doors to the Venetian ballroom for the Saturday night banquet, we knew it was going to be an unforgettable evening. The room was gorgeous, the staff accommodating, and the food delicious. Since this was also a celebration of Laissez Faire Books' 30th anniversary, cofounder Sharon Presley presented a history of Laissez Faire Books and a toast to Andrea Millen Rich, who headed LFB until her retirement this year. Ken Schoolland, professor of economics at the Hawaii Pacific University, received the first annual Leonard E. Read Book Award for Excellence in Economic Education for his delightful satire, *The Adventures of Jonathan Gullible* (available for $15.95 from Laissez Faire Books, 800-326-0996).

Modern dancer Valerie Durham choreographed two dances for the Saturday night banquet, "Enter the Austrians" and "All Men Are Free," an interpretation of the breaking down of the Berlin Wall set to Beethoven's *Ode to Joy*. Both were spectacular, with the powerful second piece bringing the audience to its feet.

Audio Tapes/Videos Now Available

If you missed the FEE Fest, I have good news. Audio and videotapes are available for almost all the sessions at the FEE National Convention. Audio tapes cost only $5 per session, and videotapes are available for only $15. Go to www.FEEnationalconvention.org for the complete list of tape recordings available and how to order.

Plan Now to Attend FEE Fest 2003

We are already making plans for FEE Fest 2003, scheduled tentatively at the Paris Resort in Las Vegas, May 15–18, following the Las Vegas Money Show. If you register now, you qualify for our "early bird" special price of only $195 per person—$55 off the regular price of $250. You can use the enclosed envelope to sign up, or register online at www.FEEnationalconvention.org. Also, if you are interested in speaking or being a sponsor/exhibitor, please contact Tami Holland, 1-888-565-8779.

Special Thanks to the FEE Staff—and a Welcome to Our New Chairman

Before closing, I want to especially thank Tami Holland; my wife, Jo Ann; and all our wonderful FEE staff for putting in many long hours to make the first FEE Fest a big success. If you have a chance, let them know how much you appreciate their extraordinary efforts.

I would also like to thank Don L. Taylor for his unwavering support as chairman of the board here at FEE. He is a true freedom fighter and we will miss him, as he retires. We welcome Ed Barr of Toronto, Canada, as our newly elected chairman. His enthusiasm for liberty and FEE is catching.

Yours faithfully in liberty, AEIOU,

Mark Skousen

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IDEAS ON LIBERTY
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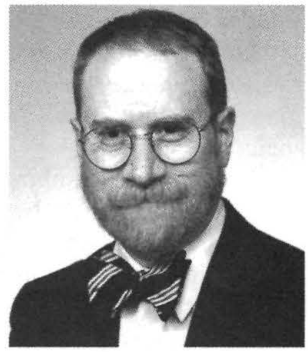

Government Needs to Lose Weight

How ironic that just as an already bloated government is taking on major new powers, it is exhorting *us* to lose weight. That's exactly what former Surgeon General David Satcher did before leaving office. In his "Call To Action To Prevent and Decrease Overweight and Obesity," Dr. Satcher wrote that "Our ultimate goal is to set priorities and establish strategies and actions to reduce overweight and obesity."

This requires more than a chuckle, a shrug, and a "there they go again," for it's indicative of a seriously flawed view of government's relationship to what used to be private matters. The line between public and private health has long been smudged and is on its way to being erased altogether. Not to be an alarmist, but advocates of individual liberty should be alarmed.

It's not as though people haven't heard that being fat might be unhealthy. Books, websites, talk shows, and commercials every day bombard us with that message and the various ways to shed pounds. Have you seen Jared at your local Subway sandwich shop yet? Have you heard of Slimfast? Few have gone broke promoting a fad diet. If anything, people worry too much about their weight.

That great debunker of junk science, Steven Malloy, writes that the government's statistics on overweight and obesity are based on "suspect research," such as unverified telephone surveys and "an arbitrary definition of 'overweight' based on 'body mass index.'" Malloy adds that the government's estimate of 300,000 deaths a year is "unadulterated junk science." The *New England Journal of Medicine* also finds the data unreliable, Malloy says. He further criticizes Satcher's report because it ignores important differences between being overweight and being obese. Obesity is unhealthy, Malloy says, "But the evidence supposedly linking mild-to-moderate overweight with increased health problems is murky, based only on flaky statistics." Malloy even debunks the alleged relationship between childhood and adult weight problems: the evidence is lacking.

But forget all that. Even if all the medical alarmism were justified, why is it any of the government's business? Conceded, that question sounds outlandish these days, accustomed as we are to believing that *everything* is the government's business. But once we remind ourselves that, as George Washington is reputed to have said, "Government is not reason; it is not eloquence. It is force," we should be wary of its portly scheme to slim us down. That scheme consists of a long "menu" of "activities and interventions in five key settings: families and communities, schools, health care, media and communications, and worksites." In other words, we are to have more intrusion from Washington, D.C., in everything from our family and community lives to our jobs in order to get us to lose weight. Where in the Constitution is the central government

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delegated the power to do this?

The menu of activities contains these ominous items, among others:

"Empower families to manage weight and health through skill building in parenting, meal planning, and behavioral management."

"Educate parents about the need to serve as good role models by practicing healthy eating habits and engaging in regular physical activity in order to instill lifelong healthy habits in their children."

"Establish worksite exercise facilities or create incentives for employees to join local fitness centers."

"Establish a dialogue to consider classifying obesity as a *disease category for reimbursement coding*." (Emphasis added.)

And on and on. It is obvious that this plan will take state coercion to new heights.

It's easy to make fun of this kind of government intervention, but it is serious. As seen in the last item quoted, the Satcher plan is another step in the medicalization of the normal challenges of life, which Thomas Szasz has long cautioned against.* Overeating and being overweight are typically not illnesses or symptoms of disease; they're choices or the result of previous choices. Likewise, resisting gastronomic temptation is not essentially a medical matter. It's a matter of self-control.

Public health used to refer to contagious diseases, where person A could infect person B without either actually doing anything more than, say, walking down the street. (The quarantining of tuberculosis sufferers was not to protect *them* but to protect others from deadly germs.) I have yet to hear of anyone catching obesity. Being overweight, if a health issue at all, is a *private*, not a public, health issue. That line is worth restoring and maintaining.

Notice the reference to "reimbursement coding." That's the tip-off. This is really about getting someone else to pay for weight-loss services through health insurance or government. It's finance, not medicine, which is only debased in the process.

The consequences of third-party payment for medical services, which has its provenance in government policy, are neverending. If the government and insurance companies are going be the direct payers for medical care, they must monitor people's spending if it is not quickly to get out of hand. (Goodbye privacy.) Some services will be disqualified for reimbursement on the ground that they are not real medical services. But that will cost venders and would-be buyers money, which will make them unhappy. They thus have an interest in lobbying to have their favorite services declared reimbursable. And to do that, they must have the conditions addressed by those services declared "diseases" or "disorders."

Thus does the medicalization of life go into a gallop. Habits are easy to form. In short order, virtually everything in life is taken to be medical, which is ominous because people readily accept government edicts about health that they would never accept were they about morality. Medical problems are typically seen as *happening* to people; unlike moral problems, they are not regarded as the result of choices (though it is untrue that we are not responsible for *any* of our health problems). The more things we define as medical, the fewer we define as moral—and the more scope we allow for coercive intervention by state-deputized doctors.

An unpleasant aroma arises from the government's interest in our health. The Nazis and communists, who believed that the individual belongs to the collective, saw maintenance of the people's health as an essential duty of the totalitarian state. The Satcher plan suggests that dietary decisions are not our own business because we are the property of the state. What else are we to conclude? The document says, "The Nation must take action to assist Americans in balancing healthful eating with regular physical activity." But what is the Nation if it is not Americans? The reification of the Nation by the minister of physical and mental hygiene should concern anyone who values his freedom. □

*See *Pharmacracy: Medicine and Politics in America* (Westport, Conn.: Praeger, 2001).

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After That

by Norman Barry

> "Somewhere in the world today walks the next Marx. But he is not a communist. . . . Nonetheless, he or she will attempt to seize upon the trends behind today's headlines to shape a competitor to 'American capitalism' that the disenfranchised in nations around the world can embrace."
>
> —DAVID ROTHKOPF[1]

David Rothkopf, chairman and CEO of Intellibridge Corp. and a deputy undersecretary of commerce for international trade in the Clinton administration, is convinced that out there is a new messiah just waiting for the opportunity to put the world to rights. You can be sure that despite good intentions he (she?) will be just like Robespierre, Marx, Lenin, Stalin, and the other monsters who regard the whole of humanity as so much putty waiting to be molded into some pretty shape by a liberator powered by the latest set of meretricious ideas.

Of course, Rothkopf wants to avoid this. He is merely issuing some kind of oblique warning: that if we in the West do not mend our ways, some new alleged savior will destroy our freedom and prosperity. He thinks that the new liberator might be less malign than his predecessors: he could even be "efficient," rival Anglo-American capitalism with a new and better route to happiness, and perhaps resuscitate the corpse of market socialism so as to create a new world order based on justice and humanity rather than the unrestrained self-interest of Wall Street.

Rothkopf has a Janus-like attitude to America. He says it is the "most successful nation in world history" and talks of the "genuine magnificence of the American experience"; yet in the same paragraph he rails against the country's hubris, self-interest, and apparent insistence that every other country should play by America's rules (by which he means those of big "capital"). And, of course, the country most generous in its delivery of aid to the poor and suffering is castigated for its alleged parsimony with regard to the distribution its own great wealth.

Like many so-called liberals, Rothkopf secretly resents America's (and the West's) economic success and our legal and other institutions that guarantee some liberty. He thinks it has been bought at too great a

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moral cost (morality as defined by the East Coast intelligentsia). One suspects that the intelligentsia really would like the country to be nearly as desperate as those on which it bestows its virtue. Thus its critiques of America are guided by conscience rather than intellect, and sentimentality rather than reason. Rothkopf, therefore, gives no rational explanation of America's success, or any recommendation of how its stupendously profitable institutions and practices might be exported to the rest of this benighted world. If we were to rely on the ranting of any new messiah, the supposed objects of his altruism certainly would not get that precious breakthrough into success.

For Rothkopf there is only the conventional complaint that America and the rest of the West are to blame for all the travails of humanity. It is as if the prosperity that we experience were simply a matter of chance and that we have a moral duty to spread our good fortune to other nations, including those that have willfully ignored the American experience, rejected its lessons, and worked for its downfall. Only the creation of international social justice and widespread redistribution will assuage American guilt for its purloining of the world's resources. It is never the fault of those abject nations that have pursued manifestly erroneous paths to paradise.

Yet most, if not all, of the misery and suffering that we daily experience are explicable, and soluble, if only those unfortunate countries that Rothkopf worries so much about would adopt those practices that have successfully coped with scarcity, poverty, insecurity, and all of the other social ailments that have regularly afflicted mankind.

Argentina's Error

Argentina bothers him. It is the victim, apparently, of a curmudgeonly International Monetary Fund's (and America's) refusal to lend the country even more money. But why is the country in a mess? Not complicated. It did the right thing, given its inflationary past, by tying the peso to the dollar. But it carried on spending in a good old socialist manner, especially in the extreme Peronista regional governments, and so produced a massive public-debt burden. Countries, like individuals, have to learn the hard way. If rich countries keep bailing poor ones out, the latter will be poor forever, just like individuals in welfare states. Hasn't Rothkopf ever heard of "moral hazard"? These countries would be better off if the IMF and the World Bank had never been invented.

He attributes the misery of the Third World to Western niggardliness; but money has been thrown at Africa for the last 50 years and the continent has got poorer as a direct result. Those traditional trades and practices that had kept its countries from penury for centuries were replaced by massive Western-financed capital investment programs (when there was surplus labor), ludicrous "infrastructure schemes," and money for poverty relief (which was often spent on weapons).[2] Much Western aid actually went into the pockets (and then the Swiss bank accounts) of politicians educated at Harvard and the London School of Economics. Parts of Africa have now become a "commons" on which rapacious brigands prey and grab what they can.

The continent does not need democracy, foreign aid, or the advice of economists and sociologists: it needs the rule of law. The Western intellectuals ignore "developing countries," for instance, those in East Asia, that have actually succeeded. The reason for this lack of interest is that these countries have used unmentionable Western methods of economic and social organization.

The Primacy of Property

What newly emerging countries need is law and property. The reason capitalism seems to be just a privilege of America and the West is that the fortunate citizens there have some security in their houses, their businesses (large and small), and their land. They can get loans on their property. In the rest of the world, property is precarious. People either cannot get proper title or the process is immensely long and costly. They may occupy bits of land insecurely, but "squatters' rights" are not secured by legal documents. The people stagnate therefore in shantytowns. Has not Rothkopf noticed that capitalism is built up from small beginnings as well as great Wall Street adventures?

With his scattergun approach he is bound to get some things right. And he is correct that the changes that have taken place in the last ten years have not been sufficiently addressed to *ownership*. He even praises Mrs. Thatcher for her wider dispersal of share ownership in Britain. But he doesn't really understand ownership. He would replace owners of legally protected assets by "stakeholders" in the world economy. He simply chastises the elites of the West (and old communist party hacks) for gaining vastly from the privatization in former Soviet regimes. This is partially true; however, the solution to the problem, difficult though it is, is not stakeholding but a much wider spread of *private* property ownership and its security, which has happened to an extent in Poland and the Czech Republic. What we do not want is the dilution of private ownership, which is precisely what stakeholding would bring.

It is certainly not true that privatization in Britain was a gift for "multinational corporations" or "powerful local business people with assets." And even if this were true the free market would quickly break up those economic power structures that worry Rothkopf.

Virtue-Powered Politics

He, of course, looks to some revitalized political action, powered by "virtue," to alleviate all our ills. But it is politics that diverts man's natural creativity and industry from private to public action in the first place. And that is the route to underperforming economies and even poverty.

I guess Rothkopf would not want to be thought of as a leftist, least of all a Marxist, but he is a victim of that style of thinking. It is the illusion of the left that permanent changes in the world are brought about by single, heroic individuals with the right ideology who appear to create new futures and utopias. They, like Lenin, overturn those "laws" that govern our behavior. But no one can overturn the laws of economics, of scarcity, and of production. That rent control causes homelessness, minimum wages produce unemployment, and nationalization of the means of production creates economic misery are as certain as any of Newton's laws; they just operate a little slower. Communism wasn't defeated by students wearing T-shirts emblazoned with the likenesses of Mises and Hayek; it was defeated because the whole system was a flagrant breach of those laws. And it got through to people for whom Mises and Hayek could have been names of football players.

It is no coincidence that the political messiahs of the past have always been glamorous public figures who attract the interest of the intellectuals, while the real innovators, the harbingers of great progress and innovation, are the little guys working in their back sheds, slaving away on a new and untried idea or persisting with an unfashionable scheme that the established world of science and economics says is wrong. Governments, especially democratic ones, are moved by glamour, and they make life difficult for the real innovators with excessive taxation and regulation.

And there are little guys in the history of ideas too. What about the school of Salamanca, whose writers said all that needed to be said about markets back in the sixteenth century? There is scarcely a book on them to be seen in university libraries in which the shelves sag under the weight of vast tomes of completely erroneous and, at last, irrelevant Marxism. Yet Rothkopf thinks the world is waiting for yet another purveyor of witchcraft.

One small beginning to make "progress without glamour" possible would be to take the liberalizing of world trade seriously. But Rothkopf takes the Seattle and Genoa rioters' view of globalization seriously. The expansion of world trade has apparently benefited only the elites of the West and impoverished the rest of mankind.

Now there is a genuine critique of the West in all of this, but Rothkopf completely fails to see it. Globalization has indeed advantaged the West relatively more than Africa and Asia, but that is only because it has not gone far enough. America and the European Union still operate a protectionist system geared precisely to protect home interests and punish the Third World, especially in agricultural products. The West currently spends $1 billion a day in agricultural subsidies to its own farmers. It is always electorally more popular to appease powerful pressure groups at home rather than take economically efficient and just action that benefits anonymous people abroad. There is also cheap labor overseas, but Western trade unions are determined to prevent the natural "socialism" of the market (the gradual equalization of wages through international competition) from operating. It is laughable to see earnest, idealistic Harvard grad students demonstrating alongside hardened steelworkers' union bosses at world-trade conferences against the evils of globalization, and coordinating their violent anticapitalist dissent by the use of high-tech mobile phones. The opponents of globalization do not want its benefits to trickle down to the masses; they want people to be permanently beholden to government. Does Rothkopf favor this?

Despite the horror stories we read about every day, the world is getting to be a slightly better place without a liberator. Absolute poverty is being reduced. There is no population crisis, and any environmental problems are soluble with conventional economic and legal techniques. If America and the West were to engage in a crusade to use government action to erase poverty, redistribute wealth, and spread "democracy" to the Third World, they would disrupt the corrective measures that are quietly taking place all the time.

Rothkopf is not a Marxist, or even particularly left wing, but if his ignorance of the explanations of economic success, and conditions of liberty, were to become even more widespread, then once again the world would be endangered by a malevolent agitator with superficial charm or a bewitching messiah with specious ideas. Contra Rothkopf, there is nothing for the West to be ashamed of provided we remain true to basic principles of liberty and the free market. Only its intellectuals cannot see this. And it is one of these, from Harvard, Yale, or Princeton, who is likely to turn out to be the new messiah, not the starving vagrant from, say, Indonesia, whom Rothkopf has penciled in for the role. But he (or she) cannot repeal those economic laws that will continue in their quiet, ultimately benign, way. □

1. "After This," *Washington Post*, January 20, 2002.
2. P.T. Bauer, *West African Trade* (Cambridge, England: Cambridge University Press, 1954) and *Dissent on Development* (Cambridge, Mass.: Harvard University Press, 1972).

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JUNE 2002

Alaskan Courtesy

by Scott McPherson

Alaska is most often thought of as simply a snow-covered tundra far to our north. Rarely do Americans find themselves looking to that Arctic wilderness for reason to celebrate a renewed sense of personal freedom. But that all changed when a state appeals court overturned a lower court decision to suspend a man's concealed handgun permit because someone said he was "crazy."

The case began in 1998, when Timothy Wagner, a concealed-carry permit holder, went into the Alaska Mining and Diving store in Anchorage and told a clerk that a computer chip had been implanted in his head. Responding to this "public safety threat," the state decided that Mr. Wagner was mentally ill and revoked his license. Naturally, the gun-control crowd was delighted, while the National Rifle Association (NRA) decided to fight the case in court. "We wanted to remove the potential for arbitrary and capricious decision-making on the part of the issuing agency," said Brian Judy, the NRA's Alaska liaison.*

Since the carry law was passed in 1995, the Alaska Department of Public Safety has issued over 18,000 permits. Under the law the state must issue a permit if an applicant answers a series of questions appropriately, such as whether he has been convicted of a felony. In 1998 an amendment removed the question pertaining to treatment for "mental illness" in the preceding five years; the application still requires disclosure of mental hospitalization or a finding of mental incompetence by a court.

So the law on this matter was clear. Mr. Wagner had not been deemed mentally incompetent or committed to a mental hospital. The court had no other choice but to restore to Mr. Wagner his right to keep *and bear* arms.

Of course, not everyone is celebrating this decision. Nancy Hwa, a spokeswoman for the Brady Campaign (formerly Handgun Control Inc.), laments that the court is "taking away the discretion of local law enforcement to make these decisions in the best interest of public safety." Clearly Ms. Hwa's knowledge of history is a little shaky. Under Jim Crow, local law enforcement had the discretion of making decisions in the best interest of public safety when it denied southern blacks the right to, among other things, vote, peaceably assemble, and, of course, own guns. (This was the origin of gun control in America.) In a modern-day version, the Brady Campaign wants another category of citizens deemed unfit to exercise basic constitutional rights—anyone who says something weird while in possession of a firearm.

Beyond the issues of state law, law-

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*Mary Pemberton, "Alaska Court: Mentally ill can keep concealed weapons," Associated Press, January 11, 2002. All quotes are from this report.

enforcement prerogatives, and absurd statements made by conspiracy theorists, there is a much larger point to be made here. The NRA did not challenge the basic issue of "mental competence" that was used to target Mr. Wagner. Only the most consistent libertarians contend that a law-abiding person declared "insane" should be free to own, and carry, a firearm. Nevertheless, that is precisely what needs to be addressed if another avenue toward regulating the Second Amendment out of existence is to be truly closed.

Mental illness is a highly subjective term. (See Thomas Szasz, "Mental Illness: Psychiatry's Phlogiston," *Ideas on Liberty*, November 2001.) It is obvious that the state's ability to obstruct rights based on one's unpopular, erratic, or seemingly irrational statements alone would be a truly arbitrary power. In discussing this topic, gun controllers evoke a general stereotype of a disturbed old man with a gun, when the truth is that a variety of behaviors have been labeled symptoms of "mental illness." Homeschoolers, unschoolers, libertarians, constitutionalists, Islamic fundamentalists, feminists, abolitionists, runaway slaves, and *gun owners*, to name a few, have all at one time or another had their sanity questioned by their fellow citizens.

Leave Them Alone

The only role for government regarding "disturbed" persons is to leave them alone, until they violate the rights of another. The purpose of government is to protect people's rights; it should ensure that everyone who wants to have a gun is free to obtain one, not twist itself into semantic contortions in an attempt to justify denying this right.

The only way we can know for sure that a person is indeed dangerous is when he commits an act of aggression or expressly threatens to do so. Until such time, he should be as free as anyone to exercise his rights. After that point, he should be incarcerated, and the question of his having or carrying a firearm becomes moot. If people are concerned that such a policy might place them in the company of sordid characters with guns, then they should be reminded that the measure of a free society is the lengths to which its citizens tolerate what makes them uncomfortable.

"Alaska seems more likely than many states to allow mentally ill people to carry guns in public," said Luis Tolley, state legislative director for the Brady Campaign, in response to the court's decision. "By establishing such a narrow definition, that is allowing an awful lot of people who are mentally ill to carry guns in public." If saying something silly is the criterion for being rendered unfit for freedom, then the machinery of state is not large enough to accommodate the number of people who belong under supervision. The Alaskan appeals court saw straight through that fallacy and decided to err on the side of liberty. □

Economic Reasoning

Progress in economic reasoning largely consists in picking our way through a mine field of possible errors. In economics, as Ludwig von Mises once said to me in conversation, the truth lies along a knife-edge.

—Henry Hazlitt

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Parasite Economics

by David M. Levy and Sandra J. Peart

Contemporary anti-market voices characterize market economies as "parasitic" and traders as "parasites": "Experience has shown that capitalism is the real source of basic evils in society. . . . Social parasites suddenly emerged with billions. Thus, it became clear to all that U.S. capitalism was a big trap and suicide. As a result, the majority of people in eastern Europe went back to fighting capitalism and advocating socialism."[1]

Those who are sympathetic with the proposition that capitalism creates "victims" and who, with Nobel laureate Dario Fo and others, assign blame for the September 11 massacre on American participants in markets, might do well to consider the intellectual history and the analytical presuppositions of "parasite" economics.

The characterization of markets and those who participate in market transactions as parasites has a long and misunderstood history. In the mid-nineteenth century Thomas Carlyle used this logic to defend the Reign of Terror: "Mammon, cries the generous heart out of all ages and countries, is the basest of known Gods, even of known Devils. In him what glory is there, that ye should worship him? No glory discernible; not even terror: at best, detestability, ill-matched with despicability."[2]

No, this is not the ranting of those responsible for the September 11 murders, though absent the difference in prose, it might have been. Instead, Carlyle drew this unfavorable comparison of markets with the hierarchy established by the Reign of Terror in his *French Revolution.* It was also Carlyle who in 1849 gave to economics the name of the "dismal science" for its role in emancipating black people from their white masters wielding "beneficent whips" into the self-direction of markets.

Even earlier, in *Sartor Resartus,* Carlyle contributed the concept of consumer sovereignty, which for him is despicable: "whoso has sixpence is Sovereign (to the length of sixpence) over all men; commands Cooks to feed him, Philosophers to teach him, Kings to mount guard over him,—to the length of sixpence."[3]

Carlyle and his followers not only attacked markets and defended racial slavery, but his vision of the ruling race also helped deny the right to self-government for the Irish. How could a race of parasites—cannibalism is Carlyle's term for the Irish condition in Ireland—rule themselves? In the images produced by Carlyle's friends (reproduced at www.econlib.org) it is all too easy to see the Irish parasite as noxious insects feeding on Ireland. It's obvious what one does to such parasites.

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For those who have argued that the blame for the September 11 murders rests in part on the shoulders of American capitalists, it's also important to understand the implication of zero-sum trade—of trade without benefit, of stealing—that underscores this position. And the temptation that follows, to find and to demonize a class of victimizers, of parasites.

The doctrine of zero-sum exchange is an old enemy of peaceful civilization. Cultural accounts of recent anti-market violence rely on the zero-sum notion of trade, supposing a hostility between economic "globalization" and indigenous culture. Here the market economy, running roughshod over local values, acts as an unwelcome agent of cultural destruction. Of the many examples, consider the following explanation of the September 11 murders: "Dario Fo, the Italian playwright and satirist who won the Nobel Prize for literature in 1997, said bluntly in a widely circulated e-mail: 'The great speculators wallow in an economy that every year kills tens of millions of people with poverty—so what is 20,000 dead in New York? Regardless of who carried out the massacre, this violence is the legitimate daughter of the culture of violence, hunger and inhumane exploitation.'"[4]

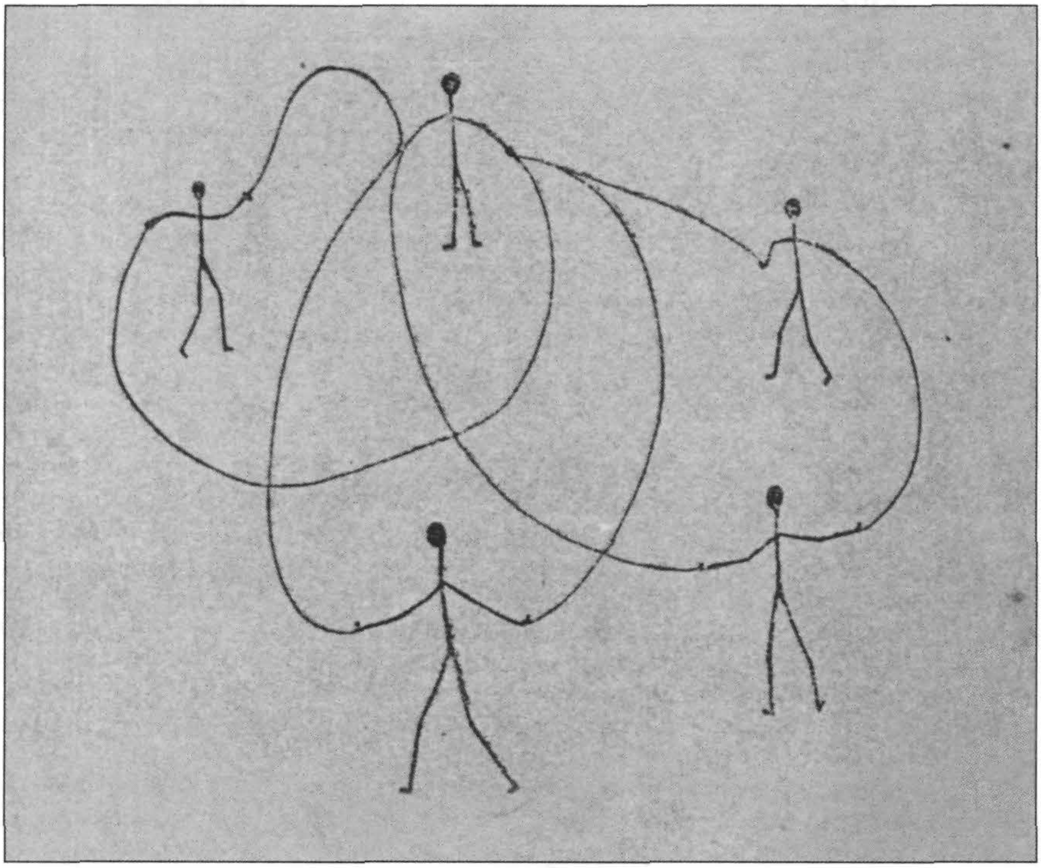
In a zero-sum game, there is a loser for every winner. Add to this the supposition that there are systematic winners, that the winners from non-mutually beneficial trades form a predictable class, "parasites." In nineteenth-century attacks on market exchange we find a colorful cast of such "parasites": the harpy Jew, the vampire Jew, the Irish cannibal, the Jamaican cannibal, the evangelical canter, the economist canter. All of these take without giving. Their occupation is utility-sucking. They deserve (and are sentenced to) death without redemption.

Parasites Today

Today, Carlyle has many friends who are not racist and certainly do not hold with slavery. Today, the hierarchy is one of culture and the parasites are beneficiaries from market transactions, beneficiaries who supposedly gain at the expense of others. The demonization of the "parasites" continues: "capitalism in the Islamic Republic of Iran is an 'ill' which has emerged outside the framework of regulations, and the wealthy should be considered parasites who have been imposed on Islamic society. . . . The fact that the wealthy in the Islamic Republic of Iran cannot envisage a secure future for themselves speaks of the healthiness of the system. . . . [If not] capitalists would consider this country a safe haven for their plundering. . . . [W]e consider the owners of easily-gained wealth parasites imposed on Islamic society. . . . [T]his sickness has threatened the health of Islamic society."[5]

The modern defense of the Carlylean enterprise is that while he might have been a proslavery racist, he was at least (and unlike the economists) a paternalist. As such, unlike the "hard-hearted" economists, he was concerned for the "victims" of market transactions. While it may be the case that Carlyle's concern for the downtrodden was genuine, it is also true that the alternative he favored was hierarchy. For those who have argued that the blame for the September 11 murders rests in part on the shoulders of American capitalists, it's also important to understand the implication of zero-sum trade—of trade without benefit, of stealing—that underscores this position. And the temptation that follows, to find and to demonize a class of victimizers, of parasites.

When markets enter, hierarchy vanishes. In economics, people are presumed to be competent, so there are no systematic losers



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and therefore no systematic victims. The economist Fleeming Jenkin took great pains to confront the doctrine that trade is zero-sum put forward by Carlyle's industrious disciple, John Ruskin. Jenkin drew a picture to show how exchange is actually ordered.[6] The order is circular, each actor in the drama of markets has his or her own goals, and these private goals are revealed in the market order, the spontaneous order. □

1. Salah al-Mukhtar, editor, "What Does Exporting Democracy on Tank Turrets Mean?" *Al-Jumhuriyah*, October 9, 1995, pp. 1, 6, translated by FBIS, Document ID: FTS19951009000003.

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3. Thomas Carlyle, *Sartor Resartus*, ed. Kerry McSweeney and Peter Sabor (Oxford: Oxford University Press, 1987 [1831]), p. 31.

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Economics

IDEAS ON LIBERTY
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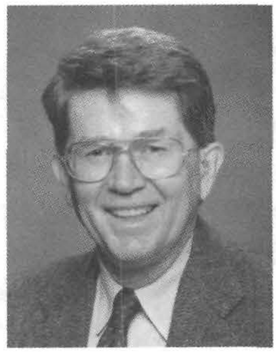

The Bias Favoring Governments over Markets

The thrust of my columns could be summarized as follows: We would be better off increasing our reliance on the voluntary cooperation of the marketplace and reducing our reliance on government commands. This is not an idle assertion reflecting blind ideology or religious zeal, as some would claim. It is based on an impressive foundation of theory and evidence. For over 225 years, dating back at least to Adam Smith's *The Wealth of Nations*, economic theory has explained how markets coordinate the actions of countless people, even when each is motivated by narrowly defined self-interest, to serve the public interest far more effectively than government action, no matter how well intended.

And the evidence is clear that individual freedom disciplined by market incentives is closely connected to widespread wealth. Markets and the freedom they allow are far more important to the prosperity of nations than natural resources. Many countries rich in natural resources have been impoverished by the substitution of government compulsion for market freedom (consider Argentina, Russia, India, China, and any number of African countries). There are also many countries poor in natural resources that have prospered by relying primarily on market forces (Japan, Hong Kong, Switzerland, and Singapore).

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But if the market is so superior to government, why do people respond to almost every problem, real or imaginary, by demanding a government solution? Why have governments relentlessly taken ever more responsibility for their citizens' welfare, and ever more of their paychecks, in unsuccessful attempts to make everyone better off at the expense of everyone else? No complete answer to these questions can be given in a short column. But at the heart of any answer is an irony—markets are criticized for the very reason that they create wealth, and governments are applauded for the very reason that they destroy wealth.

Markets work their wonders by creating in each of us an intense interest in taking actions that increase the welfare of others. Few of us give much thought to the well-being of more than a few of the hundreds of millions of people who in various and indirect ways benefit from our work and investments. But we are vitally concerned with the salaries we are paid and the profits we receive, and in markets our salaries and profits rise or fall with the value of our contributions to others. So by adjusting our efforts and investments to improve our conditions, we also improve the conditions of countless others.

The well-known implication of this is, as Adam Smith pointed out in 1776, that though each person "intends only his own gain, . . . he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention." But immediately before this famous statement, Smith made another, less celebrated, observation that each individual "neither intends to promote the public interest, *nor knows how much he is promoting it*" (emphasis added). Because the benefits from our efforts are so dispersed over so many people in so many ways, we can never know how much we benefit others, even if we cared. And because the benefits we realize from others are similarly spread over so many, none of us notice, or can identify, the particular contributions others are making to our welfare. The benefits generated through markets are largely unappreciated because they are distributed so broadly and impersonally. And even when these benefits are appreciated, people seldom understand that they are made possible only by the cooperation created by market incentives.

Little Credit Given

While the market receives little credit, or appreciation, for the benefits it provides, it is constantly attacked for the very thing that makes those benefits possible. The inevitable consequence of the market's rewarding those who do the most to benefit others is that it imposes losses on those who don't. Firms suffer losses and bankruptcy when they fall behind the competition in catering to consumers, releasing scarce resources to those making better use of them. Similarly, those who invest in, and work for, firms that aren't continually giving consumers better products at lower costs find their portfolios shrinking and their jobs disappearing, again shifting resources (including labor) to more productive activities. Although everyone, including those who suffer these costs, is better off living in an economy that imposes them unrelentingly, the pain that results is undeniable. And because the pain is concentrated it is easily seen, readily associated with the market forces that caused it, and invariably criticized as a market failure that calls for corrective government action.

So the success of markets is easily overlooked, or taken for granted, while the discipline that makes that success possible is easily depicted as an unnecessary and unacceptable cost. We have all seen the nightly news lamenting the horrible disruption people suffer when the major employer in their communities goes out of business. But how many have seen a follow-up on the millions who are a few dollars a year better off because the bankruptcy freed up resources to produce more valuable goods and services elsewhere in the economy? We have become wealthy because these adjustments create more benefits than costs. But because the benefits are dispersed and the costs are concentrated, the market is seldom given credit for the former, but constantly blamed for the latter.

On the other hand, government programs destroy wealth because their benefits are typically concentrated, and therefore easily noticed, while their costs are widely dispersed and easily ignored. The political benefit-cost ratios of these programs are greater than their social benefit-cost ratios, so they are invariably expanded far beyond the point where their marginal value covers their marginal cost. Obviously, the group receiving most of the benefits from a program will appreciate it, know which politicians support it, and reward them for expanding it. Even taxpayers who pick up the tab for wasteful special-interest programs commonly favor them because the benefits are so apparent and easily connected to the particular program that provides them, and the cost of any one program to any one taxpayer is typically too small to notice.

Finally, political authorities like providing government benefits even when doing so destroys far greater benefits in the market. Politicians and bureaucrats are in the business of taking credit for things, and they cannot take credit for the benefits generated through the market, and receive little if any blame when programs reduce those benefits.

We shouldn't laugh at the dog that bites the hand that feeds it. When expanding government programs that distort and discard market incentives, we are not only biting the hand that feeds us, we are also feeding the hand that bites us. □

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A Tale of Two Tariffs

by Larry Schweikart

Although it doesn't happen often, especially with modern "econometric" tools and the application of computers, sometimes there are questions in recent economic history where those who embrace free markets *know* something is right but just can't prove it. We can argue theory endlessly, but some people are never convinced until you show them a little empirical proof.

Such is the case of the tariff in American history, particularly two key episodes: the early "protective tariff" established in George Washington's day and the Smoot-Hawley Tariff, whose role in sparking the Great Depression has been asserted but never proved. Until quite recently, free-market advocates have had to rely on theory to advance the position that those tariffs were at best unnecessary and at worst destructive. But scholars continue to look for new topics, and better ways of investigating the topics they have. The result is a series of new studies that shed light on these two critical chapters in American tariff history.

First, the basics: a tariff is a tax on imports. Since the United States of America has a government, even the most minimalist "Jeffersonian" government needs money to carry out its functions, and it must come from some source. In the early Republic, where the Founders despised direct taxes, George Washington's administration, led by Secretary of the Treasury Alexander Hamilton and Secretary of State Thomas Jefferson, settled on two main sources to avoid direct taxation: a tariff and land sales. Hamilton's argument on the tariff was that it would raise revenue and "protect" infant American industries against the more established competition from Great Britain. Thus it was known as a "protective" tariff.

Although the dean of tariff historians, Frank Taussig (1931), contended that this tariff ceased to protect after the 1830s, he lacked the computing tools and masses of data now available to back up his claims.[1] Nor could he say much about the early period, when he, like most other economists and historians, agreed that the tariff had indeed "protected" American manufacturers. Over the next 60 years the so-called liberal drift of academe tended to gently repudiate Taussig. Then in 1984 Mark Bils and C. Knick Harley wrote articles in the *Journal of Economic History* arguing that the tariff was absolutely necessary even after the 1830s for the survival of American manufacturing.[2]

Fortunately, that was not the last word. Douglas Irwin and Peter Temin detected a major flaw in previous analyses of the supposed benefits of tariffs in the early Republic, namely: the analysts always assumed that American producers would make the same things as their British competitors. This, of course, was a complaint by free marketeers for some time, but on a slightly higher level.

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It went something like this: if the British were more competitive in textiles than American manufacturers, then Americans would simply have made other products or specialized more in agriculture, like, say, New Zealand. This line of thinking ironically played into the hands of the protective-tariff crowd, who then pointed out all the "spillover" effects of the textile industry that were not present in agriculture. Textile manufacturing techniques influenced virtually all other early American production, and management structures spread to almost all other businesses.

Thus it might be argued that the United States would have become a substantial agricultural exporter, but it would have been more difficult to see how the nation could have achieved industrial greatness. That, in turn, would have undercut a basic free-enterprise argument that no matter who has a head start, anyone can catch up through hard work and the infusion of talent and energy. If the United States never could have caught up to England without the tariffs, there might be a case for the old "rich-getting-richer" argument.

Thankfully, that is not the case. In the September 2001 issue of the *Journal of Economic History*, Irwin and Temin demonstrate that earlier scholarship on the tariff was most likely wrong because of flawed assumptions. Rather than competing in the same types of cloths, British and American producers made different types of textile products that were, as the authors say, "imperfect substitutes" for one another.[3] In fact, the authors found, the "U.S. cotton-textile producers were not dependent upon the tariff" by the 1830s, and they conclude that the industry could have survived even if the tariff had been eliminated. Simply put, Irwin and Temin discovered that Americans did not try to compete head-on with the British at the outset, but rather immediately identified their "comparative advantage" in cheaper cloths.

Although Irwin and Temin nearly shut the door on the tariff debate, they did leave a small crack: The period from 1816 to 1830, when the textile industry first took off, was arguably the most critical time, the point where tariffs would have their maximum effect. But that argument has its own problems. First, the data stinks, colloquially speaking, for that 14-year span. Second, Thomas ("small-government") Jefferson embargoed all exports to Britain in 1808, meaning that from that time until the end of the War of 1812 (ostensibly the Treaty of Ghent, ratified in 1815), there was no competitive free market anyway.

What about the post-war period? Separating any effects of the tariff from other economic dislocations of the day is difficult, mainly because of the nationwide depression that began in 1816 that is generally associated with a spate of inflationary bank-note issues. Textile producers, seeing a flood of British imports when their own mills were in trouble due to the Western currency collapse, "could not do anything about the general economic slump, [but] they could try to stop imports."[4] Thus they appealed to Congress for tariff protection. It is likely that this sole remaining 14-year "window" will become the subject of new econometric studies to determine the impact of the tariff, but if the current trend in scholarship is any indicator, the pro-"protective tariff" crowd will not be happy with the results.

Al Gore vs. Ross Perot, Part Deux

The second tariff that has come under scholarly scrutiny recently is the Smoot-Hawley Tariff of 1930, which was viewed as being linked to the Great Crash, and therefore the Great Depression, on the basis of circumstantial evidence in Jude Wanniski's book *The Way the World Works*.[5] This tariff, raising rates even higher than the earlier Fordney-McCumber Tariff, increased duties on almost all imports. But on some extremely important raw materials, key to the manufacturing sector, the rates soared by more than 30 percent. According to Wanniski, Smoot-Hawley passed critical points in the congressional committee system just prior to the Crash. He ties the successes of the tariff, and its setbacks, to drops and surges in the stock market. Wanniski produces no smoking gun, but argues that the crucial vote occurred on October 28, 1929, when the tariff bill cleared its final committee hurdle. Claiming that industries engaged in predictable defensive responses at the inescapable tax, Wanniski argues that they laid off employees, raised prices, and reduced production. Another likely response not claimed by Wanniski is that companies (which are often their own largest stockholders) would have naturally dumped their own securities on the open market in an attempt to get liquid.

Although Wanniski is an accomplished economist, he is no academic, and thus his theory was pigeonholed as that of a "pop" economist with no real data—until quite recently. Once again, tariff historian Irwin has provided answers that "go where no man has gone before."[6] In several studies he found that the tariff reduced imports 4–8 percent in nominal terms, but when deflationary effects are factored in, the real decline attributable to Smoot-Hawley may have accounted for a fourth of the 40 percent decline in imports after 1930.[7]

So what? say some economists. After all, the impact of Smoot-Hawley on the total trade of the United States still only represented a small share of output. How could changes in the terms of trade, no matter how dramatic, affect the entire economy? In fact, as Mario Crucini and James Kahn show, the changes in trade had a ripple effect, in which the Smoot-Hawley Tariff *alone* could have reduced the U.S. GNP by 2 percent in the 1930s. To put things in perspective, most economic historians have assessed the impact of the railroads on the nation's economic growth at 5 percent.[8] Or, in other words, the Smoot-Hawley Tariff in two or three years took away half the growth that the railroads added in 50! And, like Irwin, Crucini and Kahn found that the Fed's deflationary policy—which some libertarians have wedded to the notion of a Fed *inflation* in the 1920s—made the Smoot-Hawley Tariff much worse.

Irwin, Crucini, and Kahn have not only provided the evidence that the Smoot-Hawley Tariff was phenomenally damaging, but that when combined with the Fed's monstrous deflation so adeptly outlined by Milton Friedman, it became a true two-headed hydra. The only question remaining is Wanniski's original allegation that anticipated passage of the tariff bill sparked the Great Crash, and once again, we have new research to suggest that it did. In the 1990s Robert Archibald and David Feldman found that the politics of the Tariff generated tremendous business uncertainty. That uncertainty started in 1928 and grew worse throughout 1929 as the Tariff marched forward. Archibald and Feldman come as close as anyone has to linking the Smoot-Hawley Tariff specifically to the Great Crash.[9]

Where once free marketeers had only good sense, general theory, and a little history on their side, a new wave of econometric studies has now established that tariffs did not protect anything after 1830; that they likely did not protect much before 1830; and that the Smoot-Hawley Tariff was one of the most destructive pieces of economic legislation ever written. □

1. Frank W. Taussig, *The Tariff History of the United States*, 8th ed. (New York: G. P. Putnam's Sons, 1931).
2. Mark Bils, "Tariff Protection and Production in the Early U.S. Cotton Textile Industry," *Journal of Economic History*, December 1984, pp. 1033–45, and C. Knick Harley, "International Competitiveness of the Antebellum American Cotton Textile Industry," *Journal of Economic History*, September 1992, pp. 559–84.
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8. Mario J. Crucini and James Kahn, "Tariffs and Aggregate Economic Activity: Lessons from the Great Depression," *Journal of Monetary Economics*, 38 (1996), pp. 427–67, and Crucini, "Sources of Variation in Real Tariff Rates: The United States, 1900–1940," *American Economic Review*, June 1994, pp. 732–43.
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We're All Rawlsians Now!

by Robert A. Lawson

In the 1970s Richard Nixon famously remarked, "We're all Keynesians now." Fortunately, the president overestimated the long-run influence of John Maynard Keynes's ideas among economists. For modern philosophers, it might be appropriate to rephrase Nixon's line and say, "We're all Rawlsians now."

John Rawls, the Harvard University philosophy professor, truly has had as much influence in philosophy as Keynes did in economics. As with Keynes, it remains to be seen if Rawls's ideas will remain in vogue in the generations to come or if he is destined to a marginal role in the history of philosophy.

John Rawls asked a simple question, "What makes for a just society?" The problem in figuring out if society is just or not is that we all already live in society, and we know, roughly, how we are going to fare in it. Rich people, pretty people, and smart people are naturally going to be inclined to say that their society is just, while poor, ugly, and dimwitted people are more likely to think society is unjust. So simply asking people what makes a society just won't work.

This is where the creative mind of Rawls comes in. He asks us to engage in a thought experiment. Let us imagine that we could wear a "veil of ignorance" that would block out all knowledge of our future condition in society. That is, imagine that we could not know whether we would be rich or poor, pretty or ugly, smart or dimwitted, white or black, or whatever. Then and only then, Rawls concluded, could we get people to decide in an unbiased way what a just society should look like.

To carry things along a bit more, Rawls even speculates on how people, all of whom are behind this veil of ignorance, would conceive of a just society. His speculation, which has inspired thousands of disciples in philosophy and elsewhere, is that rational people would consider a society just if it maximized the standing of the least well-off. This has become known as the maxi-min hypothesis: a just society maximizes the minimum person's welfare. Let us leave aside the question of whether the maxi-min hypothesis is what we would all agree to behind the veil of ignorance. Instead we will consider the implications of the maxi-min hypothesis, assuming it is correct.

Simple followers of Rawls have argued that the maxi-min hypothesis calls for income equality, but such is not the case. Rawls himself acknowledges that income inequality is allowable if it is a means for improving the status of the lowest rungs of society.

As an example, consider two societies. Society A has three people with $1,000 each—perfect income equality. Society B has

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3 people also, but one person has $10,000, another has $5,000, and the third has $2,000. In a Rawlsian sense, Society B is more just than Society A because it does a better job of maximizing the well-being of the least well-off in society.

Nevertheless, Rawlsian devotees often oppose markets and support radical income redistribution to help the least well-off. Redistribution can indeed improve the financial well-being of the least well-off, but if reduced reliance on markets diminishes the productivity of the economy as a whole, as economists warn, then redistribution can hurt the least well-off and everyone else too for that matter.

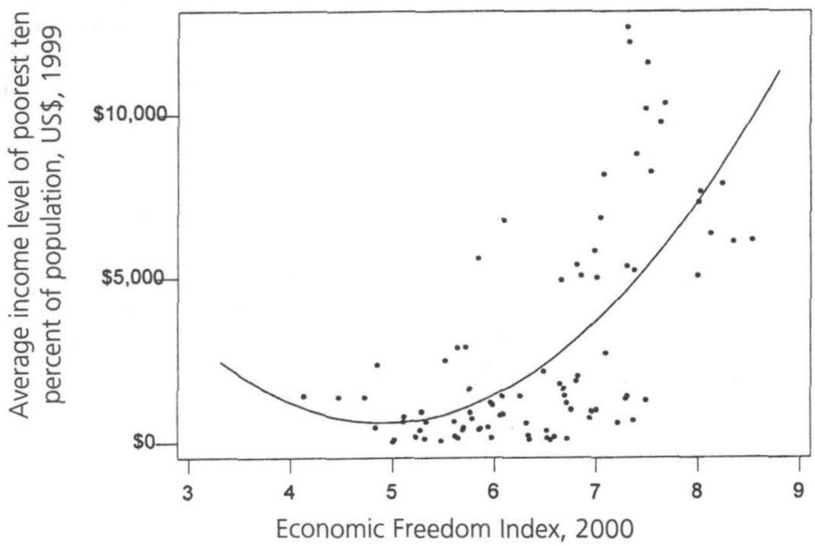
Who Does Better?

Ultimately it is an empirical question. Do poor people do better in societies that pursue free markets or in societies that restrict economic freedom? The accompanying chart shows the average income levels of the poorest one-tenth in 87 nations around the world in relation to the economic freedom index produced for the Fraser Institute.* It is clear that the relationship is positive. Poor people in societies with economic freedom do better than poor people in societies without economic freedom.

To convince yourself, take a case study. Which society is more just in a Rawlsian sense, the United States or India? The distribution of income is in fact less equal in the United States than in India. If you believe the just society is one in which income is more equally distributed, then you would have to prefer India over the United States. But the average person in the bottom tenth of the U.S. income distribution has nearly $6,200 compared with India's bottom tenth with only $837. Indeed the typical person in the *bottom* tenth of the United States is almost as well off as the typical person in the *top* tenth of the Indian income distribution. If you really believe a just society is one where the bottom rungs of the economic ladder are treated the best, then you have to conclude that the (comparatively) free-market United States is more just than the (comparatively) socialist India. Rawls would think so anyway. □

*From James Gwartney and Robert A. Lawson, *Economic Freedom of the World: 2002 Annual Report* (Vancouver, B.C.: Fraser Institute, 2002) and World Bank, *2001World Development Indicators* (Washington, D.C.: World Bank, 2001).

Economic Freedom Means More "Rawlsian" Social Justice



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China's Peasants Suffer Under Apartheid

by Christopher Lingle

China operates an apartheid system that divides its citizens into separate worlds according to whether they were born in rural or urban areas. After reforms in South Africa and the collapse of the Soviet Union, few other countries have residency controls.

While world opinion rightly denounced apartheid in South Africa, few complaints were registered against the use of similar systems in communist countries. Denying people certain fundamental rights should be condemned as a matter of principle, regardless of the motivation.

There is no small irony that communists condemned the notion of division of labor created by the market. However, they imposed a division of labor in China and the former Soviet Union by creating urban centers for industrial production and controlling workers' access to them.

China's long-anticipated entry into the World Trade Organization contains another paradox. While accepting the principle of the free movement of goods, China denies the basic right of freedom of movement to its own citizens. Of all the vestiges of the planned economy, this represents perhaps the most grotesque relic.

Initiated by Mao in 1958, the *hukou* system uses registration to tighten social control. Everyone must live in a registered household. Those seeking work in urban areas must register using a household address in that city or be sent back home.

The *hukou* system separates people into rural and urban residents. Employment is based on place of permanent residence. Because work units provide many services, the *hukou* system also controls access to schools and housing. It also affects many social decisions, like marriage.

Decades of imposition of these categories have aggravated the contempt between rural and urban citizens. The larger group of peasants, who number 900 million, is discriminated against in favor of roughly 400 million urban dwellers. A fear that too much mobility will cause increasing social unrest from pockets of rising unemployment and expanding slums provides the Communist Party with allies among most urbanites.

Urban areas are enjoying rapid economic growth while many people in rural areas remain impoverished, widening the gap between rich and poor. Agricultural reforms have contributed to increases in productivity that have caused steep declines in the need for workers in rural areas. At the same time, peasants face rising tax burdens that induce them to seek jobs in urban areas.

China's rural areas hold an estimated 170 million surplus workers. Of these, as many as 120 million are living as migrant workers

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in the cities. Yet their status remains insecure. Even marriage to someone from the urban elite allows only a temporary residence permit. Under these conditions, they could be expelled during periodic crackdowns against migrant workers.

There have been some improvements, with more likely to follow. As of October 1, rural residents have been allowed to change their *hukou* and apply for permanent residence in small cities and towns where they find legal housing and a secure source of income. Pilot schemes are underway in 20,000 towns and small cities, roughly half of China's total.

After five years, the experiment will progress to incorporate small and medium-sized cities before larger cities are made more open. Beijing, Shanghai, and Guangzhou have loosened the household-registration requirements for professionals or property owners.

At present, about 74 percent of the population officially is registered as rural residents and is trapped in the countryside. This means that the *hukou* system presents a serious barrier to China's continued economic growth and development. Besides being cruel, this system hinders economic integration by partially separating rural from urban markets.

Irrationalities Abound

If China wishes to move toward a market economy it is essential that there be worker mobility. As in South Africa under its apartheid regime, irrationalities abound; businesses are limited in whom they may hire and may have to take less-productive workers with permits over more-competent skilled professionals without.

It is good news that ongoing reforms to the *hukou* system will allow some of the hundreds of millions of Chinese peasants to improve their standard of living. However, this is merely the beginning of a much larger force for change.

As China moves toward modernizing its political system, its leaders will discover that true democracy and markets work best when rights and freedoms are recognized in individuals as individuals. Apartheid exists when rights are based on group identity, favoring one group at the expense of another.

Mao Zedong depended on the peasants to secure his victory. He rewarded them by making them second-class citizens. Karl Marx once exhorted industrial workers to throw off their chains. Now is the time for China to remove the shackles from its peasantry and release these people to seek their own destiny. □

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Absorbing Immigrants

America should re-open its borders to immigrants.

Not until 1924 did the government generally limit the number of people who could come to America and make it their home. If America's borders had been closed, say, a century earlier, the civilization that we now call "American" would not exist. The Irish, Germans, Italians, Scandinavians, central and eastern Europeans, and many Asians arrived here in bulk during the nineteenth century. Most would have been turned away under the restrictive regime followed since 1924.

When I talk with people about immigration, everyone agrees that the open-borders policy of the eighteenth, nineteenth, and early twentieth centuries was a great boon to America. Without it, we would today be unimaginably poorer and less vibrant. So I then ask: If open borders in the past generated enormous benefits, why not open our borders today? I always get the same answer: "Times change. America had more room and resources then. We could then absorb immigrants better than we can today."

I disagree.

Room for Immigrants

Since 1820 the years that witnessed the greatest influx of immigrants as a proportion of America's population were the early and mid-1850s, when annual immigration was about 1.6 percent of the resident population. This figure was approached again in the 1880s and during the first decade of the twentieth century. Today, annual immigration is about 0.25 percent of the resident population—less than one-sixth its level during the first half of the 1850s, and about one-sixth its level during much of the 1880s and the first decade of the twentieth century. (Some people argue that illegal immigrants are undercounted today. Taking the largest estimate I've seen of uncounted illegal immigrants, total annual immigrants as a proportion of the U.S. population today would be 1.25 percent of the resident population. While likely overblown, accepting this figure as accurate means that, as a percent of the resident population, immigration today remains well below that of any of the peak years of the past.)

What about our ability to "absorb" these—and even more—immigrants?

An important element of the ability to absorb is living space. Americans today enjoy record levels of residential living space. For example, in 1915, the typical dwelling in America housed 5.63 people; today it houses fewer than half of that number—2.37 people. Combined with the fact that the square-footage of today's typical dwelling is, on the most conservative estimate, 20 percent greater than it was a century ago, our ability to "absorb" immigrants into our residential living spaces is today more than twice what it was during the era of open borders.

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What about land? Contrary to a widely mistaken belief, the amount of land devoted to urban and suburban uses is a tiny percentage of America's land (even excluding largely unsettled Alaska). While such land use has grown significantly during the past century, today it is *at most* about 3 percent of the land area of the lower 48 states. (The 3 percent figure is an overestimate because, since about 1960, cities have increasingly incorporated lands that remain largely rural in character but that are classified as "urban.")

And since at least 1950, the amount of land devoted to public recreation uses and to wildlife refuges has increased faster than has the amount of land devoted to urban and suburban uses. Today, the land area devoted to national and state parks, and to wildlife refuges, is more than seven times greater than it was in 1900. America is nowhere close to being crowded.

Also, we're much better able to feed ourselves today, even though the amount of land used to grow crops and to pasture animals is no larger now than in 1900. Extraordinary increases in agricultural productivity enable American farmers and ranchers to produce vastly more output on the same amount of land. For example, each acre planted with wheat today produces three times more output than it did a century ago. Similar, and even greater, productivity increases have occurred for nearly all other agricultural products. This productivity explosion is reflected in a much more abundant food supply and lower food prices.

Absorbing Workers

Immigrants, of course, come to America not only to consume but also to work. A measure of our ability to "absorb" workers is capital invested per worker—the amount of machinery and other tools in place for workers to use. Today, the amount of capital invested per worker is more than nine times greater than in 1880 and about 8.5 times greater than in 1924. Because a worker's productivity rises when he has more capital to work with and his pay is tied closely to his productivity, workers entering the American economy today produce and earn more than workers entering during the open-borders era.

Don't lose sight of our labor market's great flexibility. It easily absorbed the massive increase of women workers during the second half of the twentieth century. Over this time, 46 million jobs were created for women, which is more than half of the 80 million jobs created during that same time.

In many other ways, America today is far better able than in the past to absorb more immigrants. For example, compared to 1920, *per person* today we:

- have greater than ten times more miles of paved roads;
- have more than twice as many physicians;
- have 50 percent more dentists;
- have almost three times as many teachers;
- have 540 percent more police officers;
- have twice as many firefighters;
- produce 2.4 times more oil—as known reserves of oil grow;
- produce 2.67 times more cubic feet of lumber—as America's supply of lumber stands grows;
- have conquered most of the infectious diseases that were major killers in the past.*

The fact is America today is much wealthier, healthier, spacious, and resource-rich than it was a century ago. And we owe many of these advances to the creativity and effort of immigrants. If open immigration worked until 1924 to enrich America, it can do so now with even greater certainty. Let's welcome more immigrants so that they can help themselves, and us, build even better lives. □

*My principal data sources for this article are Julian L. Simon, ed., *The State of Humanity* (Blackwell, 1995), and Julian L. Simon, *The Ultimate Resource 2* (Princeton University Press, 1996), as well as various U.S. Census Bureau reports.

BOOKS

Unfree Speech: The Folly of Campaign Finance Reform

by Bradley A. Smith

Princeton University Press • 2001 • 304 pages • $26.95

Reviewed by John Samples

Responding to Watergate, Congress a generation ago passed draconian restrictions on campaign spending and fundraising. The Supreme Court eventually struck down the spending limits, but affirmed contribution ceilings and the legality of the new agency empowered to oversee the regulatory regime, the Federal Election Commission (FEC). Over time, inflation has made the contribution limits more restrictive, but campaign spending has increased apace.

In the mid-1990s Senator John McCain took up the cause of legislating new restrictions on campaign finance emphasizing the issue during his failed presidential effort in 2000. That cause was reinvigorated, thanks to the eagerness of many to see the Enron debacle as proof of the corrupting influence of campaign contributions. With the recently signed reform bill heading to the U.S. Supreme Court, Smith's book could not be more timely.

The cause of campaign finance "reform" attracts a strange mélange of civic puritans, who decry corruption, and traditional egalitarians, who attack the "undue influence" of the affluent. Among the puritans should be counted McCain himself, who is nothing if not self-righteous, and the numerous Washington interest groups like Common Cause and the Naderite factions, all of which lobby to rid money from politics while taking millions from leftist foundations like the Joyce Foundation and the Pew Memorial Trust.

Like earlier puritans, McCain and his allies prefer religious zeal to public reason; they rarely support their claim that campaign donations corrupt American government. Smith nonetheless examines their assertion with scholarly care. Political scientists have extensively studied the links between campaign giving and congressional voting. As Smith, a law professor at Capital University currently serving as an FEC commissioner, notes, they have found little if any connection between the two, an important finding since the only constitutionally acceptable rationale for restricting contributions would be preventing corruption or the appearance of corruption. In fact, academic studies say party affiliation, ideology, and constituent preference are more important factors affecting congressional votes.

The most intellectually serious—and most dangerous—proponents of campaign finance restrictions are the traditional egalitarians, who profess their cause in our most eminent law schools. Some law professors argue that we must restrict the political speech of some to enhance public debates and thereby realize "First Amendment values." Others say the Fourteenth Amendment requires government action to promote a de facto equality of influence in politics.

Smith invokes the clear meaning of the Constitution against the "First Amendment values" argument. The framers intended to exclude government regulation of the marketplace of ideas. They defined political liberty by the absence of governmental intervention and not as a goal to be achieved through positive state actions. They knew that politicians could not be trusted to regulate the electoral process. Once we abandon the clear language that Congress "shall make no law . . . prohibiting freedom of speech," Smith persuasively argues we are only a step from "suppression pure and simple."

Other academics argue that government must substitute public for private financing of elections to attain "equal protection under the law." Yet, as Smith notes, the Fourteenth Amendment protects citizens against governmental discrimination. It places no positive obligations on government to fund political campaigns. The Constitution guarantees equality before the law, not equal influence over elections or policymaking. Smith's treatment of the

Supreme Court cases in this regard is comprehensive and masterful.

He touches on many other issues in this work. Fully at home in constitutional law, he crosses disciplinary boundaries without fear, evincing an adventuring spirit that is needed on this topic. He has clearly written a book that will stand as the last word in defense of free speech in political campaigns.

I might mention in closing two great ironies about this work. John McCain appears late in the book. McCain's obsession with campaign finance has always been a bit of a mystery, a puzzle possibly tied to his bad conscience about the Keating Five Affair. (Readers may recall that five senators, including McCain, were accused for doing favors for S&L figure Charles Keating in return for campaign contributions.) Smith examines the evidence and suggests McCain did nothing wrong or improper—Smith is more than fair toward a public figure who is rarely fair to others.

The other irony: Smith now serves on the FEC. When he was nominated to that position, the "reform" lobby attacked him along the low road, comparing him to David Duke, the Unabomber, and Slobodan Milosevic. The resistance held up his nomination for over a year, during which he finished the work under review. Rarely has sweet revenge and a profound public service been so winningly combined. Every friend of political liberty should read *Unfree Speech.* □

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After Prohibition: An Adult Approach to Drug Policies in the 21st Century

edited by Timothy Lynch

Cato Institute • 2000 • 193 pages • $18.95

Reviewed by Kevin B. Zeese

As the title indicates, this book takes an adult approach to drug issues. While most politicians argue over the mix of drug war funding—interdiction, eradication, law enforcement, treatment, or prevention—*After Prohibition* avoids merely moving around the furniture on the Titanic and takes a different approach; it recognizes the bankruptcy of current drug policy and seeks to come up with a new paradigm for the 21st century.

Not many attempt to argue these days that we are winning the war on drugs. It is difficult to keep a straight face when you do hear someone make that claim. We have spent approximately a half a trillion tax dollars—federal, state, and local—on the drug war since 1980. The facts show we are worse off now than when we began.

Timothy Lynch, director of the Cato Institute's Project on Criminal Justice, has brought together in this book (based on a Cato conference) a collection of essays by individuals who, for the most part, recognize the folly of our attempts to prohibit drug use and want to see change in our policy. There is a considerable spectrum of opinion represented here, ranging from those who want to end the drug war altogether to those who believe it must continue.

Lynch first describes Cato's position, which is that the United States would be better off with no drug laws: "The most valuable lesson that can be drawn from the experience of alcohol prohibition is that government cannot effectively engineer social arrangements. Policymakers simply cannot repeal the economic laws of supply and demand. Nor can they foresee the unintended consequences that invariably follow federal intervention. Students of American history will someday wonder how today's lawmakers could readily admit that alcohol prohibition was a disastrous mistake but recklessly pursue a policy of drug prohibition."

Roger Pilon, Cato's vice president for legal affairs, puts drug policy into a broader perspective, declaring drug prohibition to be beyond the constitutional power of the federal government.

What to put in the place of drug prohibition? Lynch answers, "Education, moral suasion, and social pressure are the only appropriate ways to discourage adult drug use in a free and civil society."

Other contributors to the book include former DEA agent Michael Levine, former San Jose, California, police chief Joseph D. McNamara, University of Missouri professor of criminology David Klinger, Independence Institute research director David B. Kopel, Yale Law School professor Steven Duke, former California Attorney General Dan Lungren, George Mason University law professor Daniel Polsby, Julie Stewart of Families Against Mandatory Minimums, and New Mexico Governor Gary Johnson.

One of the most insightful pieces is by McNamara. He brings the clear thinking of someone who was a cop on the streets of Harlem in the 1950s and rose to become police chief of California's fourth largest city. After recounting personal stories of policing that demonstrate the futility of trying to prevent drug use, he points out the rising expenditures on drug control. In 1972, when President Nixon called for a drug war, the drug budget was roughly $100 million. Today the federal budget is approaching $20 billion annually. He asks: "What have we got for our money?" In addition to the undiminished problem of drug abuse, he notes that drug profits—markups as great as 17,000 percent—have corrupted public officials and created widespread violence. McNamara urges that we stop making what is merely an unconventional lifestyle a crime.

The only disappointing essay is Lungren's. He merely reiterates the familiar drug-war rhetoric and despite the strong counterarguments voiced at the conference, could only say, "we should always be ready to re-examine our positions."

After Prohibition comes at an important time in the evolution of the drug war. Our military is becoming increasingly involved in the anti-drug effort in Colombia; we've gone through a record prison-building binge largely to house drug offenders; and the public seems to be tiring of the never-ending crusade. Moreover, it is becoming evident that we can no longer afford to continue it when we are in a real war with terrorists—especially when drug prohibition is a major source of their revenue. □

Kevin Zeese is the president of Common Sense for Drug Policy, www.csdp.org.

The Financial Century: From Turmoils to Triumphs

by Reuven Brenner

Stoddart • 2001 • 214 pages • $39.95

Reviewed by Pierre Lemieux

In his latest book, McGill University economics professor Reuven Brenner argues that when private sources of capital are not easily available through financial markets, governments or criminals become financial intermediaries, which is not conducive to prosperity and liberty. He draws on a large reservoir of history and a sound grasp of economics to make that important point.

Neither geography nor the Protestant ethic explains why the Dutch Republic in the seventeenth century, or later the United States, developed so quickly, and leap-frogged so many other societies. "What did the trick," Brenner explains, "was that these two places were the first in the world where the poor had access to venture capital, which in turn attracted talented people from the rest of the world." In contrast, today's underdeveloped countries are those where government controls credit and grants it "almost exclusively to the well-connected elite."

Brenner shows that financial markets are more efficient than formal democracy at furthering prosperity and decentralizing power. They make people more mobile and enable them to escape government power. This explains "why, from ancient times, those in power have maintained a stranglehold on capital markets."

Markets correct investment mistakes rapidly, while political and bureaucratic processes tend to wait for catastrophes (or revolutions) to correct public-policy errors. "In general," explains Brenner, "once there is a mistaken intervention, an additional one might be needed to rectify the unanticipated effect of the first."

Another interesting idea developed by Brenner is that direct democracy can force on governments the kind of accountability that financial markets impose on businesses. "[R]eferenda and citizen initiatives," he writes, "can discipline the public sector in much the same way that the stock market disciplines the private sector." Perhaps the more powerful argument given by Brenner is that referenda would never approve complex and unreadable laws. Direct democracy reduces the power of the political and bureaucratic classes, which is indeed why they don't like it.

Direct democracy can even, as in Switzerland, allow people to secede from municipalities, or cantons, that don't offer them what they want—"In other words, moving borders on paper, rather than forcing people to move with their feet."

In monetary matters as in so many others, Brenner is close to the Austrian economists. A stable currency, he writes, "is a necessary part of a vital capital market." Monetary policy must be separated from politics, and he argues for returning to the gold standard. He mentions the possibility of free banking, but adds that "it would involve such drastic changes that discussing it at this stage would be impractical." Perhaps he should have pursued the idea further, though. If denationalization of money can be achieved gradually, simply by removing monopolistic privileges from the central bank, it may actually be easier to achieve than the re-establishment of the gold standard.

The Financial Century offers a good critique of Keynesian macroeconomics. In some countries, macroeconomic aggregates (like gross domestic product) measure something that people want, while elsewhere they measure things that rulers and the establishment want—for, indeed, macroeconomic aggregates mean only what prices and incomes mean, that is, how they are determined. Or read this neat formulation: "By adding government 'output' to whatever was produced in the 'private' sector . . . economists transformed a self-serving political idea (a benevolent big government) into a neutral-sounding scientific debate about numbers and statistics."

Summing up, Brenner writes that "Freedom means having options. . . . But alternatives come from having access to capital, from being able to borrow against imagined futures." For him, the key to prosperity "is to establish a system of checks and balances, together with democratized financial markets." That combination—government that is subject to significant restraints on its power and capital markets that are open to all—currently is, in Brenner's opinion, approached most closely by the United States and, for that reason, "the twenty-first century, like the twentieth . . . will belong to the United States."

Isn't Brenner too optimistic? When an individual cannot make a cash deposit or transaction of $10,000 without having to file a Currency Transaction Report with federal authorities, or when a technical violation of securities regulations can turn one into a felon, perhaps we should realize that American financial markets are not so free after all, that they are under surveillance, and that individual liberty is far from secure. Yet *The Financial Century* gives us reason to further reflect on the importance of capital. □

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Cuba in Revolution

by Miguel A. Faria, Jr.

Hacienda Publishing • 2001 • 452 pages • $26.95

Reviewed by George C. Leef

The vicious regime of Fidel Castro has for more than 40 years trampled on individual rights in Cuba, but the details of his seizure of power and subsequent Stalinist rule remain surprisingly little known in the United States. Within weeks of the September 11 terrorist attacks, everyone was hearing about the atrocities of the Taliban in Afghanistan, but year after year, Castro and his henchmen torture and kill Cubans who seek elemental human freedoms with virtually no attention from the media. Most Americans remain blissfully ignorant.

In his new book, *Cuba In Revolution*, Dr. Miguel Faria strives mightily to tell the truth about Castro and his government. As a boy of 13, Faria escaped from Cuba with his father, came to the United States, studied medicine, and became a surgeon. In his previous books, he has fought against the trend toward socialist health care in the United States. With this book he takes up what undoubtedly is the source of his greatest passion—the ruin of his homeland by one of the most repressive states in the world.

One part of the book is Faria's recounting of his escape from Cuba in 1966. "Harrowing" is the best adjective to describe the events—a middle-of-the-night drive with a stranger to whom Faria and his father entrusted their lives; boarding the poorly maintained little fishing boat (it had been confiscated by the government after Castro's seizure of power, so naturally it was in bad condition) and setting out for the 200-mile voyage to the Cayman Islands; engine trouble; a near-collision with a Soviet freighter in the dark; a severe storm that almost capsized the craft; severe dehydration; and the lucky sighting of the smallest of the Caymans when they were lost and at the point of desperation. It would make a great movie if Hollywood had any interest in stories that show communism as a hellhole worth risking life itself to escape.

Most of the book, however, is devoted to setting the record straight about Castro's regime. Faria has sharp words for the gullible American media that have chosen to serve as a conduit for Castro's disinformation. Going back to the reporting of Herbert Matthews of the *New York Times* in the 1950s, when Castro was organizing his campaign against the Batista regime and continuing up to the present, the media have readily accepted the government's claims to have made great improvements in literacy and health care for the Cuban people. Castro's statistics are pure deception, Faria shows.

In health care, for instance, the Cuban government claims to have greatly reduced infant mortality. Faria observes that Castro's statistics are hardly reliable, but it appears that what little improvement there may be in infant mortality comes at the expense of a worsening of health for older children and mothers. Castro has chosen to focus on the one statistic calculated to tug most at the heartstrings of Americans while allowing the health of the people in general to decline. The author visited Cuba in 1995 and could see that clinics are dirty and lacking in basic supplies and equipment. Moreover, the diet and hygiene of the population have fallen to Third World levels.

Another piece of Castroite deception that the media fall for is the supposed "safety" of living in a country with complete gun control. One of the first orders of business after taking power in 1959 was the confiscation of private firearms, a task made easier because of the previous gun registration by Batista's government. When the Elián González battle flared in 2000, Castro sympathizers, in an attempt to capitalize on the shootings at Columbine High School, were heard to say that in Cuba the boy would be able to attend schools that were safe. Faria argues that no one is really safe in totalitarian Cuba, and notes that with gun control, the homicide rate in Cuba is higher than in the United States.

Speaking of the González affair, Faria strongly condemns the Clinton administration's insistence on returning the child to Cuba. Singled out for particular scorn is Dr. Irwin Redlener, a loyal Democratic supporter of government health-care initiatives, who, without even seeing the child, claimed that he was being held in a "profoundly disturbing and dangerous environment." That "expert opinion" (given to counteract the opinions of physicians who had actually seen Elián) provided the excuse Janet Reno wanted to justify the infamous pre-dawn raid.

Faria is optimistic that after Castro's demise, his regime will totter and fall as did those in Eastern Europe. He sees hope in reports that the Internet is starting to spread the truth in Cuba and that several of Castro's top lieutenants appear to be squirreling away money in foreign accounts.

It's hard to imagine that anyone could read this book and not feel the deepest sorrow for the Cuban people, who have suffered so much at the hands of Fidel Castro. □

George Leef is the book review editor of Ideas on Liberty.

Internal Improvement: National Public Works and the Promise of Popular Government in the Early United States

by John Lauritz Larson

University of North Carolina Press • 2001 • 324 pages • $55.00 cloth; $19.95 paperback

Reviewed by Burton Folsom, Jr.

In 1805 Thomas Jefferson, in his second inaugural address, focused attention on the limited government of his presidency: "[I]t may be the pleasure and the pride of an American to ask, What farmer, what mechanic, what laborer ever sees a taxgatherer of the United States?" Little did Jefferson know that the issue of "internal improvements at federal expense" would unleash the taxgatherers during his second term to support an abundance of canal building from the coast of Maine to Athens, Georgia.

Professor John Larson of Purdue University sympathizes with plans—especially the Gallatin Plan of 1808—to unite America with a network of federally funded canals, post roads, and other improvements. What's more, Larson finds such extra-constitutional actions consistent with republican ideals. "It is my contention," Larson argues, "that the positive use of government power for popular constructive purposes, such as public works of internal improvement, never was proscribed by republicanism." He commends, for example, "[George] Washington's vision of a rising empire, guided from the center by benevolent government and striving toward some splendid republican future." By contrast, those "capitalists" who wanted to build internal improvements with private funds Larson dismisses as localistic, obstructionist, and narrowly partisan.

Larson laments that the latter group usually won the congressional battles in the early 1800s and prevented the national planning of America's transportation network. The states then began building their own canals. Much of this state-directed construction, Larson concedes, was a failure, but he still prefers state planning to private enterprise. He spends many pages describing the Erie Canal and commending the New York legislature for funding it. Since the Erie Canal brought in millions of dollars profit in tolls, Larson sees it as a microcosm of what could have happened nationally if we had only tried public planning.

Despite an abundance of research, Larson's analysis is often superficial and weak. The first problem is with typology. Both planners and capitalists wanted internal improvements—the question was how to fund them. The Founders refused to grant the federal government the power to tax *generally* to build canals *locally*. Presidents Jefferson and Monroe, among others, urged the planners to pass a constitutional amendment before going forward with their schemes.

Larson's second problem is that national planning is hard to impose on a nation with a representative government. What if voters change their minds on where they want canals? Or, if they want railroads instead, whether they want them built with expensive T-rails or cheaper strap-iron rails. Strong changes in the composition of Congress—not to mention the inherent problems of voter self-interest, overly bureaucratic planning boards, and the almost daily adjustments necessary with new technologies—make any national plan almost impossible to direct centrally.

Larson's third problem is that the internal improvements ultimately built by the various state governments were usually inferior to the ones built by private enterprise. Larson described the typical government-run canal when he said, "Early projects often failed, soaking up great sums of investment capital while yielding little or no general benefit."

State after state—Illinois, Indiana, Ohio, Michigan, among others—tried to build transportation networks only to watch them collapse ignominiously through mismanagement, poor planning, miscalculated funding, and partisan politics. Pennsylvania tried to copy the Erie Canal only to run up such catastrophic debt that the state had to declare bankruptcy. Even New York ran into debt because it built other canals that were all unprofitable and soaked up the capital gained by the success of the Erie Canal.

Governor Stevens T. Mason, who presided over the failed canals and railroads in Michigan, eventually called the fever to build at taxpayer expense the "false spirit of the age." Upstate New York, with its excellent and atypical geography, topography, and river system, was a natural choice and the Erie Canal would have been profitable whether built by state or private funds. States that followed the Erie Canal example were later eager to privatize their failed transportation system. Larson is simply wrong when he says that in Michigan (and, by implication, elsewhere), "it was with great reluctance that voters embraced the privatization of their transportation networks." In fact, Michigan voters went to the polls with gusto in 1851 to amend the state constitution to say "the [s]tate shall not be a party to or interested in any work of internal improvement."

After the canal era, national planning and federal subsidies in transportation continued to fail. Private enterprise consistently worked better in the steamship business, in the building of the transcontinental railroads, and in developing the airplane. *Internal Improvement* contains useful information on early transportation, but its interpretation is unsupportable. □

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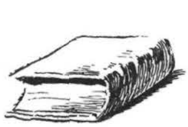

Time and Money: The Macroeconomics of Capital Structure

by Roger W. Garrison

Routledge • 2001 • 272 pages • $99.00

Reviewed by Robert Batemarco

Although it was Tolstoy who said that "the highest wisdom has but one science—the science of the whole," these words express with uncanny accuracy the practice of the Austrian school of economics. One of the hallmarks of that school is that it sees economics as an integrated whole, with a few initial principles underpinning every theory. It is in this spirit that Roger Garrison of Auburn University has written *Time and Money*, an in-depth exploration of Austrian, Keynesian, and monetarist macroeconomic theory. The three principles Garrison deploys as the launching pad for his excursion into these issues are scarcity, the market for loanable funds, and the time structure of production. Each is represented throughout this work by a simple diagram—production possibilities frontiers, supply and demand curves, and Hayekian triangles, respectively. Tying these together enables Garrison not only to furnish a standard account of the Austrian (that is, Mises-Hayek) theory of business cycles, but also to draw other implications of Austrian macroeconomics as well as to obtain penetrating insights regarding the nature of Keynesian and monetarist alternatives.

Another comparison of various macroeconomic paradigms may sound to many economists like flagellation of an expired equine. Yet Garrison rises above such potential ugliness and draws a number of fresh insights. One of these may be a triumph of style over substance—but in a good way. His coining of the term "capital-based economics" not only captures one of the most important distinctions between the Austrian approach to macroeconomic theorizing and its rivals, but may also be a public relations coup as well. Just as the "supply-side" designation effectively pointed out a fundamental deficiency of the Keynesian approach and re-popularized a basic truth that had gone out of fashion, Garrison's use of the term "capital based" points to another shortcoming of conventional analysis and has the potential to lend new appeal to bygone verities.

Garrison uses his graphical tools judiciously. He takes them as far as they are applicable, but no further. Yet the graphics employed in *Time and Money* are not mere window-dressing. Their role is twofold: demonstrating the coherence of the Austrian vision and exposing the limited scope of its Keynesian and monetarist rivals. They permit us to see that those two paradigms are really special cases of the Austrian theory, obtained by disabling or ignoring the market mechanisms that, when functioning properly, align the capital structure with consumer desires.

It is a tribute to his powers of analysis that Garrison can do this without resorting to caricatures of those theories. Rather, he treats the theories of Keynes and Friedman fairly, frequently using their own words by way of exposition, and examining several versions of each of their models. One of the more interesting lessons to emerge from this procedure is that Keynes's theory of unemployment had both cyclical and secular components, with the latter having even more statist implications than the former. His critique of monetarism is less severe, finding that framework to be more incomplete than erroneous; indeed, he sees Austrian economics and monetarism as complementary approaches, each useful in helping us to understand different situations.

A major strength of this book is its avoidance of one-dimensional analyses. The author incorporates into many parts of this work the recognition that "how" may be at least as important as "how much." This is obvious in Austrian business-cycle theory, which posits that *where* new money is injected affects the ultimate impact of the injection. Garrison uses this same notion to advance our understanding of fiscal policy. He sees the variety of ways in which a deficit can be financed (borrowing domestically, borrowing abroad, and monetizing debt) as the potential source of much of its economic damage, in that it creates uncertainty, which dissuades many entrepreneurs from lengthening the structure of production, thus hampering economic growth. Another implication of this is that each method is used only as long as it meets little political resistance. Once experience reveals the true costs of the method, policymakers switch to another. Garrison uses this fact to explain a good deal of U.S. fiscal history in the '80s and '90s.

The book's target audience is professional economists, but with only a few dozen graphs, a handful of equations and a clear style, it is more accessible to the educated layman than most of what's being written about economics nowadays. Still, it will be the reaction of professional economists that will make or break this book. *Time and Money* has the potential not merely to improve the way economists look at macroeconomics, but to take it to the next level. It sends out a message of utmost importance: that economists cannot adequately understand macroeconomic phenomena if they neglect the role of capital. □

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IDEAS ON LIBERTY
JUNE 2002

Enron Lessons

The Enron soap opera continues to unfold. And as it unfolds, lessons are being learned. Some people are learning lessons about the energy business. Some are learning lessons about the securities business. Some are learning lessons about the accounting business.

But some are not content to learn such narrow lessons. They want to look at the big picture. And so when studying Enron, they have learned the lesson that the invisible hand doesn't work. Or it doesn't apply any more. Here is Marjorie Kelly, cofounder and editor of the journal *Business Ethics*, on the Enron affair: "The ideal of the unregulated free market is flawed, and it's time we said goodbye to Adam Smith's 'invisible hand.'"

Numerous other writers have invoked the failure of the invisible hand to protect us from Enron.

When Adam Smith wrote about the invisible hand, he was referring to the effect of investors' putting capital into domestic industries in search of the highest profit. He argued that the desire to find the highest return on their money led to beneficial effects for society as a whole.

But what most critics have in mind when they invoke the invisible hand is something more complex. They are referring to the worldview that says that markets are self-regulating, that there are natural restraints on greed and dishonesty built into the market system.

I agree with that worldview. Let me flesh it out a little further. Those of us who are sympathetic to this view believe that human nature is self-interested. There are greed and even malice along with altruism and kindness. What is the best way to restrain that self-interest from being harmful? In the Smithian worldview, competition and market forces impose costs on dishonesty.

But that does not eliminate greed. It does not eliminate dishonesty. Even in a free-market system, there are con men and scams and products that are poorly made and even sometimes unnecessarily dangerous. The claim of the Smithian worldview is that such behaviors are hard to sustain. The market punishes dishonesty. The market drives out products that are mediocre or unnecessarily dangerous.

If the maker of a first-rate product decides to cut corners and live off its reputation, it may get away with it for a while. Lexus and Southwest Airlines could continue to thrive for a while if they lowered their quality. But they will pay a price as information spreads and consumers acting in their own self-interest choose alternatives. The threat of those alternatives is an incentive for market leaders to try to maintain their high quality.

The critics of the Smithian worldview seem to be arguing that the Enron disaster is, in and of itself, evidence of the failure of the Smithian worldview. On one level, this is a

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little hard to understand. After all, Enron is bankrupt. Its stock price the last time I looked was under a dollar. No one thinks Kenneth Lay is a genius any more. Arthur Andersen's reputation is in tatters. It may go out of business. It has hired Paul Volcker to try to re-establish some piece of its former reputation and has given him significant control to do so.

On this level, the unregulated system seems to have worked fairly well. As soon as it became widely known that Enron had overstated its earnings dramatically, the stock price plummeted. And it plummeted well below what was consistent with the new corrected level of earnings. The new stock price reflected the loss of trust caused by dishonesty. Enron's credibility was shot.

And of course the system is not really unregulated. Numerous state and federal statutes will be brought to bear on the executives of Enron and Arthur Andersen, and some of them may be fined or put in jail.

So why do the critics of the Smithian worldview find the Enron story so decisive? One possibility is that they are upset that some Enron executives appear to have managed to make a great deal of money by selling their shares before the fall in stock prices. Others appear to have gotten fabulously rich using complex partnership structures with debt financing. These techniques may or may not have been illegal. What is clear is that these techniques have become dramatically less attractive.

Broken Hand?

What I think the critics of the Smithian worldview have in mind when they bring up Enron is something simpler: there was wrongdoing, ergo the invisible hand is broken. Why weren't there more "checks and balances to stop it?" asks Marjorie Kelly.

This is a strange standard of evidence. CBS News recently tested the new airport security systems and found that some bags were not inspected correctly. Does this mean that the current system of federalized security is a failure? I happen to be against federalizing airport security systems. But I don't expect a federal system to be perfect. Its imperfection doesn't prove my case.

Sometimes the President of the United States gathers power beyond what the Constitution has in mind. Does that mean the constitutional system of "checks and balances" is a failure?

The government takes our payroll "contributions" and spends them. There is no real Social Security trust fund, only an accounting fiction. I would like to see a purely private retirement system. But does the fact that the government solution has this marketing dishonesty about it prove my case? I wish it did, but it doesn't. The argument has to be made on a fuller set of principles.

Neither private nor public control is perfect. If you are a pure pragmatist, then the issue is simply one of which system works better. But perfection should never be the standard. It is not a standard that any system or solution can meet.

I am sure there are changes that could be made to our current regulatory system which might make the probability of future dishonesty less likely. The interesting question is whether these changes require more or less regulation. What would the world look like without the current state of federal and state laws that regulate financial disclosure? Does the current web of such laws destroy private systems that might work even better?

Those who dislike the decentralized solution of the marketplace would protect us from Enron by increasing such requirements and limiting the freedom companies have to use stock options to provide incentives to employees and management. I hope that in the current hysteria we preserve the freedom of individuals to make these choices voluntarily. □

"...it is largely because civilization enables us constantly to profit from knowledge which we individually do not possess and because each individual's use of his particular knowledge may serve to assist others unknown to him in achieving their ends that men as members of civilized society can pursue their individual ends so much more successfully than they could alone."

F.A. HAYEK (1899–1992), *The Constitution of Liberty*

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