IDEAS ON LIBERTY

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AUGUST 2002

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With remarks by

Mark Skousen

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IDEAS ON LIBERTY

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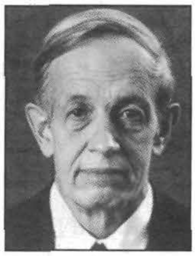

John F. Nash, Jr.

COLUMNS

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Front cover: Portrait of Emperor Kangxi of the Qing Dynasty (1662-1722). Artist unknown. Back cover quotation: Lao-tzu, "Harmony," translation by Arthur Waley.

PERSPECTIVE

Bad Logic Kills

A big part of mankind's problem may be the simple failure to recognize a fallacious argument.

The columnist Arianna Huffington recently criticized the Bush administration's renewed intention to exploit the oil under the Arctic National Wildlife Refuge (ANWR). She proposed that instead of promoting oil drilling in Alaska, the administration should raise automobile mileage standards. But, she wrote, "the White House helped kill [a Senate] plan, which would have saved about 2.5 billion barrels of oil a day, roughly the amount we currently import from the Middle East."

Huffington is referring to the federal CAFE (corporate average fuel economy) program, which since the 1970s has required automakers to achieve a specified miles-per-gallon average for their fleets. The program was enacted to conserve gasoline and oil. However, the Competitive Enterprise Institute says it "has yet to demonstrably reduce gasoline consumption."

No mystery here. It is people, not inanimate cars, who will determine the consequences of the program. If we can drive our cars more cheaply, *we will tend to drive more than before*. Human beings are conscious of their circumstances, and we adjust our behavior accordingly. If my car gets 30 MPG instead of 15, why would anyone expect me to use less fuel? I can go twice as far for the same money.

Maybe the authors of the original legislation didn't think of that, but their fallacy has been pointed out repeatedly for more than 25 years. (Kudos for CEI for making this one of its missions.) So anyone who today argues that higher CAFE standards will save gasoline is either engaging in demagogy or is incapable of analyzing an argument.

CAFE has had one demonstrable effect: To meet the fuel standards, the automakers have given us smaller, lighter, *less crashworthy* vehicles. Thus, according to the National Academy of Sciences, an additional

1,300 to 2,600 people die on the highways each year.

* * *

The U.S. Centers for Disease Control is pushing the states to adopt uniform legislation that would give governors unprecedented powers to declare health emergencies and impose martial-law-type controls. Twila Brase looks at the ominous model bill and assesses its progress through the state legislatures.

No one wants the government to set the price of chicken legs. So why, asks Ted Roberts, does it try to fix the price of money?

You can argue with someone who claims that capitalism impoverishes workers or spoils them with wealth. But how can you argue with someone who makes *both* claims simultaneously? Jim Peron suspects that intellectual debate isn't possible under such conditions.

Nine states are hounding Microsoft for allegedly being a monopoly. Yet the classic monopoly is right under their noses and they lift not a finger. John Berthoud wonders why.

The movie named best picture of the year for 2001 was about a Nobel prize winner in economics, John Nash. What was Nash's contribution to economics and did the movie get it right? Sanford Ikeda has the review. A sidebar examines the mental-illness angle of the story.

If you're looking for someone to say something nice about communism, don't bother going to eastern Europe. Stephen Browne explains.

At one time, China would have been the sure bet to end up the world's most dynamic society. What happened? Harold B. Jones Jr. says the Chinese lacked more than the right institutions.

When people who have not suffered real injuries can recover "damages" anyway, they victimize those who *have* been harmed. David Laband identifies the tragedy of another commons.

It's an easy matter to show that state control has undermined medical care in America. What might a free market in medicine look like? Larry Van Heerden has some ideas.

Can it be that there are too many people on earth . . . who believe there are too many people on earth? Christopher Lingle thinks so.

Here's what our columnists have cooked up this month: Mark Skousen ruminates on the four sources of happiness. Lawrence Reed has time on his mind. Doug Bandow says there's a better way than foreign aid. Burton Folsom explodes some myths of the New Deal. Donald Boudreaux ponders a chief threat to civilization. Charles Baird exposes a union hustle. And Joseph Salerno, after reading William Safire's plea for antitrust action, protests, "It Just Ain't So!"

Our reviewers evaluate books on Ludwig von Mises, the therapeutic state, the misuse of reason, legal plunder, the Federal Reserve System, and the importance of free capital markets.

—SHELDON RICHMAN

From The President's Desk

by Mark Skousen

IDEAS ON LIBERTY
AUGUST 2002

The Four Sources of Happiness: Is Money One of Them?

"I'm tired of Love: I'm still more tired of Rhyme.
But Money gives me pleasure all the time."
—HILAIRE BELLOC

I came across a very interesting book the other day called *Happiness and Economics: How the Economy and Institutions Affect Human Well-Being* by Bruno S. Frey and Alois Stutzer. It's a technical book, with lots of graphs and mathematical regressions, but the conclusions are pretty clear: "The general result seems to be that happiness and income are indeed positively related."[1] In other words, money can provide many benefits—more opportunities, higher status in society, and the ability to travel and enjoy better food, housing, health care, and entertainment. Several studies indicate that wealthier people live longer. In short, money fulfills highly desirable wants.

I remember the day that I discovered that I would be financially independent. It was a summer day in the late 1970s when I came home and presented my wife with over a dozen checks from a mail-order business I had started. Within a year, we had bought our first home, with 20 percent down, and by 1984, we had become successful enough that we could move our entire family (with four children) to the Bahamas to "retire." The experience of becoming financially secure gave Jo Ann and me an incredible feeling of satisfaction. Of course, we didn't really retire. We used our free time to read and write, go sailing, spend time with our children, and become involved in the local theater, a private school, and church work.[2]

Why Most Poor People Are Unhappy

The graph on the next page shows the relationship between income and happiness across nations. In general, people in poor countries are less satisfied than people in rich countries. One reason is that poor nations are often more subject to violence and uncertainty. As Frey and Stutzer state, "Countries with higher per capita incomes tend to have more stable democracies than poor countries have. . . . The higher the income, then the more secure human rights are, the better average health is, and the more equal the distribution of income is. Thus, human rights, health, and distributional equality may seemingly make happiness rise with income."[3]

But the graph also indicates that money causes diminishing returns in happiness. Subjective well-being rises with income, but once beyond a certain threshold, income has little or no effect on happiness. Many wealthy people have experienced this law of

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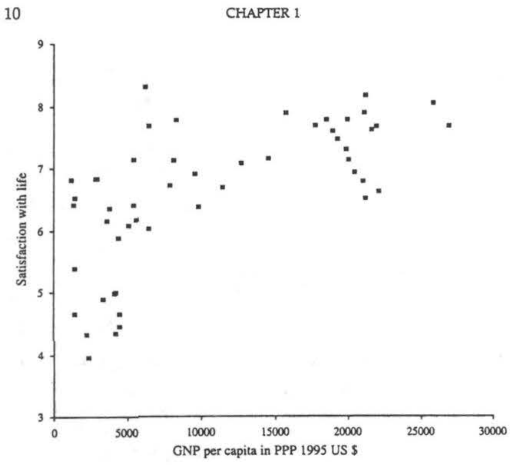

Figure 1.4. Life satisfaction and income levels across the world in the 1990s. The number of observations is 80,556. Data from World Values Survey 1990–1993/1995–1997 (ICPSR 2790) and World Development Report 1997.

diminishing returns and are not any more happy than middle-class people. In fact, some wealthy people are downright unhappy. Frey and Stutzer conclude, "Higher happiness with material things wears off."[4]

Four Elements of Happiness

Years ago I read a sermon by a church leader on the "Four Sources of Happiness." He spoke of work, recreation, love, and worship. I think he's right.

First, you have to find rewarding and honest employment to be happy. Hard work and entrepreneurship offer the opportunity to create surplus wealth. Money in the bank gives you a real sense of security as well as freedom to do what you want to do. Moreover, studies show that unemployed people, believing they are not contributing to society or themselves, are generally unhappy.

Second, recreation is essential to your well-being. It helps to take a break from work from time to time. Relaxation and avocations are essential elements of a happy life. People who spend too much time at the office and can't relax with their family or friends at home need to learn the joy of recreation with a hobby, sports, travel, or other avocation. Some of my most memorable times have been playing softball or basketball with friends, traveling with family members on the weekend, or visiting a bookstore.

Third, love and friendship are also key elements of happiness. Everyone needs someone to confide in, to spend time with, to learn from, to reminisce with, to love and to be loved by. For most people, love and friendship take time and effort. You have to work at developing friendships, but the rewards are never-ending.

Finally, worship. Developing one's spiritual side is essential to happiness. Some of my friends say they don't need religion, but they are missing out on one of the joys of life—listening to a great sermon, singing hymns, meditating on the word of God, and praying for God's help in solving business or family problems.

Let me conclude this essay with a delightful stanza by the Norwegian playwright Henrik Ibsen, who put the role of money in the proper perspective:

Money may be the husk of many things,
  but not the kernel.
It brings you food, but not appetite;
Medicine, but not health;
Acquaintances, but not friends;
Servants, but not faithfulness;
Days of pleasure, but not peace or happiness.□

1. Bruno S. Frey and Alois Stutzer, *Happiness and Economics* (Princeton, N.J.: Princeton University Press, 2002), p. 81.

2. See my article "Easy Living—My Two Years in the Bahamas" at www.mskousen.com.

3. Frey and Stutzer, p. 75.

4. Ibid., p. 78. In fact, Frey and Stutzer publish a graph showing that "Per capita income in the United States has risen sharply in recent decades, but the proportion of persons considering themselves to be 'very happy' has fallen over the same period" (p. 77).

IDEAS ON LIBERTY
AUGUST 2002

Ted Koppel Needs Antitrust Protection?

It Just Ain't So!

William Safire prefers hard news to jokes on late-night television—and he is willing to roll out the coercive power of the federal antitrust police to impose his preferences on American TV viewers and stockholders of telecommunications firms.

Generally the grumblers and malcontents who object to the outcomes of the free market typically do so on one of two grounds. First, the outcome may violate their personal moral, aesthetic, intellectual, or health standards, presuming their own subjective system of values is appropriate for everyone everywhere. Thus, according to some, the free market fails abysmally because it supplies too much fatty "junk" food and not enough wholesome fare or because it produces too many mindless action films and stints on intellectually edifying theatrical productions. These folks never consider that most of their fellow citizens might actually prefer tasty, juicy Wendy's hamburgers to bland tofu burgers or viewing *The Terminator* in a comfortable, air-conditioned multiplex to squirming through *Miss Saigon* in uncomfortable seats—and that the market is simply catering to these preferences.

The second factor underlying criticisms of the free market entails gross ignorance of the economic laws that govern the operation of market processes. For example, when a sharp rise in the price of oil occurs, as it did in 2001, it is alleged that oil companies have suddenly and arbitrarily decided to fatten their profit margins; or when it is observed that laborers in less-developed countries are paid extremely low wages by Western standards, it is attributed to unrestrained greed on the part of gigantic multinational corporations. Why oil companies that supposedly possess such pricing power should ever consent to the precipitous decline in oil prices that generally follows their sharp run-up, or why corporations restrain their rapacity in developed nations and do not push all wage rates down to the minimum wage-level for non-unionized employees, never seems to concern these natterers.

In his March 7 *New York Times* criticism of Disney's tentative decision, since rescinded, to terminate ABC's late-night news program, "Nightline," hosted by Ted Koppel, and replace it with the entertainment program "Late Night with David Letterman," Safire adopts both arguments. Thus he blithely assumes that his own viewing preferences are the expression of an absolute moral standard when he comments, "Letterman's banter appeals to youthful acquisitors, whom advertisers lust after." In contrast, according to Safire, "Koppel's news interests older people, who do less buying and more dying." In short Disney's decision to "scrap the news, go with the jokes" represents an ethically unwarranted reallocation of resources because it panders to the frivolous desires of morally base groups—greedy advertisers and shallow, grasping yuppies—at the expense of supplying the serious demand for news by more mature and worthy viewers like himself.

Safire attempts to bolster his ethical argument by an appeal to economic considerations. Unfortunately, his economic case against Disney is based on a fallacious and profoundly static view of the free market. According to Safire, the market is an arena in which each firm comes into being and exists to pursue an inherently fixed "mission" come hell or high water. Thus, "The Disney combine's mission . . . is to dispense profitable entertainment, and its misbegotten purchase of a news medium allows it to prostitute ABC News's journalistic mission to conform to the parent company's different goal." Evidently, in Safire's book whenever a merger takes place between two corporate entities that causes the "the swallowed-up company's resulting loss of corporate identity and dilution of mission," it is ipso facto grounds for antitrust action.

Radically Dynamic Process

Safire's argument that the diversion of a formerly independent firm from its previous pattern of productive activities by a merger somehow represents a monopolistic misallocation of resources evinces a profound ignorance of basic economic principles. To begin with, the market economy is a radically dynamic process driven by rivalrous competition among entrepreneurs whose quest for profit can succeed only if they excel their competitors in serving the most urgent demands of consumers as cheaply as possible.

It is the consumers, therefore, who ultimately determine which corporations are successful by their choices of what to purchase and what to avoid purchasing. However, since consumer tastes and preferences are continually changing, along with technology and the availability of different kinds of resources, no firm, large or small, regardless of how successful it has been in the past, can afford to pursue what elitist critics—or even its owners—perceive as its intrinsic mission.

A firm that blindly pursued such a mission in arrogant defiance of consumer sovereignty would waste scarce resources and be stiffly, and eventually fatally, penalized by a sea of red ink. The Big Three American automakers in the 1970s, IBM in the 1980s, and Lucent Technologies in the 1990s all exemplify powerful firms that attempted to persist in the pursuit of self-ordained missions that conflicted with the reality of market conditions and were severely punished by financial losses, decline of market share, and the prospect of bankruptcy. Under the free market's profit-and-loss system, then, the consumers, and the consumers only, are the final arbiters of what a particular firm's "mission" is at any given moment, and their decision is indefeasible.

Safire's claim that a firm by dint of its sheer size can gobble up another firm and impose a new and alien mission on it that reduces consumer welfare is therefore lamentably uninformed. In fact, many "megamergers" occur precisely because entrepreneurial investors in one or both of the formerly independent corporations have conceived a novel mission for the subsidiary corporation that they anticipate will involve a more value-productive use of its capital assets and employees. To the extent that their anticipations are realized, the merger will benefit not only stockholders of the corporation that has been absorbed but also consumers who are supplied with new and more valuable products.

In this vein, replacing Koppel with Letterman might have represented a competitive adaptation of ABC's resources to changing market conditions, and it is ludicrous to characterize it as a monopolistic distortion of resource allocation that would have required antitrust action. To argue the contrary, as Safire does, is to implicitly assume a static world in which the population of news-hungry "older people" who stay up late never changes relative to the population of "young acquisitors" enticed to indulge their sybaritic lifestyle by the commercial interludes between Letterman's jokes.

But even if the former group shrinks compared to the latter, the market still provides a niche for late-night hard-news junkies with programs on cable television stations, not to mention radio programs and Internet news sites. And it does so simply because such niche programming is profitable and not because these subsidiary organizations are morally pre-ordained to do so. Profitability is, by the way, also the reason why the *New York Times* does not replace Safire's column with a comic strip—and not because, as Safire complaisantly suggests, the *Times* "understands that its reason for being is primarily to inform."

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IDEAS ON LIBERTY
AUGUST 2002

A Model for Medical Tyranny

by Twila Brase

In the wake of September 11, every state has been asked to enact a law providing for unprecedented, comprehensive health surveillance and medical martial law.

The Model State Emergency Health Powers Act, proposed by the Centers for Disease Control and Prevention (CDC), would provide a state's governor with sole discretion to declare a public-health emergency. Once the emergency was declared, public-health officials would assume police powers, the militia would be mobilized, and the legislature would be prohibited from intervening for 60 days. Any new orders and rules issued by the governor would have the full force of law. Existing laws and individual rights could be suspended.

To promote the legislation, state officials and legislators have related it almost exclusively to the threat of bioterrorism. But broader authority is proposed. The new powers would be authorized during any declared public-health emergency. An emergency could be declared with the occurrence or imminent threat of a health condition or illness that is *believed* to be caused by bioterrorism, or the appearance of a novel, previously controlled, or previously eradicated infectious agent or biological toxin. That belief is the only criterion. And although there must be potential for a large number of people to be affected, there is no definition of "large number." The governor, in consultation with health officials, would decide.

The 40-page proposal would require individuals to submit to state-ordered vaccinations, examination, testing, treatment, and specimen collection. Resisters would be charged with a misdemeanor and quarantined. Physicians and other health-care professionals would be required to perform medical procedures or be charged with a misdemeanor.

Quarantine, or isolation, could be imposed without a court order, although an order would have to be obtained "promptly" thereafter. Medical care could be rationed or withheld; private property could be taken or destroyed; compensation for loss of property would be limited; and no person acting under the orders of government officials would be held liable for death, injury, or property damage.

The names, addresses, and physical conditions of, and any other necessary information about, individuals suspected of harboring diseases or health conditions that might have been caused by bioterrorism or an epidemic would have to be reported immediately by doctors and pharmacists. No patient consent or notification would be required.

The public first got wind of the government's plan when the CDC published a draft proposal last October. What began as a murmur of concern through e-mail soon became a wave of opposition around the

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country. The Health Privacy Project at Georgetown University took the first shot. It sent a letter to Lawrence Gostin, author of the proposal and director of the CDC's Center for Law and the Public's Health at Georgetown University. The letter attacked the draft's lack of definitions for "epidemic" and "pandemic," terms critical to determining when an emergency could be declared. It also expressed concern over the "breathtakingly expansive scope of the definition of 'public health emergency.'"[1]

Final Details Unveiled

On December 21, the CDC unveiled its final proposal. Responding to public criticism, the wording had been softened and the definitions made less vague, but there were few substantive changes. In fact, some sections are more egregious than before.

Due process is virtually eliminated. Health officials could pluck citizens out of their homes, place them in quarantine, and need not apply for a court order until ten days later. Nothing specifically would prevent officials from using quarantine or its threat to coerce individuals into submitting to medical procedures they would otherwise refuse. And although a court hearing would be required 48 hours after the court order was received, health officials could request a delay.

Doctors, other health professionals, and health-care institutions would also face coercion. If they refused to follow state-ordered medical directives, officials could strip them of their licenses to practice or operate in the state. On the order of an official, those who take an oath to protect patients might be compelled by state law to harm them (such as by administering a vaccine or performing a high-risk procedure). If a physician questioned directives, followed his conscience, advised citizens to refuse, or obstructed the plans of state officials, he could end up flipping burgers to support his family.

Additional provisions of the final proposal are just as alarming. Isolation of the sick and quarantine of the exposed must be in different locations, assuring the separation of children and parents. As in the first draft, state officials could ration care, initiate continuing health surveillance, commandeer and control medical supplies, and confiscate personal property. And although the misdemeanor charges were dropped for citizens who don't comply with medical procedures, those who refuse to submit to quarantine and isolation could still be charged with a crime.

The media soon sounded the alarm. By January 2002, the *San Francisco Chronicle* had warned of endangered civil rights. *Investor's Business Daily* called the bill "unhealthy tyranny." *Jewish World Review* said it is a "prescription for disaster," and the *Wall Street Journal* reported that a "new battleground" had been created between health officials and civil libertarians. In early April, *Time* magazine covered the issue of detention powers in an article aptly titled "Mr. Quarantine, meet Miss Liberty."

Public-policy groups began to rally their constituents. The American Legislative Exchange Council (ALEC), a group of 2,400 conservative state legislators, opposed the model act and set up a Web page to track the legislation in every state.[2] The Eagle Forum dedicated an entire radio program to the issue. The Free Congress Foundation denounced the act as a "bad idea." The Association of American Physicians and Surgeons expressed concern about granting governors "dictatorial power." And the Institute for Health Freedom warned of "new state medical police powers."

Proposal Defended

Gostin defended the proposal's purported modernization of the public-health laws. In the December *Insight* magazine he claimed the September 11 attack had one silver lining: "The political community is coming together with a clear determination to protect the civilian population from harm."[3]

In a classic doublespeak, Gostin also claimed that data-privacy safeguards would be in place. But his proposal would permit state public-health agencies to share an individual's medical information with law-enforcement officials, other government agencies, and public-health officials in other states.

The CDC reportedly agreed to pay Gostin $300,000 a year for up to three years to write the model act.[4] He is professor of law at Georgetown and Johns Hopkins universities and sits on the Institute of Medicine's Committee on Assuring the Health of the Public in the 21st Century.

Expanded health powers have long been on Gostin's agenda. The CDC Center for Law and the Public's Health, which he heads, spent the past couple of years culling existing state public-health laws in order to write a uniform comprehensive law that all states could enact. In 1998 Gostin co-wrote a paper proposing that states provide health officials with "a broad and flexible range of powers. By equipping public health authorities with graded powers ranging from isolation, quarantine, and directly observed therapy to cease-and-desist orders or mandated counseling, education, or treatment, authorities will be able to tailor interventions to the specific situation and disease threat."[5]

Health surveillance is the key. To identify emerging health threats, Gostin claims government officials must be empowered to monitor the most minuscule medical details of American life. "If there's a run on anti-diarrhea medications, how would [the federal government] know that?" Gostin asked.[6] Therefore, the health-powers proposal would require an active disease-surveillance system, forcing doctors, hospitals, and pharmacists to share patient data with state health officials.

The Bush administration likes the idea of health surveillance, and in January the Department of Health and Human Services made $1.1 billion available for bioterrorism preparedness. Federal funding will be directed to, among other things, the development of round-the-clock disease-reporting systems involving hospital emergency departments, state and local health officials, and law enforcement.[7]

Thus far, Arizona, Florida, Georgia, Louisiana, Maine, Maryland, Minnesota, New Hampshire, South Dakota, and Utah have passed versions of the CDC proposal. Nine states—Connecticut, Idaho, Kentucky, Mississippi, Nebraska, Oklahoma, Washington, Wisconsin, and Wyoming—have defeated similar legislation. In 13 states, bills are pending in the legislature, and officials in five more are considering whether to introduce legislation.[8]

Battle in Minnesota

In Minnesota, where several citizen health-policy organizations exist, the legislative battle was intense. While the commissioner of health tried to shepherd the bill to passage by personally attending every hearing, citizens repeatedly testified against it. Health-care professional associations were unethically silent, asking only for immunity from lawsuits.

The original 44-page bill was cut to nine pages in the Senate and 11 pages in the House. Requirements that health-care professionals provide, and citizens submit to, medical examinations, vaccination, and treatment were deleted. A right to refuse such procedures was added. Legislators demanded authority to rescind the governor's declaration. And a provision allowing the governor to endow a "designee" with the governor's authority to issue orders and write rules was removed.

The legislature initially voted to return the bill to conference committee—a signal that the bill was dead. However, last-minute amendments to appease gun owners and AIDS activists were added and the bill passed on the final day of session. The legislation allows broad declaration authority for public-health emergencies, commandeering of private property, unprecedented empowerment of the governor, and year-around authority to impose quarantine and isolation—without a court order or declaration of a public-health emergency.

The potential effectiveness, or lack thereof, of the CDC's heavy-handed proposal has received little attention. The inauspicious, at times violent, history of martial law has been ignored. Disregarding human nature and all wisdom to the contrary, health officials continue to march a top-down command-and-control proposal across the nation.

Public trust requires thoughtful contingency plans that uphold constitutional rights and freedom of conscience, support medical ethics, and encourage voluntary cooperation with disease containment strategies. State legislatures should not rush to enact ill-conceived, ineffective legislation. Public policy must always recognize and respect the rights, dignity, and intelligence of individuals. An angry public is not a cooperative public. If health officials are empowered to harm the very people legislators want to protect, a public-health emergency may soon become a crisis of the public's trust. □

1. Letter from Health Privacy Project to Lawrence O. Gostin, November 7, 2001.
2. See www.alec.org.
3. Lawrence O. Gostin, "YES: New Laws Are Needed to Enable Federal and State Agencies to Work Together in an Emergency," *Insight*, December 18, 2001.
4. Meryl Nass, "The Model Emergency Health Powers Act Creates Its Own Emergency," *redflagsweekly.com*, April 8, 2002; www.redflagsweekly.com/nass/2002_april08.html.
5. Lawrence O. Gostin et al., "Improving State Law to Prevent and Treat Infectious Disease," Milbank Memorial Fund, 1998, p. 2.
6. Quoted in Matt Mientka, "CDC Releases Model Bioterrorism Law," *U.S. Medicine*, December 2001.
7. "HHS Announces $1.1 Billion in Funding to States for Bioterrorism Preparedness," HHS Press Release, U.S. Department of Health and Human Services, January 31, 2002.
8. See the map at the American Legislative Exchange Council website, www.alec.org.

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IDEAS ON LIBERTY
AUGUST 2002

If Alan Greenspan Lived In Huntsville, Alabama!

by Ted Roberts

I wish Alan Greenspan lived here. That way he'd know that there's a Huntsville, Alabama, grocery chain selling chicken leg quarters for 29 cents a pound. That ain't exactly a sign of inflation. Consequently, the next time the Federal Reserve Board met:

1. Mr. Greenspan and his pals wouldn't touch the button marked "mash to raise rates."
2. The stock market wouldn't turn south to Antarctica.
3. I might be able to afford that dark blue Camaro my wife says is "too juvenile" for a semi-balding senior citizen whose weight is beginning to affect his gas mileage.

Twenty-nine cents a pound for chicken parts is pretty impressive, but the record low price was struck September 22, 1997, at 8:30 a.m. I was enjoying a cup of coffee (Folgers French Roast, $3.89 a can) as I surfed our local paper. Suddenly, there it was at my feet, half hidden by the Sports and Business Sections, but appropriately illuminated by a sunbeam—the Foodworld ad.

"CHICKEN LEG QUARTERS 19-CENTS A POUND," it announced. And you don't even have to pluck the feathers. You did have to buy a ten-pound bag, said the ad. Fair enough. Who wouldn't want 20 chicken dinners for a buck ninety? At that price it's cheaper than canned cat food, which goes for almost a dime an ounce. (Remember the United Way ad with the impoverished old lady, who looked just like your grandmother, digging into a can of cat food? Tug at your heartstrings? Well, she could have supped cheaper on drumsticks bordelaise!)

Never in my 20-year-old collection of leg quarter stats had I seen such a bombshell. The previous record (not noted in the news or editorial section of *one* American newspaper at the time) was 29 cents.

Yes, I'm a leg-quarter freak. I'm out of the pantry and I'm proud. Car loadings, trade balance, warehouse inventories, the Consumer Price Index, and CEO dismissals are intriguing stats for economic algorithms, but give me chicken parts every time as a prosperity gauge. At 29 cents a pound, we can all eat like Henry VIII at his Sunday buffet.

So no matter that 15 million Americans, at bedtime, have difficulty breathing out of both nostrils simultaneously; and of those, two million suffered a gender, ethnic, occupational, or culinary slur in the past two weeks. The stars and stripes are happily streaming in the breeze and bands are playing and children laugh and shout because drumsticks—stewed, fried, baked, or barbecued—are only 29 cents a pound.

And guess what three pounds of chicken for a buck says about the CPI. We're not

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talking trivia like popsicles in Peoria or subway fares in Manhattan. We're talking chicken—a universal filler for American tummies. Can you imagine Mr. Greenspan (who's probably a devotee of leg quarters stewed down with onions and carrots) raising rates in the face of this deflator? Picture the roll call of the Federal Reserve Board of Governors—each member, hand in air waving a fried chicken drumstick, voting to let the marketplace establish the price of money like it does for leg quarters.

How has this stomach stuffer—this supper staple—dodged that devil, inflation? As a twentysomething husband in the '50s trying to put chicken on my family table, I can't recall such a price. And I was at least as sensitive to our grocery bill as I was to my mother-in-law's birthday. The business of growing, processing, and delivering drumsticks to the consumer has blossomed over those four decades: on a par, I'd say, with that of the computer industry, which has also slain inflation. The tool is the same—technology.

And why is it that every grammar-school student of economics who can make change properly understands the futility of central planning, but nobody trembles when we manipulate the price of money itself—the very oxygen of the economy. If Karl Marx rose from his underworld grave all drippy with slime like some swamp monster . . . if he lurched into the Fed's meeting and seated himself next to Alan Greenspan . . . if he held up his hand like a polite parliamentarian . . . and upon recognition suggested the Fed set the price of pickles, they would laugh him out of the room. But with money, it's okay?

A Dash of Imagination

To those careless economic analysts who stroll through life ignoring chicken leg quarters, let me point out that there are "A" and "B" quality quarters. These were "A's," explained the Foodworld meat manager, meaning they had more white meat, less back attached to the drumstick. And endearingly amenable to the same treatment as filet mignon, quail, and Long Island duckling. A handful of chopped onions, a clove of garlic, a dusting of flour, a couple soupspoons of cheap red wine, and a little imagination puts you at a Michelin 5-star eatery—without tip and a snooty, palms-up maitre d'. Go ahead—pick any one of the four chairs at your kitchen table. You'll be the envy of billions of inhabitants of Asia and Africa who get their protein from fish meal or locusts.

When the Federal Reserve Board meets again, whether in D.C. or Huntsville, what if each place at the conference table is graced with a big plate of coq au vin (featuring you know which cut) and a stack of grocery ads illustrated by plump, curvaceous chicken leg quarters. Think they'll raise rates? □

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Government

It Wasn't Government that Fixed Your Clock

Remember the old Chicago song, "Does Anybody Really Know What Time It Is?" Well, if you asked that question about 120 years ago, you could have received 38 different answers in a single state and many more than that in some countries. How the invention of standard time brought order out of an astonishing degree of confusion is a sadly forgotten tale and a great tribute to ingenuity in a free society.

People in the continental United States have become so accustomed to four standardized time zones—Eastern, Central, Mountain, and Pacific—that it's hard to believe that we ever kept time any other way. But until a crucial date in 1883, what time it was depended on the nearest city or town. The time of day was a purely local matter as determined by the position of the sun. Noon was when the sun was at its highest point in the sky. Local people set their timepieces by some well-known clock in their respective communities, such as one on a prominent church steeple or in a jeweler's window.

This meant that when it was noon in Chicago, it was 12:31 p.m. in Pittsburgh, 12:24 in Cleveland, 12:13 in Cincinnati, and 12:07 in Indianapolis. Or, when it was noon in Detroit, it was about 11:50 in Grand Rapids. Indeed, there were at least 27 different local times within the state of Michigan alone. Indiana was slightly less confusing with just 23 local times, but Wisconsin—with 38—was a clock-watcher's nightmare.

"In every city and town," historian Stewart Holbrook wrote in his 1947 book, *The Story of American Railroads*, "the multiplicity of time standards confused and bewildered passengers, shippers, and railway employees. Too often, errors and mistakes turned out disastrously, for railroads were now running fast trains on tight schedules; a minute or two might mean the difference between smooth operation and a collision."

Traveling from north to south (or vice versa) presented no time problems but east to west (or west to east) was another story altogether. Predicting the time a train would arrive at any particular stop was no small feat in the days before standard time. In his 1990 book, *Keeping Watch: A History of American Time*, Michael O'Malley reveals that "A traveler on a westbound train, setting his watch at departure, might find after less than half an hour's travel that his watch and the local time no longer agreed. To make matters worse, individual railroad and steamship lines each ran by their own standards of time—usually the time of the city the line originated in. When two lines met, or shared a track, or terminated at a steamship landing, it threw differences in timekeeping into high relief." Something clearly had to be done.

Two men in particular are credited with "inventing" standard time and the time zones that define it. Professor C. F. Dowd, principal of Temple Grove Seminary for Young Ladies at Saratoga Springs, New

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York, first suggested the general concept of four or more "time belts." Later, William Frederick Allen, a railroad engineer, adapted and improved it and won acceptance for it by a crucial panel.

In 1872 railroad officials from around the country met in Missouri to arrange summer passenger schedules. To address the time problem they formed the General Time Convention. Allen was named secretary and immediately set to work on making Dowd's idea into a detailed proposal. In October 1883 the Convention approved Allen's plan. Government was not part of the picture at all; the Dowd-Allen solution to establish standardized time zones was conceived and fine-tuned to fruition entirely by the ingenuity of private citizens. The Convention chose November 18, 1883, for adoption of the new system by virtually every railroad in the country. "Railroad time" quickly became the new "local time" everywhere—or at least almost everywhere.

Detroit Holds Out

Time marched on, but Detroit didn't. The view that the sun, not man, dictates what time it is enjoyed broad support in the city. Henry Ford complained about the disparity; he designed a watch with two dials, one that kept local time for when he was in Detroit and the other that kept standard time.

Detroit stuck to local time until 1900, when the City Council ordered clocks set back 28 minutes to comply with Central Standard Time. Half the city refused to obey, and the City Council rescinded its order. It wasn't until 1905 that Detroit, by a citywide vote, adopted standard time and became part of the Central time zone.

While standardized time zones were speedily and voluntarily embraced by most of the country, the federal government actually sought to prevent it. The director of the Naval Observatory argued strenuously against any manmade challenge to the authority of the sun. The U.S. Attorney General ordered that no department of the federal government could run according to the system developed in 1883 until authorized by Congress, which took 35 years. In March 1918 Congress finally put Washington's stamp of approval on what had been accomplished through private initiative, with one major adjustment: It took Michigan and western Ohio out of the Central time zone and put them in the Eastern zone, where they remain today.

What about the rest of the world? An International Meridian Conference was held in late 1884, a year after standard time took effect in the United States. Delegates representing governments from 25 countries debated two main issues: Should they adopt a system of global standardized time zones, and if so, where should the starting point, or "prime meridian," be? The success of the American experience helped resolve the first issue with dispatch, but just as quickly the second issue hit a geopolitical snag. Britain's longstanding maritime dominance put the imaginary line through its Greenwich Observatory in the lead for prime meridian. The French preferred Paris but suggested a compromise: They would accept Greenwich if the Brits and the Americans adopted the metric system. The Conference approved Greenwich without the metric condition, so feeling snubbed the French went their own way and didn't recognize the prime meridian until 1911.

Private enterprise saw a dilemma as a problem to be solved. Governments dragged their collective feet and politicized it. As Yogi Berra would say, this sounds like "déjà vu all over again."

What time is it? Thanks not to pretentious central planners but to creative entrepreneurs, no matter where you live, there's been a uniform answer to that question for about a century. □

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The Contradictions of Capitalism

by Jim Peron

We advocates of individual rights and free markets can't win the intellectual debate with the ideological left. That's because there *is* no intellectual debate with the left. There can't be a debate since the opponents of capitalism are simply not open to rational discussion. They know that capitalism is inherently evil, and no argument, no evidence, no facts will convince them otherwise.

Consider this example. Fabian socialism was founded in 1883, the same year Karl Marx died, when a small group of intellectuals gathered at 17 Osnaburgh Street in London to hear lectures on the promised new world order of socialism. From this meeting was formed the Fabian Society, dedicated to the willfully slow evolution of a socialist society in England.

The Fabians were a strong, if not the strongest, influence on the British Labour Party and had the likes of George Bernard Shaw and Sidney and Beatrice Webb to spread their propaganda on the virtues of Stalinism and Soviet communism. Its list of members read like the Who's Who of British intellectuals and included R. H. Tawney, G.D.H. Cole, Harold Wilson, Harold Laski, Oswald Mosley (the founder of British fascism), Bertrand Russell, Clement Attlee, John Strachey, Stephen Spender, George Orwell, and others.

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For over a century the Fabian Society has continued to promote a Marxist agenda for the various countries of the world. At the turn of the last century the Fabians waxed eloquently on the virtues of socialism and the vices of capitalism. They never tired of saying how capitalism would lead to poverty and misery for the bulk of England's workers. They promised that only a socialist centrally planned society could achieve wealth and prosperity. The workers, noted the socialists, could never find happiness and self-satisfaction so long as they were entrenched in the poverty of a capitalist economy.

The Fabian Society still exists. Not long ago, on BBC World, I watched a documentary series titled "Big Ideas." It was billed as an antidote to the pessimism of the politically correct. In truth it was hardly that at all. Instead the entire show, called "The Good Life," concentrated on an economist, Michael Jacobs, who is the general secretary of the Fabian Society. Did Jacobs continue the classical Fabian rhetoric of the last century and castigate capitalism for leading millions into poverty? Of course not. The laughter from the millions of workers viewing the show on their color televisions would have drowned out the rhetoric.

Instead he went on about how the wealth of capitalism doesn't lead to happiness. He lamented the luxuries of the average worker and ridiculed those who work hard to get ahead. This, he said, was clearly the fault of capitalism. It seems that capitalism leads to too much prosperity, causing people to seek out luxuries and status-symbol consumer goods. Lest you think this an exaggeration, the BBC described the show this way: "Evan Davis presents the series which tests ideas at the cutting edge of debate. Evan is joined by Michael Jacob of the Fabian Society, who argues that although Britain has become more prosperous, we have sacrificed our quality of life. We are working too hard, buying too many useless luxuries, and destroying the environment. But does the answer lie with individuals or can government action create the good life for everyone?"[1]

When it was pointed out to Jacobs that individuals who didn't want to work hard didn't have to do so, he was unpersuaded. The problem with the wealth of consumer capitalism is that the system itself forces people to compete. The individual who wants to drop out, perhaps to read the works of Marx, can't do so because of the structure of the system. He is a victim of capitalism. People should, instead, be free to concentrate on the "important" things, by which he means things which Jacobs thinks important.

Of course, the solution to this structural problem is the "social ownership" of the means of production. Jacobs wants regulations and laws to prevent competition and wealth-gathering.

Just about one century ago his Fabian forerunners were saying that capitalism leads to poverty and that only socialism can create wealth for the workers. Turning a blind eye to a century of rhetoric, today's Fabians are attacking capitalism for creating too much wealth. A century ago the worker, living in poverty, would never find happiness. Today the Fabians argue that happiness is illusive because of the temptations of the riches created by capitalism. When poverty was the alleged problem the Fabians advocated state control. When prosperity reigns, it too is defined as a problem and they advocate state control. You start to get the impression that the "problems" don't concern them and that what they really want is just state control.

Socialists loved to warn that capitalism leads to monopoly. They were utterly convinced (by what, exactly, we will never know) that a market economy would mean less and less competition as time went by. Eventually, competition would disappear altogether, and the poor consumer would be at the mercy of ruthless profit mongers. Yet a century later the Fabians are condemning capitalism for creating too much competition. The poor entrepreneur doesn't have time to stop and smell the roses along the way. Have I missed something?

Environmental Objections

Of course the environmentalist allies of the socialists have similar complaints. We all know that capitalism is destroying the planet. Take "nonrenewable" resources. The greens love to argue about how capitalism is using up the natural resources. A nonrenewable resource is obviously a resource that, once used, vanishes. A lump of coal that is burned is no longer a lump of coal and thus is nonrenewable. It doesn't matter that all the natural resources that are commonly used by man have known supplies that will last us for centuries. The fact is that a resource that is nonrenewable must disappear someday—or so they assume. There are many reasons why this is simply not true, but let's grant the greens their premises for a moment. Capitalism is evil because it uses resources that are destructible.

But that's not all. Capitalism is also evil because it creates resources that are not destructible. If you think the greens get upset when modern society uses a nonrenewable resource, look how they act when renewable resources are used. Plastic is evil because it doesn't degenerate. But what are the choices? Under any economic system some resources have to be used. We can use resources that are destroyed—but that is evil. Or we can use resources that are not destroyed—but that's evil as well. As the late Professor Petr Beckmann noted, the greens have a unique argument: "If it is nonrenewable, don't use it, use something indestructible instead; if it is indestructible, don't use it either. Nothing is feasible except the two possibilities he [the environmentalist] has set his heart on: a return to the caves or doomsday."[2]

We've seen this "damned-if-you-do, damned-if-you-don't" logic from the environmentalists before. Take the issue of the rain forest as an example. We have been warned that man's incursions into the rain forest may bring us to the brink of disaster. Lurking behind some fern could be a new, deadly virus unknown to mankind. Contact with it could lead to the destruction of humankind since people may not be immune to such diseases. No, it is far better that man avoid the rain forest altogether, except for those primitive tribes that have learned how to live in harmony with nature.

But don't forget there is another reason the rain forest must be saved. After all who knows what miraculous medical cures could be found in the leaves, roots, or barks of indigenous plant life? We may find the cure for cancer there—unless a deadly virus kills us all first.

Just a few decades ago the environmentalists were lamenting that in America wilderness areas were being turned into farmland. They cried about the dire consequences of the depletion of timberland. The fact is that privately owned timberland has been increasing in the United States, leading to a growth in all forestland not a reduction. America's forests today are larger than they have been in about a century.[3] So are these anti-capitalists happy? Of course not. Now they are screaming about the loss of farmland!

The Fate of Women

The feminist left, building on old Marxist theories, attacked capitalism because it enslaved women as breeding machines. One article from *Socialist Review* stated that "the very structures of capitalism oppress women." This is because the capitalist class needs the family: "[Capitalists] needed a family where the next generation of workers (and the existing generation) could be fed, cared for, socialized and given rudimentary health care and education—at minimal cost to the capitalist class itself."[4] The author continues, "The role of the family in the reproduction of labour power was and is central to its [the family's] existence—and to the oppression of women—today."[5]

This is typical Marxism, which argues the family is a creature of evil capitalist exploitation. So they should be thrilled at trends in the modern world that limit the function of the family. Well, no; once again evil capitalists are also blamed for destroying the family. The very same article quoted above then laments: "It is often said that the capitalist system itself acts to break down the family. The pressures of working people mean that the reality of the family does not match the ideal. Families are torn apart by emigration, having to move jobs, or by the pressures of school and work. The divorce rate has soared, teenagers can't wait to leave home, more and more people live outside the conventional nuclear family."[6] The author has managed to condemn capitalism for creating the family and for destroying it at the same time.

Wendy McElroy notes that feminists "consider marriage to be an involuntary state, in which women have the status of chattel. To them, marriage and the family are inextricably bound up with private property, the class structure and the mode of production. In other words, the family is an aspect of capitalism."[7] Thus the social order of the day is a creature of capitalism. On the other hand anti-capitalist philosopher John Gray has argued that capitalism is destructive to the social order and says that "libertarian condemnation of the state and celebration of the free market is a recipe for social breakdown and political instability."[8]

The system of world free trade, or global capitalism, also offends all Marxists. The *Iverson Dictionary of Terms and Terminology of Sociology* defines the "Third World" as those nations that suffer the exploitation of capitalism. "Those less powerful, less influential non-Western governments of usually colored peoples who have experienced colonialization, are ex-colonized, or have experienced modern capitalism as a form of imperialism, i.e., those countries whose cultures have been disrupted by industrialization and expropriation of their natural resources with little or no concern by the capitalists about the disruption, oppression, and exploitation of the people or just compensation for their labor or natural resources."[9]

One "revolutionary" British group says globalization is the "super-exploitation of the mass of the world by a handful of rich capitalist countries." No surprise there since Marxists hate freedom of exchange and are expected to condemn capitalism on that account. But in the very next paragraph the group laments how the Cuban "revolution" has withstood "a sustained economic blockade at the hands of the world's most powerful economic and military power, the United States." The embargo of U.S. goods only, since most other countries ignore the "blockade," is blamed by the left for Cuba's dismal economic performance. They say Cuba is poor because it is denied access to the trading markets of the United States. And Cuba would be richer if allowed to participate in market globalization.[10]

So the Third World is poor because it isn't embargoed, and Cuba is poor because it *is* embargoed. Trade with the West leads to poverty, and the lack of trade with the West leads to poverty. Take your pick.

Yet here in Africa the left argues that a lack of Western investment is proof of latent racism. And what should capitalists do with the profits from investments in the developing world? If they take the profits out, this is condemned. But if they reinvest them, that is condemned as well. One leftist book from the 1960s, *The Political Economy of Growth* by Paul Baran, took both positions simultaneously. "It is very hard to say what has been the greater evil as far as the economic development of underdeveloped countries is concerned: the removal of their economic surplus by foreign capital or its reinvestment by foreign enterprise."[11]

To the left, capitalism is the eternal scapegoat and the explanation for all that goes wrong in the world. Whatever social problems exist in the West are, of course, all due to the evil nature of capitalism. And whatever problems exist in Marxist nations is the result of the evil nature of capitalism as well. People are poor—blame capitalism. But blame capitalism if they are "too" rich. For the left, capitalism can do no good, just as the devil can do no good. Once you abandon reason, no rational debate is possible. □

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AUGUST 2002

The Real Monopoly

by John Berthoud

What is a monopoly? The attorneys general of the nine states and the District of Columbia that are now engaged in their latest legal attack on Microsoft apparently have no idea. Because if they did, they would be focusing their ire not on Microsoft, but on the U.S. Postal Service, which has authorized another 3-cent increase on the price of first-class stamps (from 34 cents to 37 cents). By every possible meaning of the word "monopoly," these attorneys general are going after the wrong entity.

Price? Microsoft prices have been steadily falling. Since 1995, the price to computer manufacturers of installing Windows has fallen in inflation-adjusted terms. And since 1990, the retail cost of Microsoft Office software has fallen by about 50 percent.

Meanwhile the Postal Service continues enacting price hikes. This latest 9 percent increase will cost Americans $5.6 billion, according to the Direct Marketing Association. At the beginning of the 1990s, first-class postage was 25 cents. So in little over a decade, the Postal Service has hiked prices by almost 50 percent! The Postal Service expects consumers to jump for joy over the promise that it won't seek another increase this year.

What about service and features? Microsoft has been continually improving its products and adding features. In fact, some of the legal geniuses pursuing the case have argued that this is a bad thing: somehow, adding more features to Windows (the lawyers' term is "bundling") is unfair to Microsoft's competitors. Never mind the benefit to consumers.

The Postal Service, on the other hand, seems to be doing its best to avoid increasing productivity. Its powerful unions realize that productivity can mean temporary job dislocation—and from their perspective, that's a bad thing. Perhaps this explains why, according to the U.S. Bureau of Labor Statistics, the Postal Service has experienced productivity growth of 11.1 percent over the last 30 years, compared with 53.4 percent for all private-sector companies. Of course, this stagnant productivity growth and the endless sea of red ink haven't stopped the Postal Service from doling out nearly $900 million in management bonuses over the last five years.

These differences in price and productivity stem from very different competitive positions. While Microsoft faces the white heat of competition every day, the Postal Service has special protections frozen into law that it jealously guards. The Postal Service is exempt from zoning, customs, and tax laws (unlike private delivery companies). Federal law prohibits private companies such as UPS or FedEx from providing first-class mail delivery. Steve Dasbach, the executive director of the Libertarian Party, asks, "Imagine

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how much a Ford Explorer might cost if it were illegal for any other automaker to produce an SUV."

So what then ultimately explains why these attorneys general are pursuing Microsoft and leaving the Postal Service's special protections untouched? Politics. Microsoft's competitors have driven this suit from the start. This was true when the Clinton Justice Department was spearheading the effort and was joined by the attorneys general of 20 states, and it is true now when—after the Department of Justice and most states have settled with the company—the remaining AGs have rejected the settlement agreement and are seeking even more blood.

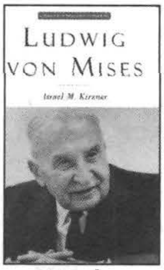
The rewards have been rich for the AGs doing the bidding of Microsoft's competitors. To name just one example, the Kansas gubernatorial campaign of Attorney General Carla Stovall—who is still pursuing the Microsoft case—has already received at least $14,000 from companies and individuals leading the charge against Microsoft.

The Postal Service, on the other hand, has a guardian angel in the form of powerful labor unions. As the National Taxpayers Union's Jerry W. Terry has observed, "political pressure from powerful labor unions ensures that Congress will not allow free-market competition to threaten the Postal Service's grip on mail delivery."

So ultimately, the lesson is that whatever the economics textbooks say about what is or isn't a monopoly, to many of America's elected officials, the only definition that matters comes from their political playbook. □

Ludwig von Mises: The Man and His Economics

By Israel M. Kirzner



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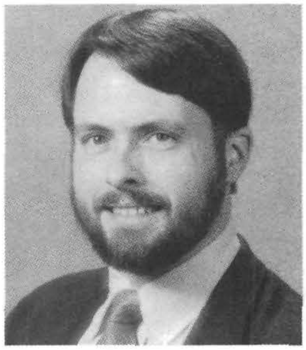

An Alternative to Failed Foreign Aid

LAHORE, Pakistan—One of Lahore's small Christian communities sits on army land and thus constitutes an illegal occupation in the government's view. Most homes have one room. The latrines are makeshift, and families are lucky to survive on $20 a month. These are "very difficult times," one resident told me.

But these people have never seen a penny of the billions that Pakistan has received in foreign aid over the years. Real assistance only recently came from a small private group, which put money directly into the hands of the 60 families.

When government officials talk about foreign aid, they rarely use numbers less than a billion. As when a gaggle of world leaders, led by President George W. Bush, met in Monterrey, Mexico, in the spring. The politicians spent their time spouting platitudes and planning new ways to waste people's money, as they do at most such gatherings.

Indeed, President Bush proposed a 50 percent hike in U.S. foreign aid. And he pledged to push Congress for more money immediately, rather than wait for 2004. But while engaged in a global struggle with hegemonic communism, Washington could argue that it had to buy friends throughout the Third World; today it no longer matters what happens in, say, Congo.

Some have pointed to the fight against terrorism to justify more aid. But global poverty has nothing to do with terrorism, else America would have been under siege for years from terrorists from Sub-Saharan Africa, India, and China.

Perhaps money can help prop up seemingly moderate Arab regimes in the face of Islamic fundamentalism, but we've long been doing that without an extra $5 billion. Anyway, far more effective would be relaxing trade barriers to exports from those nations, encouraging real economic growth from within.

Moreover, without economic, social, and political reform, no amount of outside money will yield stability. In fact, foreign aid risks reducing the incentive of despotic regimes to make their systems more responsive to their people.

To his credit, President Bush emphasized the importance of making aid effective. But 50 years of experience is against him. Foreign transfers will do nothing where the rule of law does not exist, property is not protected, and many if not most social institutions have collapsed.

Indeed, most government-to-government transfers benefit political elites, not common people. For decades aid agencies subsidized the worst collectivist autocracies, actually underwriting the statist policies responsible for Third World poverty.

Moreover, assistance was distributed by agencies that rarely exhibited the slightest accountability or creativity. Writes William Easterly, an economist with the Center for Global Development, "The resulting edifice

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of national and international bureaucracies has not provided services effectively to the world's poor."

Aid to Pakistan incorporates all of these failings. Overall, the country exhibits a prototypical overpoliticized state. First, it is a system where few are secure in their lives and property. In Lahore, McDonald's employs a guard—armed with an automatic weapon. The Pizzeria Uno uses four guards, including a doorman with a shotgun.

Pakistan's economic and political systems are unfree; important interest groups must be bought off to maintain regime support; entire segments of the population possess no influence. The latter is particularly obvious when viewing the status of Pakistan's Christian community, which accounts for just 2 percent of the population. For instance, government employment is highly sought after in an economy largely bereft of good private opportunities. "We apply for the jobs," even menial ones, and "we can't get them," one poor resident told me.

Desperate inhabitants of a tent city, displaced from their own homes by a flash flood, just down from government buildings in the capital of Islamabad, say the same thing: "we get nothing from the government." One neighborhood sits astride electrical transmission lines, but the 70 or so families have been told they must pay $7,000 to connect—an impossible sum. Meanwhile, lights brightly shine in nearby Muslim areas, including a poultry farm and private mausoleum.

Selective Distribution

The government "doesn't supply Christian people, poor people," complained one resident. And this complaint is not peculiar to the current regime. "It doesn't matter which government" is in power, Rev. Emanuel S. Khokha told me. "They are all the same."

Foreign aid is distributed in the same way. "International agencies give money to the government," the resident of one poor neighborhood complained. "But it doesn't give the money to us."

Even when money is supposed to be distributed to private groups, Christian agencies find themselves on the outside. Irene Samuel, general manager of a private aid group, says that "foreign aid doesn't help us." Lots of money comes in from overseas but "the government never gives us a clue how to get that funding. They won't even give us forms to get it."

Instead of government-to-government aid, "We need direct assistance," one poor Pakistani told me. In such a case, great good can be done by small amounts—thousands and even hundreds of dollars.

For instance, I traveled with two members of Christian Freedom International (CFI; www.christianfreedom.org), visiting several cities in Pakistan and meeting with pastors in poor communities. The CFI staffers distributed small amounts of cash in two areas, paid the tuition for two children whose father, a house painter, had been injured, developed plans to employ teachers to begin schooling children in three neighborhoods, and hired a local pastor to monitor the programs. CFI is also working with Christian women to encourage development of local craft manufacturing in an attempt to make poor families self-sufficient. Private aid "is great and all that," explained Jim Jacobson of CFI. "But they are excited by the handicrafts. They want to work. They don't want a handout."

Of course, efforts like these are only a small start in a world in which desperate poverty abounds. But one of the lessons of foreign aid is that government cash transfers accomplish little. It's a lesson that CFI, a low-overhead operation that invests most of its money on the ground helping victims of religious oppression, well illustrates. The group is saving one family at a time.

Pakistani Pastor Javed John asked me to "please convey the message to the American people that there are so many problems here." Tragedy in the Third World abounds, yet it seems so unnecessary in a world in which economic opportunities are exploding for the rest of us.

Government-to-government aid has failed for 50 years, and throwing good money after bad won't change anything. □

IDEAS ON LIBERTY
AUGUST 2002

A Beautiful Movie, Lousy Economics

by Sanford Ikeda

A Beautiful Mind, winner of this year's Academy Award for Best Motion Picture, dramatizes the life of John Forbes Nash, who in 1994 was a co-winner of the Nobel Prize in economics. It was based in part on Sylvia Nasar's 1998 biography of the same name. As the first major Hollywood movie that centers on an important figure in economic theory, it has caused a stir among many who are interested in such things, including, I suspect, readers of this magazine. As might be expected in a production intended for a mass audience, however, there's actually very little having to do with economics in it. Too bad, then, that what economics it does contain is mostly either wrong or misleading.

In an early scene set circa 1950, John Nash and his buddies, all of them male graduate students in mathematics, are sitting in a Princeton bar when five women enter, one of them a strikingly beautiful blonde. The math whizzes sadly deduce that, according to Adam Smith, individual ambition would drive each of them to try to date the blonde, but only one would win while the rest would lose. Nash has an epiphany: no, the outcome of that competition would not be a single winner, but mutual frustration. Too many men for the one, too little attention to the four rebuffed women. Instead, he reasons, each man would choose a less-attractive date and thereby ensure the best achievable outcome for himself and for everyone else (except perhaps the blonde). And he does so, not because his narrow self-interest is guided by a Smithian invisible hand, but because his decision deliberately takes into account the collective good as well as his own. Ergo, he declares, "Adam Smith was wrong!"

Next we see an inspired Nash working intensely in his dorm room as the seasons pass, feverishly scribbling graphs and mathematical equations. When later his math adviser reads the product of this toil, he assures Nash that it represents a major breakthrough, adding offhandedly that it "flies in the face of 150 years of economic theory."

(If you're wondering why mathematicians would know so much economics—150 years' worth, evidently—the best answer I could come up with is that Princeton in the 1950s, specifically the Institute for Advanced Studies, was the home of the authors of *Theory of Games and Economic Behavior*, John von Neumann and Oskar Morgenstern, the latter an economist and a former member of Ludwig von Mises's famous seminar in Vienna. None of this was mentioned in the movie, so we're left to assume that mathematicians just know this stuff.)

Now, let's take each of these in turn: the epiphany, math, Adam Smith, and 150 years of economic theory.

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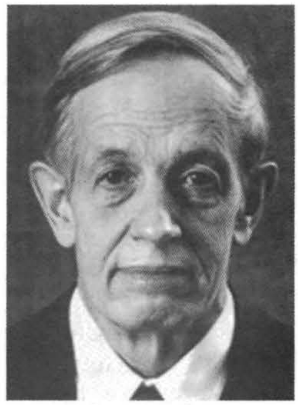
The Epiphany

The purpose of the bar scene is to convey the idea of a "Nash equilibrium," which is a solution to a game of strategy. For theorists, a game consists of two or more players, a set of strategies that a player can choose from, and a set of payoffs that depend not only on the strategy he chooses but also on the strategies his opponents choose.

Suppose you and I are driving from opposite directions on the same road. If you choose to drive on your left-hand side of the road while I choose to drive on my right-hand side, we'll crash head-on and the payoff presumably would be very bad, indeed. Therefore, neither of us would want to stick to his current strategy. Another pair of strategies, "if you your right, then me my left," would also cause an accident. So to be safe, if I see you choose your left, I would want to choose my left. And, if you see that I've chosen my left, this would give you an additional incentive to stick to your strategy of driving on your left. The same would be true if you choose to drive on your right: it would incline me to drive on my right, which would give you even more reason to drive on your right. Therefore, the strategy choices of "if you your left, then me my left" would be mutually reinforcing, and so would "if you your right, then me my right."

So each player's choice of strategy depends on the strategy he thinks the other players will choose. Sometimes these choices reinforce one another, sometimes they don't. When the strategies chosen are mutually reinforcing, as in the driving example, the game is said to have achieved a "Nash equilibrium." A Nash equilibrium, then, is a solution to a game in which each player chooses his best strategy, given the strategy chosen by every other player. John Nash won the Nobel Prize for proving that, under certain assumptions, any well-defined game has a solution like this.

Unlike the bar-scene solution, though, a Nash equilibrium doesn't require each player to altruistically seek the common good with his own. It does require that he take into account the impact of his strategies on others' strategies, and theirs on his. But because some Nash equilibria are undesirable to all players, such as a nuclear-arms race, there is no presumption that they always promote the common good.


John F. Nash, Jr.

Oddly enough, the real problem with the bar scene is that it doesn't portray a Nash equilibrium at all. It's true that if all the men pursue the blonde, they block one another. What happens next? If each thinks the others are going after the blonde, then he has an incentive to approach one of the other women so that he can at least get a date. Nash's supposed insight is that if each one thinks this way, they will all do it, get a date, and leave the blonde alone. The trouble with this outcome, however, is that if each thinks all the others are leaving the blonde alone, he will assume that he now has an uncontested path to the blonde and go after her. And if each one thinks this way, they will all go for her and once again block one another. They're right back where they started! In this situation, any player will switch his strategy once he thinks the others have chosen theirs, so the strategies are not mutually reinforcing and the "solution" portrayed cannot be a Nash equilibrium.

Economics as Mathematics

The movie also tends to perpetuate a widespread belief that economics is all about mathematics. On the contrary, there's plenty of good economic theory that doesn't require mathematical expression or operations. A lot of mathematics in economics is just window dressing (and in several scenes in the movie it really *is* window dressing). Mathematics is useful for conveying certain economic ideas, such as general equilibrium or in game theory. Whether these ideas are particularly useful for understanding the real social world, or whether many useful economic ideas can be adequately expressed mathematically, is problematic. To give but one example, it's hard to imagine how mathematics could effectively capture Israel Kirzner's description of competition as a process of discovering opportunities generated by sheer ignorance.

Also, in actual rivalries the players are typically not aware of all the payoffs and strategies available, to others or even to themselves, and things keep changing in unforeseeable ways. Such considerations, which can be highly inconvenient for those seeking elegant mathematical solutions, are basic to real people as well as to sensible economists—like Adam Smith. Real people simply don't make choices knowing all the payoffs and probabilities, and for them rationality is not the same thing as mathematical optimization. As Mises and Kirzner have shown us, real people don't calculate equilibria; they discover opportunities.

Dissing Smith

Contrary to the movie, Adam Smith's central message was not that competition produces winners and losers, but that in free markets individual self-interest alone can unintentionally achieve remarkably high levels of social cooperation. For many followers of Smith, the marvel of the market is precisely that no single actor has to know very much in order to cooperate in a mutually beneficial, and thus self-reinforcing, way with the rest of society. Paris gets fed largely through individual self-interest guided by profit and loss.

And Paris has a lot more people than any bar in Princeton. Even so, Nash's players have to know a great deal more about their problem situation than Smith's human actors do, and in this sense Smith's "invisible hand" achieves far more with far less than Nash's bargaining solution. Not to detract from Nash's contribution, but Smith solved a much more important and complex problem: how is large-scale social coordination possible without central planning?

In less than five minutes, however, the movie manages to impugn Adam Smith and the 150 years or so of economics that followed him.

And About those 150 Years . . .

Actually, Nash published his first bargaining thesis in 1951 and Smith's *The Wealth of Nations* appeared in 1776, so we're really talking about 175 years. (They say mathematicians sometimes have trouble doing arithmetic.)

Anyway, this was well after 1936, when another John, as in Maynard Keynes, almost single-handedly revolutionized economic theory. If there was any overturning of economics to be done, Keynes did it long before Nash and did it much more thoroughly. While Nash radically reconceived economic rivalry as a bargaining problem, he basically kept within the overall framework of individual optimization. Keynes rejected that optimization framework altogether. (What he substituted for it economists are still debating, but that's another story.) One could say that it was unusual, perhaps even courageous, for a cutting-edge theorist, in the midst of the Keynesian macroeconomic revolution, to risk his reputation by working within the bounds of what most would have considered microeconomic territory. But while game theory in that era was certainly nontraditional, it wasn't revolutionary in nearly the same sense as Keynesian macroeconomics was. Nash did go against the grain of traditional microeconomics; but then almost every other major theorist at the time did, too.

Nash v. Howard

I don't mean to disparage the real John Nash's professional achievements, but to criticize producer-director Ron Howard's characterization of them. Nevertheless, there is truth in a scene toward the end of the film where an elderly Nash is told that his concepts have influenced areas as remote from pure mathematics as antitrust and bandwidth auctioning. While Nash's bargaining solution is used in these areas more to suggest what conditions may be needed for an equilibrium to emerge than to directly calculate it, the concept has indeed been useful.

And despite its problems, I found myself liking the movie very much. Partly because of the compelling human story it tells (edited here and there I've learned), but also because it's about one of us, an economist—well, sort of. Perhaps someday Hollywood will release a major film about an economist who really did change the course of history for the better (which rules out Keynes), and who also suffered, struggled, and triumphed. As I imagine it, an early scene would be set, circa 1920, in a lively little coffeehouse in Vienna. . . . □

Was the Beautiful Mind Sick?

A Beautiful Mind has economics as its background. The foreground is reserved for mental illness and its treatment. As the movie tells the story, John Nash, a brilliant mathematician who arrogantly alienates the people around him, suffers from paranoid schizophrenia, which in his case has him hallucinating about a nonexistent roommate and a government intelligence agent who hires him to find and decipher the secret codes the Soviets are placing in popular magazines and newspapers. His behavior becomes erratic and discomforting to others.

Eventually, Nash is locked in a mental hospital against his will, subjected to brutal insulin shock, and put on Thorazine. When released from the hospital he only pretends to take his medicine; he actually hides the pills in his desk, presumably because when he takes them he can't work or even interact with his infant son. The drug's interference with his ability to think is apparently unacceptable for a man who is determined to make a name for himself in mathematics. His hallucinations return, and once again he is "working" for a government spy agency. When his wife, Alicia, discovers this, she calls his psychiatrist. But instead of having Nash committed to the hospital again, she joins him in his resolution to beat the illness on his own. With her loving support he resumes his career and succeeds in ignoring the characters who inhabit his hallucinatory world. They eventually fade away. Inexplicably, while a colleague interviews him in 1994 to determine if he is stable enough to accept the Nobel Prize in economics without incident, Nash says, "I'm taking the newer drugs." (We never see him take these drugs.)

The movie has been hailed by self-styled advocates for the mentally ill. Before it was released, the executive director of the National Alliance for the Mentally Ill (NAMI), Richard C. Birkel said, "As an Oscar contender, the movie has the potential to contribute significantly to broader public education about mental illness." Birkel conceded that "Hollywood takes dramatic license," but added, "What is important is how mental illness is presented within the overall plot." A NAMI news release added, like a mantra, "Mental illnesses are brain disorders."

Gets It Wrong

But like the economics, the movie got many facts about Nash and mental illness wrong. That makes its contribution to public education dubious. Considering the distortions and omissions, NAMI's praise sounds more like political

continued next page

propaganda. The organization is an enthusiastic advocate of involuntary "treatment" for people diagnosed with schizophrenia, such as John Nash. If drugging patients requires force, so be it, because "Many people with schizophrenia suffer from *poor insight*, or *anosognosia*." (See NAMI news release at www.nami.org/pressroom/20020115.html.) It is indeed tempting to believe that anyone who disagrees with you is suffering from poor insight.

The movie's major distortion concerns Nash's use of antipsychotic drugs. Contrary to the movie, Nash stopped taking drugs in 1970. He couldn't have taken the "newer" drugs available in 1994 that are credited with helping him to control his hallucinations. Yet in the movie Nash's character says he did. The filmmakers thus lied to their audience about the role of drugs. Why? What was the purpose of the lie?

Again contrary to the movie, Nash was not hospitalized against his will only once. His wife had him committed three times. He objected and became a vegetarian in the hospital in protest. At one point his wife even had the U.S. government force his return from Europe.

What about his schizophrenia? The movie portrays Nash's hallucinations as visual. From a moviemaker's perspective, that is understandable. But the elaborate visions that director Ron Howard served up simply did not occur. Nash's hallucinations were auditory; that is, he "heard voices."

But Nash was mentally ill, was he not? You be the judge. In the PBS program "A Brilliant Madness: The Story of John Nash," he told an interviewer, "Madness can be an escape. If things are not so good, you maybe want to imagine something better. In madness, I thought I was the most important person in the world." He continued, "To some extent, sanity is a form of conformity. And to some extent, people who are insane are non-conformists and society and their family wish that they would live what appear to be useful lives." As for hearing voices, Nash said, "You're really talking to yourself." No doubt NAMI, which claims to respect the people stigmatized by the diagnosis of schizophrenia, would say he lacks insight.

Nash's story hardly conveys what the filmmakers and NAMI want the public to learn. A brilliant, obnoxious, ambitious, slow-to-succeed, and lonely man invented and lived out a drama to make his life exciting. The drama was so central to his life that it eventually interfered with other things he valued: his love of mathematics and his marriage. One day he changed his priorities. Thus Nash's "illness" was "cured" by an exertion of his will supported by a loving woman. In truth, this sounds not like a disease, but like what Thomas Szasz calls "problems in living." For this, the man was psychiatrically incarcerated, put into insulin shock (which diabetics strive to avoid), and drugged—all in accordance with the law.

—Sheldon Richman

IDEAS ON LIBERTY
AUGUST 2002

Fond Memories of Communism

by Stephen Browne

"You! You bastard, you destroyed the greatest system in the world!" I was taking my English class to our room at the Institute for Physical Chemistry in Warsaw when I heard this slightly mad Russian voice bellowing at me.

"No, I didn't. You did that all by yourself and you can't have Alaska back," I replied.

That's how I met—let's call him Oleg, the only Russian communist I ever met. I'd met a fair number of Russians. I even had a couple of Russian chemists as private students, and of course I'd heard of people who were said to be nostalgic about the old system but I'd never actually met an Eastern European communist. All the communists I'd ever known were in American universities.

Over the semester I got to know Oleg. He was, as I had thought at first, slightly mad. He had all kinds of stories about how the Mossad was out to kill him and was fond of raving wildly. "You see my eyes? My grandmother was raped by a Tartar!" Like my Russian students, he was working in Poland on a research contract. He was an oncologist doing research involving juvenile cancers, had worked in America, and spoke excellent English.

Oleg used to go on about what a wonderful life he'd had under communism. He'd had foreign travel and a prestigious job. When I met him he was working in Poland for a Polish salary and glad to get it, even considering the humiliation of working for Poles. The last time I saw him his contract had run out and he was looking for work. "Oh, Steve," he said, "it was so great under communism." "Well, Oleg, for you I'm sure it was."

I felt so bad for the poor slob that I bought him breakfast and gave him two zloty to play the horses at Wyscigi racetrack. Of course I also felt pretty good as I watched him rush off to make his fortune on his sure thing. I thought to myself with glee, "Hey, dude! We won and you lost. Feels pretty good to me."

I have taught university students, top ministry officials, and the children of secret police officers in Poland, Bulgaria, and Serbia, and in ten years I have yet to find any Eastern European with a good word to say about communism.

This is not to contend they aren't there. Older people left behind by the changes, living on pitifully inadequate pensions eaten away by the inflation of the first few years following the changes, tend to get nostalgic about their former lives, especially when they see the young people starting businesses, beginning careers in fields that didn't even exist here before, and enjoying a lifestyle far beyond what any *nomenklatura* could have enjoyed in their heyday.

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I just don't have much to do with the older people. My students and colleagues are learning English and taking their fate into their own hands.

I have, on the other hand, met a fair number of Western expats who had some sympathy for socialism in one form or other. The expat fellow travelers tend to be British or Irish. One old Irishman told me quietly (because such sentiments are inclined to offend Polish customers), "You know them communists, they really took care of their people." I glanced up at the picture he proudly displayed of him and Gerry Adams with their arms around each other and wondered how much his sentiments were shared by his buds back home.

In Sofia one night at a party with a group of participants in the cognitive science summer seminar at the New Bulgarian University, one English psychologist remarked, "You know, there were a lot of good things about communism." I noticed that all of the people around the table who were thoughtfully nodding were Brits and Scandinavians. The rest maintained a polite silence except for one Slovenian girl who said that while communism had failed, socialism was still a good idea. She had (surprise, surprise) been educated in Canada.

Looking for Advancement

A female friend in Bulgaria told me that her mother was one of the people who thought things had been better under communism. She and her late husband had been Party members. My friend, a libertarian and fan of Hayek, said that she would have joined the Party if it had still been in power, for the same reasons everybody else did and the same reason people join country clubs: advancement in the professions.

Another Bulgarian girl in one of my classes put it in perspective for me. I had asked my students if they had any friends or relatives whom they loved and respected who believed passionately in something that is absolute nonsense (I mentioned relatives in EST). One young lady said, "Well, I have this friend who I've known since we were kids, and he's . . . well, he's a communist." This was followed by shocked gasps and indignant replies, "Here! In this country? How could anyone live here and think that way?" "Well you know, he says it wasn't given a fair try and the Western powers destroyed it from outside." In fact, in Bulgaria I met several royalists but no communists.

So what were those good things about communism? I put this to my wife here in Poland recently. She started enumerating the "good things about communism" that she remembered before the changes. Since the old regime collapsed when she was quite young, the memories must be rather vivid:

1. Going with your mother to collect bottles in vacant lots to turn in for the deposit so you can buy milk.
2. Brushing your teeth for one week out of every three months because toothpaste is unavailable or too expensive. (But that's not too bad since there isn't any sugar either.)
3. Having to be extra careful about how much toilet paper you use because it's hard to get.
4. Listening to your parents cry in the kitchen because they don't know how they can buy food for you.
5. Having your broken leg set (at age ten) by a drunken doctor who doesn't lay down gauze under the plaster, so that when it has to be taken off and reset, it takes the skin with it. It is taken off with a screwdriver that gouges to the bone.

These were not poor people: her father was a high-ranking officer in the Army Secret Chancellery, her mother a bank manager.

She summed up her feelings toward Westerners who still defend communism and espouse some form of socialism thusly, "These people offend me by existing." □

by Sheldon Richman

IDEAS ON LIBERTY
AUGUST 2002

Where's the Objectivity?

During a recent scandal, William Bennett wrote a book titled *The Death of Outrage*. The bigger scandal, however, is the death of objectivity, or the ability to evaluate an argument or claim with detachment. Many people look only to see if it supports their agenda. If it does, it's good; if it doesn't, it's bad.

Observe:

Two years ago Michael Bellesiles, a historian at Emory University, published *Arming America: The Origins of a National Gun Culture*, which purported to show that early Americans were uninterested in guns, even for hunting, and did not commonly possess them. The gun culture was a contrivance engineered by gun manufacturers after the Civil War, Bellesiles wrote.

The book was received by the big government, anti-self-defense crowd with great hosannas. Bellesiles's thesis, it was said, should make Americans rethink their love affair with guns and realize that they have been wrong about the Second Amendment. Left-liberal reviewers such as Garry Wills in the *New York Times Book Review* and Edmund Morgan in the *New York Review of Books* could not praise Bellesiles's work enough. They proclaimed that Bellesiles's overwhelming evidence exposed the gun culture as, in Wills's word, a "superstition." Morgan wrote, "Bellesiles has deprived modern gun owners of the portion of our past that has lent the most respectability to their claims of historic validity." Terry Gross, host of the NPR interview program "Fresh Air," introduced Bellesiles as the author of the book many people had been waiting for, one that was highly relevant to the contemporary gun debate. Bellesiles was awarded the Columbia University's coveted Bancroft Prize in History.

Observe the non sequitur: The early American attitude toward guns, whatever it was, cannot prove or disprove that individuals have a right to keep and bear arms. The right to have guns doesn't obligate anyone to have or like them. So even if Bellesiles were right, it would have little to do with the modern debate over firearms or the meaning of the Second Amendment.

But Bellesiles is not right, as has become increasingly clear. A second wave of reviews, some by gun-control sympathizers, have found serious problems with his research, such as his use of probate records. Some records Bellesiles claims to have consulted don't exist; one set was destroyed in an earthquake—in 1906. In short: *Arming America* "has spiraled into an enormous academic scandal, with scholars from every quarter claiming his work is at best sloppy, at worst falsified" (Kimberley A. Strassel, "Guns and Poses," *Wall Street Journal*, February 22). Bellesiles is being investigated by his university.

How could a book that disintegrates at the slightest touch have been so well received? Because it said what some people wanted to hear. It was useful in advancing the anti-gun agenda. That was enough.

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Here's an example from the other direction. It is entirely likely that when environmental activists learned that Bjørn Lomborg, a Danish professor of statistics and a Greenpeace member, was checking the late Julian Simon's claim that the world is in good shape and getting better, they must have been overjoyed at Simon's impending comeuppance. Instead, Lomborg's book, *The Skeptical Environmentalist*, has been greeted with virulent scorn. Not because he made errors or falsified data, but because he presented voluminous evidence that Simon was right. Thus Lomborg's book is an impediment to advancing statist environmental measures. And Lomborg the man, who would have been sainted had he refuted Simon, is instead slandered and even threatened.

Whose Right?

Here is the latest case. In May the U.S. government stated in two Supreme Court briefs that the Second Amendment refers to the *individual's* right to keep and bear arms. This reversed the decades-long position that the Amendment protects only a collective right related to the militia.

The reaction by the anti-gun lobby can only be described as hysterical. According to Michael Barnes, president of the Brady Center to Prevent Gun Violence and a former congressman, "This action is proof positive that the worst fears about Attorney General Ashcroft have come true: his extreme ideology on guns has now become government policy." If it's extreme to believe that rights belong to individuals, the Declaration of Independence is the most extreme document ever written.

The Brady Center press release continued: "The Department's new policy weakens the federal government's defense of gun laws. . . ." This is the real issue for the anti-self-defense lobby. It's not concerned with the soundness of the policy. All that matters is its agenda. Anything that works to restrict and outlaw gun ownership is good. Anything that promotes it is bad. Objectivity and honest discourse are irrelevant—if not counterproductive.

New York Times columnist Bob Herbert is alarmed that the administration's position will put "more guns into the hands of more people." Even if true, that does not prove that the position is wrong. Herbert also claims there was "no need for the government to take a position on the Second Amendment in the two cases for which the briefs were submitted." So what? The issue is whether the position is valid.

Obviously, gun rights belong to individuals. There's no one else for them to belong to. And the Supreme Court has never said otherwise. On the contrary, the Court has said "the people" in the Bill of Rights means individuals.

The Second Amendment, of course, does not say that "the people shall have a right to keep and bear arms." It says, "the right of the people to keep and bear arms shall not be infringed." The Amendment does not create the right—it *recognizes* it. This is important because it puts the Amendment's preamble—"A well regulated militia being necessary to the security of a free state"—into perspective. The anti-gun lobby says this means only that states may arm their national guards. But the framers did not attribute rights to states, only to persons. The one reference to the states in the Bill of Rights is about powers, not rights.

The Amendment mentions the militia only to suggest that a citizen-based defense (the militia) will be effective if people know how to use guns, and that proficiency with guns depends on individuals' being free to possess them. Hence, "the right of the people to keep and bear arms shall not be infringed."

The game is now visible for all to see. Illiberal academics and others pose as champions of science, reason, and open debate, but their actions say something else. They are defenders of an orthodoxy, and woe betide anyone who dares to utter heresy. Would anyone trust them near a set of thumbscrews? □

FEE TODAY

Bringing Freedom to Life

www.FEE.org August 2002

Call 1-800-USA-1776 and Receive a FEE Gift!

By Mark Skousen

"The cause of America is in great measure the cause of all mankind."
—Tom Paine, *Common Sense* (1776)

Good news! We have just acquired two of the most memorable toll-free numbers for FEE: 1-800-USA-1776 and 1-888-USA-1776. We wish to thank Terry and Sue Easton of California for this generous gift. After attending the FEE National Convention in May, they were so impressed with the exciting things we are doing here at FEE that they decided to donate these two highly valued toll-free numbers, along with a dozen related websites (www.800USA1776.com, for example). Terry is an expert in telecommunications and a long-time supporter of FEE and other free-market organizations. He says that these toll-free numbers were previously owned by the U. S. Bicentennial Commission, which organized the 1976 celebration of the 200th Anniversary of the birth of our nation.

I can't think of a more fitting 800 number for FEE. The year 1776 changed the world forever and the good ol' USA, as embodied by the Declaration of Independence, was the primary reason why 1776 was a revolutionary year.

A Year of Miracles

Like most Americans, I've always been fascinated by the events of 1776. It was a year of earth-shattering events that transformed forever the Western world.

• It is of course the year the American colonies broke off relations with the Mother Country, declared political independence from monarchy, and established the words of Thomas Jefferson that "all men are created equal" and endowed with certain "inalienable rights."

• It is the year that Adam Smith's monumental *Wealth of Nations* was published, a powerful declaration of *economic* independence. Smith proclaimed the establishment of a "system of natural liberty" and the "invisible hand" doctrine that private enterprise would benefit the public weal.

• It is the year the eminent British historian Edward Gibbon published the first volume of his classic history, *The Decline and Fall of the Roman Empire.* It was considered a scandalous book because it blamed the decline and fall of Rome after it adopted Christianity as its state religion. Through his review of the Roman world, Gibbon emphasized the principles of "liberty, virtue, and courage."

• Last but not least, 1776 is the year Thomas Paine's *Common Sense* was printed, and Tom Paine, more than any other revolutionary figure, symbolized the Age of Enlightenment. Paine's philosophy encompassed the entire spectrum of liberty. He was a radical who advanced democratic emancipation, individual rights, religious tolerance, and competitive capitalism. *(continued on p. 4)*

Sold-Out Seminar Teaches Principles of Economics to Undergraduates

By Jo Ann Skousen
Director of Educational Programs

A sell-out crowd of 43 students, *including 23 men and 20* women (one of whom was a young-at-heart grandmother!) filled FEE's Hudson River home with enthusiastic learning June 16–21. Students came from as far away as Alaska, Switzerland, Argentina, and Gambia. Home-cooked meals of lasagna, salads, barbecues, and big pots of soups disappeared quickly. Friendships were formed and addresses exchanged amid promises to return for the advanced seminar next year. Most importantly, lives were changed forever. There is nothing like an onsite FEE seminar.

Mark Skousen has designed a weeklong course in sound money and free-market economics that guides students toward a natural discovery of how the economy really works. Frequent breakout sessions and discussion-group presentations allowed students to talk about what they were learning and apply these principles to real-world policy decisions. One student admitted, "I learned more about economics in six days than in an entire semester of high school."

Professor Harry Veryser, of Walsh College in Michigan, and Larry Reed, president of the Mackinac Center for Public Policy, joined FEE's regular teaching staff as guest lecturers for the week. Dr. Veryser's ability to help students discover sound economic solutions to perplexing government problems was a genuine asset to the breakout sessions.

Local residents were invited to attend Larry Reed's evening lecture, "Seven Principles of Sound Public Policy." His remarks were so clear and effective that one student said, "It all makes such common sense . . . why aren't these principles applied by our government?"

Student Outreach Director Greg Rehmke gave several talks that helped students better understand the principles taught by Professor Gabriella Megyesi's market-simulation games. For example, after students nearly destroyed their "public property" while grabbing for their "fair share" of the commonly owned "harvest," Greg explained how free-market incentives are more effective than public planning in protecting the environment.

Participants at our June seminar, with faculty and staff (front row, left to right): Jo Ann Skousen, Stefan Spath, Larry Reed, bronze bust of the late Leonard Read, Mark Skousen, Harry Veryser, Gabriella Megyesi, Tami Holland.

One student said that Gabriella Megyesi's firsthand knowledge of socialism from growing up in Hungary "helped me understand the truth about socialism and capitalism." Several students agreed that the Hungarian professor's trading games were the most fun and educational part of the seminar.

Executive Director Stefan Spath and I presented an afternoon of personal economics to help students apply the principles of choice and accountability to personal money management and wise investment. Students peppered Mr. Spath with questions long after their scheduled break, and expressed appreciation for wise advice on how to spend less, save more, and stay out of debt.

In addition to a rigorous set of reading material and daily classes, students enjoyed ample opportunities to socialize, heading outside during their breaks to enjoy FEE's five acres of inviting lawns and trees. A softball game beside the Hudson, badminton and frisbee, several evening excursions to New York City, and a field trip to Lyndhurst, home of railroad tycoon and entrepreneur Jay Gould, rounded out the week.

Such success would not have been possible without the contributions of our scholarship donors. Through their generosity, 35 of our 43 students received full tuition scholarships.

FEE seminars change lives, and these lives change the future. The work we do at FEE is critical to the future of our country, and of the world. One student described the seminar as "A brilliant idea. What better way to change the world than by educating future decision-makers?"

We hope that every member of FEE will consider setting up a seminar scholarship at a college of his or her choice, offering to fund one student per summer to attend a FEE seminar. Such a scholarship—including tuition, room, board, and transportation—would cost as little as $1,000. It would have a lasting effect.

"This seminar changed my life. I wish everyone could learn what I have learned from this seminar." That's our wish too. And with help from members of FEE, they can. □

Just as Adam Smith, Thomas Jefferson, Edward Gibbon, and Tom Paine were radicals of their day, so FEE and its supporters are the radicals of our day, supporting maximum political, economic, and religious freedom.

Calling All Patriots: Call This Number!

To celebrate this new toll-free number, I urge each one of you to call 1-800-USA-1776 (1-800-872-1776) and declare your support for 1776, American independence, and FEE. Use this opportunity to do one of the following:

1. Subscribe or renew your subscription to *Ideas on* Liberty ($39 a year).
2. Order a 10-pack of Bastiat's *The Law* for just $17.76 postpaid.
3. Sign up to attend our Liberty Banquet & FEE Benefit on October 25 at the New York Hilton Hotel. A "friend of FEE" pays $250 per person ($149 for dinner only).
4. Join the 1776 Club by making a donation in any amount with the numbers "1776" or "76" in them. Funds from the 1776 Club go to help assist needy students to come to FEE seminars and other events.

Anyone who calls will receive a FEE gift—a complimentary copy of *The Mainspring of Human Progress* by Henry Grady Weaver, or *Government—An Ideal Concept* by Leonard Read.

Please call today and show your support of the greatest free-market organization in the world.

Update on Student Programs

After holding 12 workshops for over 400 homeschool debate students, FEE's Greg Rehmke attended the national homeschool debate tournament in June in Tennessee. The two boxes of FEE books he brought sold out in the first hour and dozens of students who had attended FEE homeschool debate workshops were at nationals. Other workshops are scheduled for the coming year on the new international trade topic. Greg also spoke to 90 public school students at the Kansas State University debate institute in early July, and at FEE's seminar for teachers here at FEE.

For September and October more than 20 high school, homeschool, and college student seminars and workshops are planned in Texas, Ohio, Michigan, Washington, Oregon, Utah, Pennsylvania, California, and here at FEE in New York. With homeschool students researching and debating international trade and high school students debating the federal government's peculiar role in promoting whatever bureaucrats may think is "mental health care," FEE will have a tremendous opportunity to improve students' economic and Constitutional understanding over the next few months.

Yours faithfully in liberty, AEIOU,

Mark Skousen

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IDEAS ON LIBERTY
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What Happened to China?

by Harold B. Jones Jr.

Asked to pick from among the world's nations the one with the best prospects for years ahead, an early fifteenth-century futurist would have bet on China. All the indicators pointed to it as destined to outpace every other civilization on the planet.

Among the things the futurist might have noted was Chinese technology. In 1400 the introduction of a printing press with movable type was half a century in the future for Europe; it was almost four centuries in the past for China. Between 1400 and 1500, gunpowder worked a revolution in European military tactics, but it was nothing new to the Chinese: they had been using it for fireworks since the third century, for explosives since the eleventh, and for cannon since late in the thirteenth. In 1400 European medical practices were not as good as those of ancient Greece, but the Chinese were already familiar with distillation, the use of mercury and iodine, and vaccination for smallpox.

At the dawn of the fifteenth century, when the work of Prince Henry the Navigator was still in the future and the voyages of Columbus were unimaginable, the Chinese were engaged in overseas commerce with the coastal states of Africa. They had large seaworthy ships with watertight compartments and knew how to use the compass. Looking at this, our fifteenth-century futurist might have said it was only a matter of time before some farsighted Chinese mariner turned toward the other horizon and found himself stumbling across the Americas. The futurist might have noted, too, that the Chinese would have had the political capacity to take advantage of his discovery. Early fifteenth-century Europe was a collection of warring monarchies in which leaders were chosen by a law of hereditary succession or victory in war, but China was a unified polity with a trained civil service.

If the trends apparent in 1400 had continued, history would tell of Chinese traders in Lisbon rather than Portuguese sailors in Canton, and the formative influences on the evolution of modern civilization would have been primarily Oriental. But those trends never materialized. First Western Europe and then the United States took a lead over China. Western technology grew by leaps and bounds, and Chinese technology stagnated. China somehow failed to capitalize on the advantages it enjoyed at the dawn of the fifteenth century. The dawn of the twenty-first century finds it struggling to catch up with the countries of the West.

So the question we want to ask our fifteenth-century futurist is, "What happened to China?" How did it happen that the Chinese were surpassed by civilizations less advanced and by nations poorer than their

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own? The question is important because the answer is a warning to modern Americans.

Blame Institutions?

In *How the West Grew Rich*, Nathan Rosenberg and L.E. Birdzell, Jr., put the blame on Chinese political institutions. Progress, they argue, is the result of innovation, and Chinese officials had nothing to gain from innovation. The government of fifteenth-century China was like every other government in its concern for maintaining a balance among the various interests that kept it in place. Chinese officials resisted anything that threatened to upset this balance. In the West, on the other hand, the rulers' struggles for power over a feudal nobility and later for the domination of Europe gave them good reason to favor any innovation that might lead to an advantage over their rivals. In nineteenth-century America, competition among state and local governments inhibited the tendency toward innovation-stifling regulations.

The fifteenth-century Chinese suffered from no inhibitions of this kind. China was a unified and centralized empire. It faced no serious threats from beyond its borders. Chinese officials had every reason for hostility toward anything that might upset the status quo from which they drew their power and security. Commercial, organizational, and technological innovations were nipped in the bud or left to wither on the vine. Like the air in a closed room, the Chinese economy and Chinese society became stale because Chinese leaders were unwilling to open any windows to the fresh air of change.

That is the thrust of the institutional argument, and there is much to be said for it. The dominant ambition of the Ming dynasty was the creation of a rational social and political order that subordinated every aspect of life to central control. When Yung-lo came to the throne in 1403, he had at his disposal a civil bureaucracy, a centralized military hierarchy, and a hierarchy of "censors" who toured China and reported back to the emperor on the state of affairs.

The legal codes of earlier dynasties were replaced by detailed regulations addressed specifically to the demands of the time. Local administrators were chosen on the basis of their performance in competitive examinations, ultimate control over which was exercised by the imperial court. Officials were prevented from entering into collusive arrangements with relatives and friends through a "law of avoidance," which decreed that a man could not serve in his native province. This also hindered the development of regional power centers and the appearance of localized patriotism.

Political power gravitated toward the imperial palace. Resting theoretically in the hands of the emperor, it fell in practice to scholar-officials and the eunuchs of the Inner Court, who became a separate echelon of administration. The members of the various cliques hated their opponents, struggled to have persons from their own camp appointed to high positions, and brought accusations against office holders from the other factions. The only things about which they agreed were their hatred for each other and their opposition to anything new. Early in the Ming era it became illegal even to wear foreign styles of clothing. The mandarins wanted the world around them to remain as it was, so they could devote themselves to conquering their opponents within the administration.

Weaknesses in the Institutional Hypothesis

The institutional hypothesis seems therefore to rest on solid ground. China's central government had both the motivation and the means for putting an early end to every experiment with anything new. On the other hand, as Edwin Reischauer and John Fairbank once observed, the imperial administration was thinly spread over a vast population.[1] It could not have enforced policies that the mass of the Chinese seriously opposed. The mandarins could not have held their country back if the people they ruled did not sympathize with their hostility to the unfamiliar.

The Chinese population included large

Innovation is the work of individuals. When it occurs in large institutions, it is always because it has been championed by a person once described by James Brian Quinn as "obnoxious, impatient, egotistic, and perhaps a bit irrational in organizational terms."

and powerful segments that would have had much to gain from innovation. Rosenberg and Birdzell point to merchants as the source of the commercial innovations that began to transform Europe at exactly the time China began to stagnate. China also had merchants, yet they did nothing to modernize her economy. If successful, a merchant expressed his submission to the ruling orthodoxy through the purchase of a college degree. He would then settle down to become a part of the local gentry. His son would attend one of the academies, do his best with a long series of examinations on the Chinese classics, and hope to rise to a position of prominence in the government. No one would have thought to suggest that the boy should follow in his father's footsteps. It is difficult to avoid the conclusion that although the merchant had much to gain from social and economic innovation, he endorsed it no more strongly than did the members of the imperial court.

Again, there were men like Cheng Ho, who in 1405–07 went out with a fleet of 62 ships and 28,000 men and traveled as far as India. The feat was repeated in 1407–09 and again in 1409–11. Other voyages made it as far as east Africa, Aden, and the Persian Gulf; in 1433 the Chinese reached Hormuz. The rulers of Palembang, Sumatra, and Ceylon were brought back to Nanking, and with them came ostriches, zebras, and giraffes. A few Chinese made it all the way to Mecca.

In 1433, the imperial government decreed an end to such explorations. It is probably correct to explain this decree as the result of the central authorities' antipathy for the new and unfamiliar. Less easy to explain is the great explorers' readiness to consent meekly and either return to or remain in China. Once again, those to whom a new approach might have promised a great deal seem not to have endorsed it any more strongly than those to whom it promised nothing.

The central authorities' hostility toward new ideas is therefore less than a complete explanation for China's failure to capitalize on the technological and commercial advantages it enjoyed at the dawn of the modern era. Even allowing for the strength of the institutional hypothesis, we have still to address the question of the value system that kept the institutions in place. It might be argued, in fact, that the question about values should come first. Institutional policies cannot rest on thin air. If they are successful, it is because they somehow appeal to the ideals of those who submit to them.

Values and Progress

Innovation is the work of individuals. When it occurs in large institutions, it is always because it has been championed by a person once described by James Brian Quinn as "obnoxious, impatient, egotistic, and perhaps a bit irrational in organizational terms."[2] Innovation, say Rosenberg and Birdzell, is "a revolt against convention"[3]: it is what happens when an individual comes up against an old familiar problem and refuses to deal with it in the old familiar way.

At the root of such a refusal is a confidence in oneself as the source of new solutions. As I have observed in another context, if necessity is the mother of invention, the other parent is an inner sense of one's capacity for measuring up to necessity's stern demands.[4] A society that fails to inculcate widespread convictions with regard to the creative potential of individuals is a society on its way to stagnation. China failed to live up to the promise of the early fifteenth century because the Chinese lacked faith in themselves as individuals.

There had been a time in their history when that was not true. The period of the Eastern Chou (771 B.C. to 221 B.C.) seems to have been the great age of Chinese self-reliance. It was also, not surprisingly, the great age of Chinese growth and "The Golden Age of Chinese Thought."[5] It was during this period that Chinese technology and commercial arrangements surpassed those of the West. It was an age of memorable individuals: wise men, heroes, and scoundrels.

Early in this period there appeared a rising class of commercial traders, whose attempts to make a place for themselves disturbed the traditional aristocracy. Intellectuals whose names are now forgotten took the side of the aristocracy and set forth the theory that society consisted of four classes, which in descending order of importance were warrior-administrators, peasants, artisans, and merchants.[6] K'ung-fu-tzu (551–479 B.C.), a scion of the lower nobility, was thinking of this doctrine when he taught that men must accept their place in a society of fixed authority: "Let the ruler be a ruler and the subject be a subject."[7]

None of what the rising classes may have said in reply survived the "Burning of the Books" in 213 B.C. The Chinese learned to share Confucius's reverence for the idealized past and to follow his advice for shaping the chaotic present in its likeness. They practiced *cheng ming*, "the rectification of names," which means they tried to make reality fit the theories. By the beginning of the fifteenth century they had given up every thought of advancing by means of original ideas or personal creativity. The method was rather, as in the case of the merchant's son, to pass a series of examinations in which one demonstrated his knowledge of the ancient teachings. There was no place for new contributions from creative individuals. Neither new contributions nor creative individualism had a place in the Chinese scheme of things.

In Europe, meanwhile, the great age of individualism was just beginning. The activities of explorers and merchants were mirrored in the artistic creations of the Italian Renaissance. Philosophers like Nicholas of Cues wrote the first lines of a declaration of independence from the Aristotelian doctrines of the High Middle Ages. More than a century before anyone had heard of Copernicus, Nichole Oresme said that the earth revolved around the sun. John Wycliffe in England and John Hus in Bohemia preached that the individual could come into direct contact with God without the mediation of the institutional Church. Hus was burned at the stake, but his death was not enough to imprison the new spirit that was loose in the world. Quite as much as the institutional arrangements discussed by Rosenberg and Birdzell, it was this spirit that enabled the West to surpass China within three centuries.

The Source of Institutional Paralysis

The United States is blessed with a government bureaucracy infinitely more complex and organized than anything imaginable in fifteenth-century China. Individual initiative is stifled with an elaborate web of finely detailed rules that spell out everything in advance. Every imaginable violation is specifically forbidden, and the person who knows the rules can find a prohibition against almost anything. One of my MBA students works at a military logistics center. "The only way to avoid being written up," he says, "is to not do anything. No matter what you do, there will be some inspector who knows about a regulation you've violated. I have to cheat to do my job."

The symptoms are evident also in the operations of large businesses, which are becoming increasingly centralized. Decisions are made at the upper levels, and people at lower places in the hierarchy are expected simply to carry them out. Another of my MBA students used to be the purchasing manager for the local outlet of a national retail chain. As part of a company-wide effort to "increase accountability," responsibility for purchasing decisions was moved to company headquarters in Dallas. My student was left in charge of the local sales effort. She soon found herself with a collection of ladies' clothes in styles and colors that, while undoubtedly popular in Dallas, attracted little interest in Macon, Georgia. And who was blamed? Suffice it to say that it was not the Dallas buyer who ordered the wrong things.

The underlying assumption, in the case of both the federal government and the centralized business, is that the person on the job cannot be trusted to do the right thing. In a press conference in May 1962, President John F. Kennedy made what was ostensibly an appeal for bipartisanship by arguing that modern problems are primarily technical rather than political and far "beyond the comprehension of most men."[8] But it was not really so much an appeal for bipartisanship as an appeal for rule by people with a narrowly limited expertise. It was an appeal for bureaucracy. Kennedy was saying that we dare not entrust the running of the world to the judgment of the man on the street. We need to have rules—made by the people at the top.

The modern insistence on rules is like the fifteenth-century Chinese emphasis on tradition in its disrespect for the individual. It asks not for creativity but compliance; not for originality but obedience. It does not want the man on the spot to think for himself and come up with a unique solution. It wants him to do things by the book.

The result is that little gets done. Philip Howard has observed that modern government accomplishes virtually none of what it sets out to do. Large commercial organizations that fail to capitalize on the intelligence of their employees, as Peters and Waterman demonstrated in *In Search of Excellence*, are almost equally ineffective. Institutions paralyze themselves by stifling the self-confident creativity of the individuals of whom they are composed.

The Decisive Importance of Values

F.A. Hayek once observed that detailed regulations are important primarily because they destroy the self-reliant attitudes of those whose lives they are intended to direct. But the converse argument is equally persuasive: detailed regulations are the result of a disappearing faith in the power and creative potential of the individual. JFK's statement about modern problems being beyond the understanding of ordinary men drew protest from neither the press nor his opponents, which suggests he was giving voice to a sentiment that was already widely held. The 1960s' expansion of federal programs, bureaucracies, and rules was a response to this sentiment, not the cause of it. Similarly, it was only after long instruction in the Confucian classics that the Chinese people finally gave up their right to think for themselves and surrendered to the complete bureaucratization of their society.

This suggests that talk about reforming the government, while undoubtedly well meant, is wide of the mark. A nation gets the government it deserves. Political institutions give expression to widely held convictions. The world that the Chinese created for themselves in the centuries after 1400 was primarily the result of their ideas. The world that Americans create for themselves in the future will be the result of their beliefs about the power, potential, and rights of the individual. If those are reaffirmed, creative persons will arrive at new solutions for the social, economic, and technological problems that confront us. If they are denied, America's bright prospects at the dawn of the 21st century will be of as little avail as China's bright prospects at the dawn of the fifteenth. □

1. Edwin O. Reischauer and John K. Fairbank, *East Asia: The Great Tradition* (Boston: Houghton Mifflin, 1960), pp. 316–17.
2. Quoted in Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence: Lessons from America's Best-Run Companies* (New York: Harper & Row, 1982), p. 206.
3. Nathan Rosenberg and L. E. Birdzell, Jr., *How the West Grew Rich: The Industrial Transformation of the Modern World* (New York: Basic Books, 1987), p. 261.
4. Harold B. Jones, Jr., *Personal Character and National Destiny* (St. Paul, Minn.: Paragon House, 2002), p. 49.
5. Reischauer and Fairbank, p. 53
6. Ibid., p. 55.
7. Ibid., p. 70.
8. Quoted in Herbert Schlossberg, *Idols for Destruction* (Wheaton, Ill.: Crossway Books, 1990), p. 294.

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AUGUST 2002

Tragedy in the Judicial Commons

by *David N. Laband*

If you think that people who have been exposed to asbestos have the right to sue asbestos manufacturers for damages . . . or that individuals exposed to mercury or lead should be able to sue . . . or that everyone who has been X-rayed by doctors or dentists should be able to sue . . . or that anyone with a silicone breast implant, no matter how healthy and happy, should be able to sue . . . or that everyone who lives downwind from a hog farm or cigar smoker should be able to sue—sadly, you are correct.

For thousands of truly injured victims or their families, this state of affairs has not been good. Its genesis lies in the recent loosening of the legal standard plaintiffs must meet to be granted legal standing in tort cases. Although many may perceive this change to be trifling and benign, in fact it reduces the likelihood that parties with demonstrable injuries will be compensated.

Historically, judicial recognition of legal standing required a plaintiff to demonstrate: (1) that he was injured, (2) that the injury was caused by the defendant, and (3) that the court was in a position to effect a remedy. That is, a plaintiff was required to demonstrate actual injury, not perceived injury or possible future injury. However, this sensible common-law requirement was cast aside by the U.S. Supreme Court on January 12, 2000, in *Friends of the Earth v. Laidlaw,* in favor of a standard that permits a plaintiff to claim possible injury. In *Laidlaw,* the plaintiffs' concern that water was polluted and their belief that the pollution had reduced their property values was regarded by the Court as sufficient to indicate injury in fact.

Now we are seeing the utterly predictable consequences of the new legal standard: a massive increase in tort actions brought by healthy individuals seeking "damage" awards. The wealth of a target firm is potentially available for distribution to many times more uninjured than injured parties. As the number of uninjured parties seeking judicially arranged wealth transfers for unproven damages increases, it becomes less likely that individuals with proven injuries will be able to secure the compensation they deserve—a tragedy of the judicial commons.

Garrett Hardin (*Science,* 1968) introduced us to the tragedy of the commons. Hardin developed a stylized example of a communal pasture, open to all comers. There are no private property rights to the pasture, or rules, customs, or norms for shared use. In this setting, shepherds seeking to maximize the value of their holdings keep adding sheep to their flocks as long as doing so adds an increment of gain for their particular flocks. Further, they graze their sheep on the commons as long as the pasture provides any sustenance. Ignorant of the effects of their individual actions on the other shepherds,

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the shepherds collectively (and innocently) destroy the pasture. As Hardin concludes: "Therein is the tragedy. Each man is locked into a system that compels him to increase his herd without limit—in a world that is limited. Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in freedom of the commons."

Man's exploitation of the judicial commons is perfectly analogous to his exploitation of natural resource commons. There is a limited amount of life-enhancing greenery available. If it is not overgrazed, the greenery will grow and provide nourishment that can sustain indefinitely a stable population of consumers. Since consumption of the greenery by one individual comes at the expense of consumption by all others, each individual who is granted access has a strong private incentive to consume as much as possible before the green is consumed by others. Restricting access to those with demonstrable and justifiable claims helps prevent overgrazing. Consequently, increasing the number of citizens with access to the target green increases the likelihood that it will be wiped out by the extent of the depredation, leaving no one able to consume green from that source in the future.

Exploiting the System

As reported in a lengthy article in the April 25 *Wall Street Journal*, this is exactly what has happened with asbestos litigation:

> In the past two years, desperately ill plaintiffs have been eclipsed by a huge and growing number of healthy people seeking awards for possible future illnesses. Since January 2000, the wave of less-severe claims has pushed at least 20 companies that sold or used asbestos products into bankruptcy protection. . . . The upshot: There are fewer unencumbered companies to pay claims. The sickest asbestos victims are now collecting far less than comparable victims did in the 1990s. And the whole asbestos mess, which was supposed to be largely resolved by now, instead is spreading and could drag on for decades.
>
> The morass has increasingly pitted the interests of mortally ill plaintiffs against those who are much healthier. Dallas lawyer Peter Kraus, who files asbestos suits only for cancer victims, condemns rivals who represent those who aren't sick. "They're sucking the money away from the truly injured," he says.

The problem, of course, is that not everyone who has been exposed to asbestos, mercury, lead, tobacco smoke, or other putative environmental toxin de jure will be harmed in fact. Yet by granting legal standing to sue to parties who cannot demonstrate actual harm, we have opened the legal pasture to a veritable flood of new grazers who care only about the opportunity to feed on the delicious green, not about the harm they inflict on others whose claims may not only be more pressing but also have real merit. The tragedy of the judicial commons, then, is that by granting legal standing to those with unproven harm we destroy the most fundamental justification for tort actions: the social imperative for harmed parties to be compensated fully by those who are responsible for the injury. □

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by Burton Folsom, Jr.

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Economics

Myths of the New Deal

A persistent myth in American history is that Franklin Roosevelt and the New Deal created jobs during the Great Depression and helped the poor "forgotten man" who was thrown out of work. Almost every American history text echoes this myth in its pages. Irwin Unger, for example, who won a Pulitzer Prize for a book on economic history, recounts it this way in his textbook *These United States*: "By 1935 millions of Americans had reason to thank the New Deal and the Democratic party for their compassion and help. Creative men and women were grateful for the opportunity under the WPA to do productive work. . . . Unemployed factory workers could thank the president for the relief that kept them from hunger."

Let's look carefully at the claims that the New Deal created jobs and that these jobs especially helped poor people. It's true that the New Deal, through the WPA, the PWA, and the CCC, did put many Americans to work building bridges, paving roads, and planting trees. But this didn't necessarily create jobs. As Henry Hazlitt reminded us in *Economics in One Lesson*, "Every dollar of government spending must be raised through a dollar of taxation." Hazlitt elaborated, "[F]or every public job created by [a] bridge project a private job has been destroyed somewhere else." In the textbooks we see the bridge, the workers toiling, and government spending seemingly creating jobs. "But there are other things that we do not see," Hazlitt noted, "because, alas, they have never been permitted to come into existence. They are the jobs destroyed by the $10 million taken from the taxpayers. All that has happened, at best, is that there has been a *diversion* because of the project." No wonder unemployment during FDR's second term was almost as high as it was when he took office.

The New Deal, however, did more harm than just shuffling workers out of textile mills and car factories and into government jobs. Because of the inevitable political manipulations, the tax dollars collected during the New Deal were skewed in their distribution. Who got what government money depended not necessarily on need, but on where you lived, whom you knew, and which party you supported.

The whole welfare program was often a grab bag for whichever politicians could make the strongest case for bringing federal money to their states. For example, the first federal relief program, started under President Hoover and expanded by FDR, put up $300 million. Illinois received $55.4 million—almost 20 percent—and Massachusetts got zero. In other words, if you were destitute, but lived in a Democratic congressional district in Illinois, you had a much better chance of receiving federal help than if you were similarly destitute but lived in a Republican district in Massachusetts.

The politicization of government spending needs more emphasis. Those politicians (for

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example, Boss Kelly in Chicago and Boss Pendergast in Kansas City) who were Democrats and supporters of Roosevelt received disproportionately large amounts of government jobs for their districts. And those people who received these jobs often had to prove their loyalty to the Democratic party. In 1938 in 32 counties in Kentucky, WPA workers had to pledge to support Alben Barkley, the Democratic Senator, or lose their jobs. Pennsylvania Democrats were even bolder. The Democratic chairman of Indiana County, Pennsylvania, sent the following letter to a woman employed as a government worker on a sewing project:

Dear Madam,
I am very much surprised that you have not responded to our previous letter requesting your contribution in the amount of $28.08 to Indiana County Democratic Campaign Committee, as I was sure that you appreciated your position to such an extent that you would make this contribution willingly and promptly. I must, however, now advise you that unless your contribution in the above amount is received promptly it will be necessary to place your name on the list of those who will not be given consideration for any other appointment after the termination of the emergency relief work, which as you know will terminate in the near future.

Whether the "forgotten man" was helped by the New Deal, then, often depended on how willing he was to use his time and the little money he had to help Democratic candidates.

Hardships Created

What about the story the textbooks neglect, the story of how the tax dollars were extracted so that they could be sent to Boss Kelly in Chicago or to Indiana County? In a real sense, the New Deal created special hardships for the "forgotten man." During the 1930s Roosevelt shifted the tax burden from hitting the rich almost exclusively (through income taxes) to hitting mainly middle- and lower-income groups (through excise taxes). In 1929, the income tax only affected the top 2 percent of earners; they paid almost $1.1 billion in income taxes that year. Excise taxes, which were mainly imposed on tobacco, were less than half that, or $539 million. In other words, if you didn't smoke and you were not a corporate officer, what money you earned was yours to keep.

During the 1930s (starting under Hoover and expanded by FDR), a host of new excise taxes were passed on such popular consumer items as alcoholic beverages, movie tickets, telephone calls, bank checks, telegrams, gasoline, cars, car tires, and even grape concentrates. In 1936, after FDR helped raise the top income-tax bracket to 79 percent, the revenue collected from income taxes dropped to $674 million, as rich investors withdrew their capital from taxable investments. The excise taxes, which hit the middle- and lower-income groups with full force, were over $1.5 billion. These new excise taxes, much more than income taxes, were helping fund the New Deal programs. In other words, the "forgotten man" who pumped gas into his car and drove it to a theater to smoke a cigarette and watch a movie paid four new taxes (and one old one) to pay the WPA worker in Chicago to build a bridge and the wheat farmer in Kansas to take his land out of circulation (so that the farmer could then receive a higher price for wheat, which translated into more expensive bread for the "forgotten man").

When we study why the New Deal failed, we can better appreciate the alarm of James Madison in Federalist No. 51: "In framing a government . . . you must first enable the government to control the governed; and in the next place oblige it to control itself." □

IDEAS ON LIBERTY
AUGUST 2002

Free-Market Medicine

by Larry Van Heerden

The health-care system in the United States is beset by problems. After years of feeling shortchanged by managed care, doctors and hospitals are demanding and getting greater compensation; the elderly (under Medicare) have no prescription coverage; and many people find health insurance of any kind unaffordable. Managed care, which was hailed as the answer to spiraling costs, is under legislative and legal assault, while health-care costs are rising at double-digit rates. Proposed solutions range from a Canadian-style single-payer system to medical savings accounts to staying the course with managed care.

First, before discussing these issues, some characteristics of the health-care system that get little attention:

Inefficiency. In 1999, health-care costs in the United States totaled about $1.2 trillion (13 percent of GDP). One measure of the medical industry's inefficiency can be gleaned from examining the experience of a 2,000-patient clinic in Renton, Washington. Using a concept known as SimpleCare, the clinic has been able to reduce the price of outpatient care by requiring patients to pay in full at the time they are seen. The clinic charges 30–50 percent less than what a regular clinic would charge for such things as office visits and X-rays. The savings come from bypassing the bureaucracy: No staff are needed to get managed-care approval, file endless claims, or coax payment from insurance companies. (Patients are encouraged to get low-cost insurance to cover catastrophic illness.)[1]

Preventable Disease. Tobacco use, diet, obesity, and lack of exercise can be linked to nearly two-thirds of cancer deaths in the United States.[2] A proper diet can substantially lower high blood pressure.[3] Sedentary habits account for a substantial portion of deaths due to coronary artery disease, type 2 diabetes, as well as loss of functional ability in older adults.[4] Osteoporosis can be prevented by not smoking, consuming calcium and vitamin D, engaging in weight-bearing exercise, limiting alcohol and caffeine consumption, and (for some women) taking supplemental estrogen.[5] According to Dr. Christopher Fanta, head of the asthma treatment program at Brigham and Women's Hospital, "Asthma is considered the most common preventable cause of hospitalization."[6] Fewer than a third of women of childbearing age take the vitamin folic acid, which has been shown to prevent disabling birth defects.[7]

Although making lifestyle changes that prevent disease is not easy, the fact remains that consumers have neither the financial motivation nor the access to information that would allow them to select doctors who have a proven track record in educating and motivating their patients.

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Unnecessary Treatment. Studies have shown that various medical procedures and regimens are overused. Examples include treatment for Lyme disease,[8] back surgery,[9] myringotomies (insertion of tiny tubes to prevent ear infection),[10] hysterectomies,[11] and laparoscopic gallbladder and anti-reflux surgery.[12] A common assumption is that treatment is driven by medical necessity. However, in a series of studies, Dr. John E. Wennberg found that the amount of health care consumed by individuals is highly dependent on where they live, on the capacity of the local health-care system, and on the practice styles of local physicians.[13]

Poor Performance. A substantial number of physicians are falling short in the practice of medicine. Examples include poor control of hypertension,[14] potential errors made by sleep-deprived interns,[15] lack of cardiac stethoscope proficiency,[16] under-use of beta blockers for preventing subsequent heart attacks,[17] inadequate control of cholesterol,[18] under-use of blood-clot dissolving therapy,[19] inadequate pain management in cancer patients,[20] and poor communication with patients.[21]

Imperfect Knowledge

Medical Uncertainty. Standardized algorithms and guidelines based on scientific evidence have shown themselves to be successful in treating disease and saving lives. However, in a 1997 article Dr. David Mirvis made these points: Uncertainty remains a fact of life in medical practice. Physicians don't know the full extent of a patient's disease or the best single approach to diagnosis and treatment. Biological variability is a major challenge. The same condition may result in different outcomes in different patients due to genetic predispositions, co-morbidity, or other factors. Knowledge of the characteristics of disease and the effects of therapies is far from complete. Diagnostic tests are imperfect and many treatments are based not on scientific principles but on learned practices, assumptions, and other nonscientific formulations. Much uncertainty results from lack of knowledge of the outcomes of what physicians do. A consequence of the high level of medical uncertainty is the existence of a range, rather than a single point, of acceptable practice. This range is broad enough to allow substantial variations in practice patterns.[22]

State Mandates. A 1989 study found that states have passed more than 700 statutes requiring health insurers to cover specific providers, diseases, or high-risk individuals. Mandated benefits run the gamut from hair-transplant and acupuncture coverage to mental health and maternity coverage.[23] A follow-up study, published in 1999, found that 20 to 25 percent of uninsured Americans lack coverage because of benefit mandates. The proliferation of mandated benefits has increased the cost of health insurance, disproportionately hurting employees who work for small businesses, which can't afford to self-insure and thereby avoid the mandates.[24]

Bone marrow transplantation, for example, is a complex, expensive ($60,000), and painful experimental treatment for late-stage breast cancer, which places the patient at high risk for infection. Beginning in the early 1990s, after preliminary indications of promising results, lawsuits and political pressure led to legislation in ten states, forcing insurers to cover the procedure. Such laws made it difficult to recruit women into clinical trials because women did not want to take the chance of being "randomized" into a control group. By 1999, 5,000 women a year were undergoing transplants nationwide. By the spring of 2000 it became clear that such transplants were no more effective than chemotherapy alone at standard doses.[25]

Income Tax Distortion. Many writers have pointed out that for the 90 percent of people who obtain their health insurance through their employers, the tax-exempt status of employer-provided health insurance encourages a huge overconsumption of health insurance and hence overconsumption of health-care services, compared to how people would spend their money in the absence of tax exemption.[26] For someone in a 33 percent tax bracket, for example, $2 of

To achieve the goal of cost-effective care, consumers need to choose at the level of the individual provider and medical procedure, and face both the costs and benefits of their choices.

taxable income turns into $3 of tax-free income, which can be spent on health insurance without any change in disposable income.

Stiffing the Piper. Health-care costs have risen dramatically in the last few decades, while patients' out-of-pocket share of those expenses has declined: In 1960 patients paid, on average, 20.8 percent of hospital costs and 61.6 percent of physician costs. By 1999 those figures had dropped to 3.2 percent and 11.4 percent, respectively.[27]

Failed Prescriptions

Managed care, which came into prominence in the 1990s, was initially successful at holding down health-care costs. However, doctors, hospitals, and patients were soon fighting back, and the inherent weaknesses of third-party control were revealed: By requiring patients to pay no more than a token copayment, managed care removes the incentive to economize and undermines patient control of health-care encounters. The central tenet of managed care is that consumers are ill-equipped to deal directly with health-care providers; managed-care organizations must act as intermediaries, handling the complexities of medical payment and quality assessment, leaving consumers to make their wishes known by choosing from a list of rival health plans provided by their employers. This is an anemic form of competition, which is as effective in securing cost-effective health care as a passenger would be in arriving at his destination by telling a blindfolded driver when to step on the accelerator, hit the brake, or turn the steering wheel. To achieve the goal of cost-effective care, consumers need to choose at the level of the individual provider and medical procedure, and face both the costs and benefits of their choices.

A more fundamental problem with managed care is that many medical decisions fall into a gray area where definitive scientific judgment cannot be rendered for individual cases. This gray area is the subject of a tug of war between patients and managed-care administrators. Patients, many of whom are being treated for diseases partly of their own making, want no expense to be spared in their treatment, since someone else is footing the bill. Managed-care organizations, on the other hand, make money (or stay solvent) by limiting the amount of care rendered to subscribers. This gray area is large enough to make the difference between financial success and failure for the organizations and large enough to give patients who are denied care plenty of ammunition when seeking legislative and legal action against those organizations.

A Canadian-style single-payer health care system is nothing more than a massive managed-care arrangement with government bureaucrats in control and without a meaningful appeals process for care denied or delayed. The same problems inherent in private managed care arise in a government-run system. Moreover, as a rule, government programs cannot satisfy consumer demand. Since all goods and services are finite and require human effort to produce, rationing is unavoidable. Only the method of rationing is subject to choice. The free market rations on the basis of income; the method of rationing is the familiar pricing system. When this system is circumvented by the government to provide a "free" good or service, all constraints on demand are removed, making inevitable the explicit rationing of supply by some government authority or the disappearance of the good or service altogether. Regarding universal access to health care, it should be noted that before government intervention in the health-care system, a variety of private organizations provided free medical care to the poor.[28]

Medical Savings Accounts

Medical savings account (MSA) health plans were introduced at the federal level as a demonstration project in 1996. The central feature of these employer-provided plans is a savings account controlled by the insured individual and used to pay for routine health care. An accompanying low-cost catastrophic insurance policy covers health-care expenses that exceed the high yearly deductible. MSA plans enjoy the same tax advantage as other employer-provided health insurance. Although unspent MSA funds roll over from year to year, they can only be spent on health care.[29]

The high deductible associated with MSA health plans leads to substantial savings in administrative costs because many low-dollar claims for routine medical care are never filed. In addition, having patients spending their own money on health care makes them more prudent consumers, which means less spending on unnecessary health care services.

However, MSA health plans have drawbacks. They perpetuate the income tax distortion of health-care spending (discussed above) and are subject to legislative manipulation: Under current law, MSA plans are hamstrung by limited availability and growth, unnecessary complexity, and design features that put them at a disadvantage in the marketplace.[30] Finally, MSA critics argue that the very idea of government direction or control of consumer spending is inimical to a free market.

The Solution

The solution to the problems discussed above is to treat health care more like other products and services. This means repealing all tax exemptions for health insurance and health-care spending, enacting a compensating tax cut unrelated to individual health-care consumption, eliminating all health-insurance mandates and other regulation, and letting the market sort things out.

The market would probably respond to such deregulation the same way it did before government intervened in health care: As early as the 1940s commercial insurers included deductibles and copayments in their sickness insurance offerings and excluded many elective treatments from coverage, all in an effort to restrain demand for unnecessary and costly medical services. Commercial insurers also used actuarial risks to calculate premium payments and paid individual subscribers, instead of hospitals.[31] Giving patients a substantial financial stake in the cost of their care will make them interested in the cost-effectiveness of that care.

A second part of a market-driven solution would likely be giving patients access to information comparing the performance of competing physicians, just as consumer magazines provide information on competing products. To do this, independent organizations might determine what physicians accomplish in a clinical setting by measuring the health status of patients before and after treatment. To be cost-effective, such measurement would probably make use of electronic medical records.

Employees on expense accounts spend much more freely than when making purchases with their own hard-earned money. Similarly, patients consume medical services with little regard for cost when someone else is paying for them. In a climate of unnecessary medical care, preventable disease, and medical uncertainty, insulating consumers from the cost of choices they or their doctors make guarantees inefficiency and runaway costs.

Cost-sharing refers to the requirement that patients bear a significant share of the cost of all medical care rendered in their behalf. It does not refer to paying insurance premiums (which do nothing to constrain health-care consumption). The RAND health-insurance experiment showed that patients who have to pay for part of their care cut back substantially on the use of medical services.[32] While the market will fig-

In a health-care system that includes patient cost-sharing, measuring the performance of physician and patient jointly makes sense. No third-party coercion would be needed; a patient's financial stake in the cost of care would serve as a necessary and sufficient constraint on his behavior.

ure out the right mix of deductibles and copayments, it seems likely that as an individual's yearly health-care expenses rise, his out-of-pocket share of new health-care expenditures will decline. However, from an economic point of view, it would be optimal if no one's out-of-pocket share of medical expenses ever dropped to zero, giving every consumer a stake in the cost of every medical visit, test, procedure, hospitalization, or prescription drug he consumes. An immediate effect of such cost-sharing would be to give physicians a newly found interest in cost control for the benefit of their patients and as a means to attract business.

Measuring Physician Performance

In many cases, poor physician performance (discussed above) is due to lack of feedback; in the absence of evidence to the contrary, it is natural to assume that one's performance is adequate or even superior to that of one's peers.

In an attempt to control costs, managed-care organizations have been measuring the process of health-care delivery, rather than identifying physicians who keep their patients healthy. In a newly deregulated market, one can imagine managed-care organizations dropping their review and oversight functions in favor of collecting and disseminating (for a fee) information on the performance of physicians (and eventually hospitals). If such a service were to periodically measure a patient's health status during the course of treatment, the change in these measurements, collected for a sufficient number of patients (and adjusted for severity of illness, co-morbidity, and patient demographics), could be used to measure doctors based on the results they achieve in their patients.

Assessing outcomes is appealing because of its narrow focus: As long as a patient's health status can be objectively measured, none of the intervening steps that are part of medical treatment need be evaluated. Concern about the number and type of tests performed, improper use of high-tech equipment, medications prescribed, or the appropriateness of the treatment chosen would be superfluous. Poor choices by a physician in such matters would either be reflected in higher costs or worse outcomes than those of other physicians.

For preventive medicine and most chronic diseases the performance of physicians is inextricably linked to patient compliance and cooperation. As a result, the performance of physician and patient would probably have to be measured jointly. Nonetheless, in the context of a system controlled by any third party, measuring a physician based on the behavior of his patients would likely be unacceptable to the marketplace.

However, in a health-care system that includes patient cost-sharing, measuring the performance of physician and patient jointly makes sense. No third-party coercion would be needed; a patient's financial stake in the cost of care would serve as a necessary and sufficient constraint on his behavior.

Doctors with performance scores showing a low-key approach to smoking cessation, for example, would attract patients with no intention of quitting. Such doctors would suffer no financial penalty other than that brought on by the indifference of smokers looking for a more aggressive approach to their problem. Moreover, doctors with low cessation scores who have high scores in other areas would attract nonsmokers who have no reason to care about quitting.

Meanwhile, patients with a desire to quit smoking, lose weight, improve their diet, or begin an exercise program could choose physicians with performance scores showing a successful track record in preventive medicine. And doctors who felt certain patients weren't living up to their end of the bargain (regarding compliance with treatment plans) would be free to refer them elsewhere. Thus the goals of physician and patient would be in alignment.

Indicators to be measured would probably be those known to be closely related to good health and closely related in time to physician intervention. Examples of possible indicators are cholesterol levels, blood pressure, blood-glucose levels, and patient satisfaction.

The government would play an important role in establishing and enforcing a patient's right to control his medical information. Beyond that, patient privacy would be protected because the measurement system would not need identifying information.

The health-care market has failed to produce high-quality, low-cost medicine for two reasons: Consumers are insulated from the cost of medical care by third-party payers, and information on the performance of competing physicians is not available. Fixing the incentives and providing consumers with physician performance data will cause unnecessary surgery to decline, physician performance to improve, disease prevention to increase, and health-care efficiency to rise. □

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IDEAS ON LIBERTY
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The Inhumanity of Population Control

by Christopher Lingle

Once again the Bush administration has come under fire for a decision that runs counter to conventional wisdom. Undeterred by widespread denunciations after opposing the Kyoto Protocol, it announced that funds appropriated by Congress to the United Nations Population Fund (UNFPA) would be cut back. With all the hue and cry about the dangers of population growth in the world, it would seem that an agency that supports reproductive health in developing countries should be a sacred cow. Even so, it is fair to ask whether this indicates a sort of bullheadness or insensitivity on the part of the President and his team or whether many of the shapers of world opinion have their facts wrong.

Unfortunately, this issue has become wrapped up with the abortion controversy. Both sides have sought to occupy the moral high ground. For its part, the Bush administration points to the use of UNFPA funds to support compulsory abortions in China. This should be uncontroversial to anyone outside the policy-making corridors of Beijing. It beggars the imagination that pro-choice advocates would support the use of force to require abortions, contraception, or sterilization.

From their side, population planners and reproductive-rights advocates insist that cutting funds will harm the interests of many women, especially in developing countries. Funding cuts are paired with horrific images of millions of unwanted pregnancies, related medical complications, and an unabated spread of AIDS. (See Nicholas D. Kristof's op-ed "Devastated Women," *New York Times*, April 26.)

The Bush administration might have found itself on more tenable ground if it shifted the debate toward the persistent negative image associated with population increases per se. For herein lies a truly prickly question. Neglected in this debate is that having more human beings actually constitutes a net gain. Instead, supporters of population planning (both voluntary or involuntary) start with the assumption that there are already too many of us on our fair earth. And there is surprisingly little dissent to this view. Sharp declines in infant mortality and improved health care have increased life spans and contributed to the population's nearly quadrupling within a century, from around 1.6 billion in 1900 to almost 6 billion in 2000. Worries about a global population explosion brought warnings of worldwide famine and immiseration. Happily, these predictions have not been borne out. One eloquent body of work that should be more widely heeded is that of the late economist Julian Simon, who had a remarkably undismal view of the world. His optimism is best expressed in his book *The Ultimate Resource*. Therein, he identifies human

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beings as being capable of resolving most problems that confront us.

Ignoring the view of thinkers like Simon, political leaders in both India and China were caught in the trap of a negative logic that allowed abusive acts against their citizens in the name of "sound" public policy. Clearly, the forced sterilization and abortions they pursued were a violation of the most basic principles of human dignity. Their actions reflect a disregard for the value-added potential that is inherent in each and every human being. Yet they are obviously not alone. Even conventional economic data calculation reflects a negative bias against population growth.

Consider the calculation of per capita income whereby national income is divided by the size of the population. This means that an additional person will increase the denominator and reflect a decrease in the material well-being of a community. However, a batch of new puppies born to a breeder will increase the numerator and reflect an enhancement in economic conditions. Such an anomaly comes from ignoring the imputed present value of the future flow of benefits from a newly born human.

Despite their likely denials of such, there is an implicit racism in the demands of population-control advocates. Since many Western developed countries have shrinking populations, insistence on limiting population growth involves holding back the numbers of black, brown, and yellow peoples.

Although considerable evidence refutes the dismal view of population growth, it persists. Consider the fact that the areas of highest population density are the most prosperous and often the most hospitable. Amsterdam, Hong Kong, London, Singapore, and Tokyo are prime examples of this. And even though Bombay and Cairo are heavily polluted, they are both certainly more prosperous and productive than the surrounding countryside.

Exaggerated Dangers

Interestingly, advocates of population control are subject to strong personal incentives to exaggerate the dangers. Concocting horrific images of overpopulation allows politicians to lay claim to more resources from taxpayers (whose numbers they paradoxically wish to see increase!). Similarly, "nongovernmental organizations" (NGOs) stand to gain funds by beating the same drum.

It turns out that population growth has internal checks. For example, people who are richer, healthier, and better educated tend to have smaller families. According to U.N. estimates, there will be little growth in the world's population growth after 2100 and the population will be stable at just below 11 billion. This is because the population growth rate peaked at about 2 percent a year in the early 1960s and has been declining ever since. It is now 1.26 percent and is expected to fall to 0.46 percent in 2050. Countries where fertility rates are at subreplacement levels constitute about 44 percent of the world's total population and include many developing countries. On the one hand, high rates of economic development along with rising per capita income has heralded a declining pace of population growth due to rapid decreases in birthrates. On the other hand, it is troubling counterpoint that countries with lower levels of economic development are experiencing a discernible decline in life spans.

Many countries have population profiles that show increased aging. With progressive improvement in life expectancies and health conditions during long intervals of peace, the median age of many populations has increased. With more individuals able to better their lives, it can be said that the overall human condition has improved.

There are other ways to cope with local population growth. One of the simplest would be to allow more open immigration. However, populists mount opposition by invoking the fear of infiltration by terrorist organizations or the dilution of indigenous culture. These claims find eager support among trade unionists who want to keep out other workers who seek to improve their lot. Looking at it from a purely economic standpoint, there is considerable evidence that migration yields net benefits to receiving countries. Incoming migrants tend to be younger and healthier than the receiving population. And their choice to move away from the familiarities of their home country implies a high initiative to work. In all events, most economic migrants take up jobs that locals are unwilling or unable to fill.

The other way to offset the pressures of the peopling of the earth is to take steps to allow higher economic growth. There are various benefits from this. First, increases in average income tend to lead to declining birth rates. Second, higher levels of income provide both the desire and the means to solve a wide range of problems.

The perceived problems of global population growth are failures of governance. Instead of diverting resources toward population control, governments and NGOs should support open immigration and policies that promote economic growth. □

This Month at Laissez Faire Books

Spotlighting books reviewed in this month's issue of Ideas on Liberty.

The Transfer Society:
Economic Expenditures on Transfer Activity
By David Laband & George McClintock
CU8528, Paperback, 80 pages
Price: $8.95

Pharmacracy:
Medicine and Politics in America
By Thomas Szasz
SZ8436, Hardcover, 212 pages
Price: $24.95

In Defense of Free Capital Markets:
The Case Against a New International Financial Architecture
By David DeRosa
EC8420, Hardcover, 248 pages
List Price: ~~$27.95~~
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CAPITAL LETTERS

The Roll of Toll Roads

To the Editor:

I liked Scott McPherson's article ["Private Road to Freedom," April] but was somewhat surprised that he made no mention of the fact that private toll roads were all this country had when roads were first developed. It was only when local governments started to interfere by insisting that certain politically connected "friends" be granted free passage and . . . limiting the amount of toll charged that toll companies started to lose money, eventually causing most to go out of business or into bankruptcy, "forcing" states to take over. This is how government roads came about.

—William Vandersteel
ampower@worldnet.att.net
Alpine, New Jersey

Scott McPherson replies:

Mr. Vandersteel raises some excellent points that only strengthen the one I made in the piece: "Ideally, government would never have been in the road construction business in the first place." The point about local governments' using road construction to help their "friends" is also well taken. When the issue of private roads is raised in the context of legitimate government functions, opponents can always be counted on to say that the interstate highway system was built "for national defense." It is more likely that the interstates were constructed to appease trucking interests. The issue of government road construction's forcing private roads out of operation is another major factor. Like any other endeavor, the private sector cannot adequately compete with government, as it must work for its customers while government can just tap the taxpayer. Eminent domain also allows government to create a situation favorable for its roads over private alternatives. A private road constructor would have to work hard to acquire the land to build his road, while government just takes what it wants. Hardly a level playing field. In the final analysis, it is not at all in question that roads—good, quality, affordable roads—would be in place without government interference.

Private Drug Testing and Freedom

To the Editor:

An excellent article on privacy and I appreciate the info on the Financial Privacy Report [Mark Skousen, "The Right to Be Left Alone," May]. One question, however. How in the world did "Mandatory drug-testing of students and employees is becoming commonplace," without any reference to the constitutional principle of "probable cause" get included? Employment is a private contract and does not involve the government. Although there is no reason to test my employees, some employers that hire for positions of drivers and equipment operators (and other positions, as well) have every right to require tests if it will enable them to reduce accidents, worker comp costs, self-insured medical costs, and liability costs, if they so desire. It is a private contract and the employees can choose to work elsewhere, if the terms are not satisfactory. By the same token, if the tests are too expensive from a cost/benefit standpoint or if enough potential employees do not wish to voluntarily relinquish their privacy for employment, the testing would not be required. This would also hold true if employed by the government.

Unfortunately, government education is, in essence, compulsory so a problem exists for students. However, the same concept would apply to private schools and the policy should be left to the discretion of the schools. The parents and adult students would have a choice as to which schools had what policies and would make their decisions accordingly.

—Doug Davis
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Jacksonville, Florida

Mark Skousen replies:

Well, you do have a point. Drug testing by private companies should be their right without regard to "probable cause." However, I suspect that many companies' policies are mindless imitations of government policies, and that's tragic. How many company officers are aware of the Fourth Amendment and the concept of probable cause? I would suggest that after they are trained in the basics of individual rights, if they still want to impose universal drug testing, then fine, let them do it. But I suspect that fewer companies would do so if they were properly educated in constitutional rights.

Serious about Recycling

To the Editor:

As a libertarian who also recycles, I want to respond to Donald Boudreaux's May column, "I Recycle." If recycling something actually causes more damage to the environment than dumping it in a landfill, I would agree with not recycling it. However, monetary costs, especially labor, should not be a consideration since they are arbitrary and artificial when compared with true impact on the planet. Using paper plates to make your case was unfair since no one proposes to recycle them. Try picking on the huge volumes of newspaper that are dumped in landfills every day or cans and bottles. It's just not right to use something one time and then throw it into a landfill when it could be used many times or recycled. It's not an elegant system for a civilized people. If it's cheaper to use virgin materials than to recycle, it may be that government is subsidizing the virgin-material business. Even if it is not, sometimes the cheapest way is not the wisest.

—Nick Kyriazi
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Pittsburgh, Pennsylvania

Donald Boudreaux replies:

Nick Kyriazi argues that relying on market prices to guide people's recycling decisions leads to poor environmental outcomes because such prices are "arbitrary and artificial when compared with true impact on the planet."

I disagree. It is easy to catalog reasons why actual market prices diverge from what they would be in a world that is textbook-ideal. But sound theory and experience tell us that market prices remain by far the best available guides on how to act and use resources. Mr. Kyriazi assumes he knows the true impact from failing to do more recycling and that this impact justifies more recycling. But he cannot know these things. It is fundamentally impossible to make that determination in the abstract—impossible to know how much space is appropriately used for landfill, how much each person's time is worth, how scarce are the other resources used to recycle materials, and how scarce are the countless inputs used to produce outputs.

As arbitrary and artificial as market prices might be, they are much less arbitrary and artificial than the hunches and even engineering evaluations of the costs and benefits of recycling. Market prices remain the best available guides for recycling decisions.

Of course, we should do what we can to improve prices by ridding markets of political interference. But the fact remains that regardless of how imperfect market prices might be, only they can provide a reasonable idea of how to act with respect to the environment. □

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 by Donald J. Boudreaux

IDEAS
ON LIBERTY
AUGUST 2002

Escaping Modernity

Many writers have described the mishmash of emotions and ideas that motivate the "antiglobalization" protesters who have been so much in the news since the 1999 Seattle riots. To point out that many of these ideas are irreconcilably at odds with each other is now old hat. (What, for example, does it mean to be an anarchist who advocates government controls on commercial activity?)

I want here to take these ideas as seriously as possible. Perhaps we can find a way to make the protesters happy without bringing civilization to a screeching halt.

Already, any antiglobalization advocate reading this article will likely accuse me of stacking the rhetorical deck against him. "We don't seek to crush civilization," he might argue.

He would be wrong. The core idea of these protests is deep animosity toward commercial exchange—a gut loathing of economic activity beyond the simple sort that took place among a small handful of people living on self-sufficient medieval manors or in tiny primitive villages.

Civilization is impossible, however, without substantial commercial exchange and a deep specialization of work. It exists only when most of our economic wants are satisfied by the market—that is, by people who produce output mostly for strangers rather than for themselves, and who are guided in their decisions of what to produce not by the commands of a sovereign but, instead, by what each of these people perceives to be his own best means of prospering. And in the market the signals that guide producers come principally from the prices determined by consumers voluntarily spending their own money.

In short, civilization requires wealth, and wealth requires a free market, extensive commerce, and a deep division of labor. Will Durant put it nicely: "Every cultural flourishing finds root and nourishment in an expansion of commerce and industry. . . . For society, as well as for an individual, *primum est edere, deinde philosophari*—eating must come before philosophy, wealth before art."

But no law requires anyone to value civilization. Someone might well decide that civilization's fruits, no matter how succulent and healthy, aren't worth the downside.

And there indeed is a downside. It's one that to most of us is so insignificant relative to the upside that we seldom think of it. But the downside is real, and it is the focus of many of those who so bitterly loathe the market. The downside is that everyone in civilization is enormously dependent on the choices and actions of millions of others. Every civilized person depends on the creativity, efforts, and choices of countless strangers spanning the globe.

Millions of people whom I don't know worked to produce the seemingly simple breakfast I ate this morning, the clothes I now wear, and the house now sheltering me. Were I suddenly to find myself alone or with

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just family and friends, even on an island with abundant and easily accessible supplies of all of the world's natural resources, I would be poor beyond the imagination of modern man. How would I refine the petroleum into gasoline for my car? Indeed, how would I get a car? How could I spin yarn and weave textiles to make clothes? How could I produce the sinus medication that daily keeps me from sneezing, or the stomach medications that saved my son's life when he was seriously ill two years ago? How could I write these words? (Forget that my little group and I couldn't hope to make a computer and word-processing program; we couldn't even make paper and pencil.)

Cooperation of Strangers

Our prosperity absolutely requires the cooperation of innumerable strangers. These strangers, though, can change their minds and their actions. It's advantageous to specialize in the production of, say, steel—as long as the millions of people who buy your steel continue to want it. But these consumers might come to prefer aluminum. Or some other stranger might figure out a way to produce steel more efficiently than you produce it. Any number of changes can occur that make it more difficult for you to continue to prosper by producing steel.

This cosmic dependence on others undoubtedly creates anxiety for some people. I don't feel this anxiety, but I cannot stand in judgment of those who find it colossally fearsome. My only gripe with antiglobalization protesters is that they selfishly insist that *everyone* sacrifice civilization's benefits so that they can be relieved of their idiosyncratic anxiety.

Fortunately, anyone so disliking market forces that he truly wants to escape them can do so while leaving the rest of us alone. All such a person must do is to find a few acres of land and become self-sufficient. (The Unabomber did this with his shack in Montana, although he wasn't quite true to his principles, relying as he did upon the postal service and its many industrial machines to deliver his letter bombs.)

My colleague Tyler Cowen has researched the matter and found that for $3,000 someone can build a livable cabin. Of course, it would be Spartan—for example, no plumbing. Self-sufficiency requires also a few acres of land on which to grow and hunt food. The world has plenty of that. Even in the United States an acre of good rural land can be bought for about the price of a roundtrip coach airfare from New York to Seattle. Fact is, escaping market forces truly is easy to do. Once free of the market, the self-sufficient individual would no longer worry about matters such as European trade policy, Japanese demand for lumber, or currency speculation. These concerns and thousands of similar ones would vanish.

But escapees from commerce should beware that countless other uncertainties and concerns will arise. A drought or insects might destroy an entire crop, bringing on starvation. A child might die of an infection untreated by antibiotics. Women stand significant risks of dying from childbirth. And while escapees would be free of the taint of participating in greed-driven global commerce, they would suffer the taint of bodily filth. Running water, antibacterial soap, shampoo, floss, toothpaste, laundry detergent, several clean changes of clothing, and other such mundane items would be unavailable.

Please don't think I'm joking. I'm serious. Escaping commerce and commercial culture is genuinely easy to do *for those really wishing to do so* and who are willing to deal with the full consequences of this decision. There is no need, therefore, for such haters of commerce to insist that those of us who enjoy modernity and commerce travel back with them to a pre-industrial hell. □

BOOKS

Ludwig von Mises: The Man and His Economics

by Israel M. Kirzner

ISI Books • 2001 • 226 pages • $24.95 cloth; $14.95 paperback

Reviewed by Sheldon Richman

Anyone wishing to answer the question, "Who is Ludwig von Mises?," faces a formidable, if exciting, task. Where to start? *Human Action*, which runs close to 900 pages, is not something everyone has the time or inclination to plunge into, rewarding as that would be. *Socialism*, an extremely important book, addresses a relatively narrow aspect of Mises's work. His shorter books and articles, always enlightening, do not give the newcomer a sense of the awe-inspiring breadth and depth of his accomplishment.

So I was delighted to learn that Israel Kirzner had written a brief, yet substantial, book on Mises's economics. No one is better qualified for the job. Kirzner took his Ph.D. under Mises at New York University and has spent the subsequent years elaborating and extending Mises's work on competition and entrepreneurship. Kirzner's writings comprise some of the most important contributions made in economics (not just Austrian economics) in the second half of the twentieth century. Until his recent retirement, he was the dean of Austrian economics.

The book is a gem, and I unhesitatingly recommend it to anyone who wants to understand Misesian economics. Kirzner's deep admiration for Mises the man and economist shines from every page. But this is no uncritical paean. While Kirzner clearly shares Mises's views on the nature and substance of economic science, he is willing to indicate where disagreement is understandable and perhaps even justifiable.

Before discussing Mises's views on the nature of economics, the workings of the market process, monetary theory, the trade cycle, and time and interest, Kirzner begins with a superb brief biographical sketch. Mises led an interesting life. Born in 1881 in the Austro-Hungarian empire, Mises dates his transformation into an economist to his reading of Carl Menger's *Principles of Economics.* He studied under the Austrian master economist Eugen Böhm-Bawerk in Vienna during a time of great intellectual ferment in various disciplines. Mises made his first mark in 1912 with his book *The Theory of Money and Credit.* After World War I he disabused many a young thinker (including F.A. Hayek) of socialist ideas with his powerful thesis that central economic planning must founder because, without markets and private property, the planner is unable to make rational calculations. As the Nazi threat gained momentum, Mises, who was Jewish, fled to Switzerland and then to the United States.

Kirzner captures the drama of Mises's triumphs and the disappointment of his new life in America, where his professional colleagues, with few exceptions, failed to appreciate who had come to their shores. (Among the exceptions, of course, were Henry Hazlitt and, later, FEE founder Leonard Read.)

A valuable aspect of Kirzner's book is his placement of Mises in the development of economic thought. Kirzner emphasizes that Mises's economics became more distinct from neoclassical economics as time went on. "Mises' first works as an economic theorist were contributions to mainstream neoclassical economics as it was broadly understood and practiced at that time on both the continent and in the U.K. . . . But during the concluding decades of Mises' career his work was thoroughly at odds with mainstream economics, not only in substance and methodology, but in terms of policy implications." The differences in Mises's thought became increasingly clear during the socialist-calculation debate. As he strove to spell out the central role of prices, entrepreneurship, and discovery in a competitive context, he more fully appreciated that the market-process dynamism which distinguishes the

Austrian tradition was missing from the neoclassical vision. As neoclassical economics proceeded further down the road of mathematical formalism, Mises continued to push the subjectivist ideas of Menger and Böhm-Bawerk to their logical conclusion.

I especially like Kirzner's resolution of the apparent paradox of Mises's commitment to value-free economic science (*Wertfreiheit*) and his passionate advocacy of individual freedom and capitalism. I won't give away the details of Kirzner's excellent discussion.

Familiar with Mises or not, anyone interested in economics or individual liberty will profit from this book. It's the story of a great man. As Kirzner writes: "It is a tribute to his intellectual integrity that Mises was . . . never to swerve from what he was convinced was the truth, no matter how unpopular that truth might be in the public and professional areas. . . .[I]n terms of the vigor and passion with which he attacked socialist and interventionist alternatives to laissez-faire capitalism, Ludwig von Mises was the foremost economist of the twentieth century." □

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Pharmacracy: Medicine and Politics in America

by Thomas Szasz

Praeger • 2001 • 212 pages • $24.95

Reviewed by Ross Levatter

This review was commissioned over a year ago. I was looking forward to writing it. But then the depression began. Stress. A new job. A major move. A new marriage. I felt unfocused, obviously not in a condition to write a review of an important new book.

Many psychiatrists would have no problem diagnosing my malady. Situational depression. And no trouble treating it. Prozac would be one popular choice.

Thomas Szasz is a psychiatrist, professor emeritus at SUNY Upstate Medical University in Syracuse. He, too, would have no trouble diagnosing my malady. Laziness. The cure: more efficient use of my time.

Szasz sees through the rhetoric of the therapeutic state that seeks to cure all our illnesses and salve all our hurts. He insists that there's a difference between a disease and a problem; between succumbing to illness and succumbing to frustration; between being treated for what ails us and being coerced because others are irked by us.

Pharmacracy distills the reflections of Szasz's professional lifetime. Arguably, it is his magnum opus, although several of his other books compete for that title. Perhaps someone with Szasz's prodigious record of publication is allowed more than one magnum opus.

Szasz notes that society's view of physicians, and what can be accomplished via medical controls, has changed since he went to medical school during World War II. "Pharmacracy" is the word he uses to describe the use of medicine, especially psychiatry, as a method of social control and political rule, just as theocracy was rule by the priesthood. Szasz writes, "In a theocracy, people perceive all manner of human problems as religious in nature, susceptible to religious remedies; similarly, in a pharmacracy people perceive all manner of human problems as medical in nature, susceptible to medical remedies."

A key question is, what counts as a disease? Is depression a disease like diabetes? Is schizophrenia a disease like smallpox? Is it enough that doctors work to diagnose and cure depression and schizophrenia? Doctors in the nineteenth century worked to cure black slaves of drapetomania, a "disease" that reportedly caused them to escape to freedom.

Szasz insists on the strict definition of disease found in medical books on pathology. He therefore concludes that many contemporary diseases are diseases in name only. That leads to the larger issue of using physicians less for diagnosis and therapeutics, and more as social guardians.

Szasz's discussion ranges far and wide. I especially enjoyed his excellent insights into today's labyrinthine maze of governmental regulations on health care. Today, more and more physicians look on their services as vitally important ones that, as it happens, no one is willing to personally pay for. This is a truly schizophrenic view (metaphorically speaking). Szasz summarizes it perfectly: "once the physician ceases to be paid directly by his patient for the services he wants, and is instead paid by others to deliver services the patient ostensibly needs, the physician's propensity to make certain diagnoses or discover new diseases by creating disease names skyrockets." Szasz quotes sociologist Edward O. Laumann from the *Journal of the American Medical Association* (*JAMA*): "Everyone is at risk of sexual dysfunction, sooner or later." Laumann is a paid consultant for Pfizer, the company that manufactures Viagra.

Szasz moves on to discuss the widening field of psychiatric diagnoses and the claims by psychiatrists and their defenders that "mental illness is as much a real disease as physical illness." Szasz quotes Bill Clinton as saying that mental illness is just like physical illness, and then points out the obvious: "there are no illnesses outside of the realm of the mental health field whose disease status requires defense by the White House."

The book's final chapter describes intrusions by the state into the free practice of medicine and the provision of medicine as a market product rather than what it has now become, a "right." Szasz correctly points out that the major medical journals (such as the *New England Journal of Medicine* and *JAMA*) have been taken over by academic physicians philosophically committed to the socialist provision of medicine by the state. Alternative viewpoints are dismissed out of hand and never appear in the academic literature. Meanwhile, people have accepted medical care as a right and entitlement, now seen as crucial as life, liberty, and the pursuit of happiness. Politicians promise to rid us of disease, if only we give up more liberty and accept higher taxes for health care.

Szasz's conclusion is a sad but realistic one: "Formerly, people rushed to embrace totalitarian states. Now they rush to embrace the therapeutic state. When they discover that the therapeutic state is about tyranny, not therapy, it will be too late."

I guess I *do* have reason to be depressed. □

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Tyranny of Reason: The Origins and Consequences of the Social Scientific Outlook

by Yuval Levin

University Press of America • 2001 • 312 pages • $44.00

Reviewed by Edward W. Younkins

Tyranny of Reason is an accessible work of Western intellectual history in the tradition of Karl Popper's *Open Society and Its Enemies*, Leonard Peikoff's *The Ominous Parallels*, and Thomas Sowell's *A Conflict of Visions*. In this powerfully argued book, Yuval Levin, associate director at the Center for the Study of Technology and Society, traces the philosophical ancestry of the idea, from Plato to Dewey, that the methods of modern science can be used to understand the social world. The author not only insightfully describes the erroneous logic behind the "social scientific outlook," he also demonstrates its harmful effects on society through studies of the Soviet Union and the United States.

Levin discusses and assesses how an extreme form of the social scientific mindset gave rise to twentieth-century totalitarianism in the form of Soviet communism. He goes on to explain that the arrogance of social science has manifested itself differently in modern America. Under the banners of progressivism and left liberalism, social scientists believe they can better mankind through the study and manipulation of social data, variables, and processes. Levin shows that the New Deal and its resulting welfare state are products of that mindset.

Tyranny of Reason reveals and details how the social scientific outlook holds that the search for truth in the social world is essentially no different from the search for truth by science in nature. This failure to recognize that human beings are fundamentally different from the physical objects examined by science can have devastating consequences, including the limitation of man's freedom in thought and action and the devaluation of his search for meaning.

According to the author, confused students of politics and society have looked for a precise rational formula behind the social behavior of men. So-called "experts" fail to realize that science seeks meaning in causes existing in the past, while human beings make decisions based on purposes reaching toward the future. Since the world of science is a world of causes, not purposes, it cannot answer the "why." On the other hand, the human world cannot be adequately described in terms of causes without purposes and means without ends.

Levin argues that approaching the human world from the perspective of scientific certainty constrains man's freedom and encourages people to hand over their fates to social engineers who believe in their own superior ability to discover, comprehend, and predict the proper arrangement of society. Of course, the knowledge needed by these social architects and constructivists is unattainable—the best we can achieve is partial knowledge of the human world.

The author also observes that determinism arises naturally from the social scientific outlook. Belief in determinism leads people to think that they have no active role to play in controlling their own futures. Levin bemoans the social scientists' utopian contempt for deliberative politics and participatory democracy, and their preferences for central planning, social engineering, and government control of the economy, all of which flow naturally from their mindset.

Levin explains that freedom rests on the notion of undirected choice. He ends by arguing for free will, negative freedom (freedom from coercion), and limited, democratic government. Beyond that, human conduct ought to be left to the individual choices of the people involved. The author declares that individual freedom is essential to the search for truth and to human flourishing.

The main message of this brilliant study is to beware of people who believe in inescapable laws of human history and who presume that they can discern them. The author's ability to present challenging ideas in a straightforward and easy-to-follow style is to be applauded. This is essential reading for anyone interested in philosophy, history, politics, economics, or the social sciences. □

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The Transfer Society

by David N. Laband and George C. McClintock

Cato Institute • 2001 • 80 pages • $19.95 cloth; $8.95 paperback

Reviewed by George C. Leef

The story of Robinson Crusoe has been used to illustrate many economic points. So let's try this question. What if, instead of working and cooperating to produce as much food, shelter, clothing, and other goods as they could, Crusoe and Friday instead spent most of their time fighting over the division of what nature readily provided. Rather than learning to fish, suppose that Crusoe spent hours each day practicing *tae kwon do* so as to be able to batter Friday and compel him to relinquish any coconuts he might have found. And suppose Friday spent much time looking for places to hide coconuts so that he could secretly consume them. How would that arrangement affect their standard of living?

The answer is obvious. Their standard of living would be much reduced. Energy and resources devoted to aggression and defense would produce nothing, necessarily leaving Crusoe and Friday significantly poorer than if they allocated their resources efficiently to maximize their output of goods.

Americans act like Crusoe and Friday in my example, devoting considerable resources to efforts to (a) seize (both legally and illegally) wealth that belongs to others and (b) block others from seizing their wealth. Economists have long understood that the thrust and parry of fighting over wealth is a waste of resources that reduces our productivity. In this small but significant book, Professor David Laband of Auburn University and George McClintock, a financial consultant who learned his economics at Auburn, endeavor to quantify the costs of our national game of pickpocket. They conclude that "in 1997, a conservatively estimated $424 billion was spent by individuals and the state to effect or prevent involuntary direct transfers of wealth and that an additional minimum of $125 billion was spent on efforts to effect or prevent governmentally arranged (indirect) transfers of wealth." That comes to over $2,000 per person—a huge waste.

Okay, but how did the authors arrive at their figures? First, they drew a line between the use of resources to define property rights and the use of resources to attack or protect property rights: "We make a general distinction between actions taken initially to define and enforce property rights (or to voluntarily redefine those rights) and those designed to redistribute existing rights involuntarily. Expenditure of economic resources on activities that influence the forced redistribution of property rights that already are well-defined . . . is socially wasteful." Then they proceed to identify all expenditures made to effect or prevent direct wealth transfers (individual actions such as burglary) and all expenditures made to effect or prevent indirect wealth transfers (that is, use of the power of government to expropriate wealth). In the former category Laband and McClintock include everything from spending on police forces to spending on locks; in the latter, they include everything from payments to lobbyists and trade associations to government costs in the enforcement of anticompetitive laws. Many of their numbers are admittedly estimates, but they are conservative and seem reasonable. Add it up and you get the size of the drag on the economy due to the refusal by many people to respect the property rights of others.

Just as the offensive and defensive maneuvers of Crusoe and Friday lowered their standard of living, so does the use of more than $500 billion annually for such purposes lower the standard of living in the United States. The authors write, "The numbers that we report make it abundantly clear that the production possibilities frontier for the United States would shift out considerably if individuals (and the state) were not in the transfer business." That is to say, we could be investing hundreds of billions of dollars more toward the production of goods and services people desire if we weren't spending the money on redistributive offense and defense.

Along the way, Laband and McClintock offer some important insights about the transfer game. For example, readers might assume that the demand for transfers originates with greedy interest groups that buy the allegiance of legislators with campaign contributions. The authors don't deny that, but observe that the game is often played the other way, with legislators in essence demanding tribute from interest groups in exchange for their inaction. They recount how members of Congress have several times threatened the funeral industry with price controls, only to withdraw the legislation after the industry made sizable campaign donations to senators and representatives with seats on the relevant committees. Now there's an important civics lesson.

Having documented the magnitude of the transfer-activity loss, the authors spend just a few paragraphs discussing ways of reducing that loss. One sound suggestion is to rein in class-action lawsuits where the "victims" haven't been hurt at all. And they write that "A revitalized social ethic that elevates productive work above stealing would, without question, create added value for Americans."

Hear, hear! □

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

The Fed: The Inside Story of How the World's Most Powerful Financial Institution Drives the Markets

by Martin Mayer

The Free Press • 2001 • 350 pages • $27.50

Reviewed by Larry Schweikart

Martin Mayer has been writing books on banking for years, and never lacks for a publisher. His books tend to ramble, however, and this one is no exception. Worse, they tend to reinforce erroneous notions about the supposed need for government intervention in financial markets and institutions.

Mayer begins with a history of central banks. He argues that they are necessary by claiming that banks in the private sector wait too long to act on emergencies. That conventionally statist assumption puts the book on the wrong track from the very beginning.

Throughout his discussion, Mayer seems unaware of the volumes of recent scholarly research which has shown that before the establishment of central banks, there were, in Scotland and antebellum America, long periods of banking stability and solvency. He also seems oblivious to the extensive research which has shown that interstate branch banking by itself, had it been permitted, may have been sufficient to keep the 1930 economy from plunging into the Great Depression. In short, Mayer makes the standard errors of underestimating the ability of market institutions to adjust smoothly to changes in economic conditions and of failing to see that their apparent shortcomings were due to governmental interference.

In view of those errors, it is surprising that Mayer manages to get the S&L crisis right. He argues that it was a case history of moral hazard in which "the federal government removed incentives for S&L operators to behave prudently." Although the S&L debacle doesn't directly bear on the Fed, this is one of Mayer's occasional good observations that redeem the book in part.

Another valuable insight the author provides is that there has been a steady shift in which the Fed, not the Federal Deposit Insurance Corporation (FDIC), has become the "lender of last resort." Mayer points out that with this shift from the FDIC to the Fed also came a regulatory responsibility that formerly rested with the Comptroller of the Currency and the Treasury. In essence, the Fed not only became the lender of last resort, but also the financial regulator of last resort. This created its own set of problems, because the Fed was neither chartered nor equipped to do the job of the Comptroller in conducting examinations or strong-arming banks into compliance. Mayer details the ways in which banks can easily cheat the Fed's supervisory efforts.

When he arrives at the 1970s, Mayer notes that a "revolution in banking" occurred when banks moved from asset management (the right mix of loans and investments) to liability management (buying deposits to ensure a constant flow of money). This was a result of the near hyperinflation of the era, but it anticipated a period in which the emphasis would go from an abundance of lendable funds to a shortage. In reviewing the Volcker years, though, Mayer falters, arguing that the Fed chairman had stopped inflation only by imposing "interest rates high enough to throttle enterprise." The high interest rates of the period were *caused by* the high rate of inflation, not the *cure for* it. Having lived through the booming '80s, I must have missed that "throttling of enterprise." In fact, enterprise took off as soon as Volcker got money creation under control and Reagan lowered taxes.

The rise of mass securities markets, such as those developed by Michael Milken, which had virtually no regulator except the consumer, put banks in a position where they began to eclipse even the Fed's ability to restrain them. Lamenting the ineffectiveness of congressional directives to force banks to lend money to bad risks, such as the Community Reinvestment Act, leads Mayer to conclude that "the United States is moving back toward the old days when people who didn't have much money would be served by high-margin cheapjacks." Mayer clearly believes that governmental interference in credit markets would be good for the poor, writing, "The Fed's untroubled supercilious tolerance of these developments reminds us that there are people in high places who still believe government should not interfere with the freedom of contract between the loan shark and the needy."

Yep, that's me! It is not government's—nor the Fed's—place to interfere with such contracts. Trying to direct capital to people who are poor credit risks leads to a waste of capital rather than lifting people out of poverty.

Mayer doesn't grasp that the Fed's economists can't correctly predict and control the economy, and that the nation has paid dearly for failing to allow a true market-based banking system to develop. While this book gets some things right, on the big question—whether we benefit from having government interference in our financial markets—it leads the reader straight into quicksand. □

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In Defense of Free Capital Markets: The Case Against a New International Financial Architecture

by David F. DeRosa

Bloomberg Press • 2001 • 248 pages • $27.95

Reviewed by William H. Peterson

Thanks partly to Enron and Arthur Andersen, "financial reform" is in the air. Grab your wallet. Indeed, the entire global financial market is under threat of tighter regulation. How come?

Well, look to recent experience, from the Mexican peso crisis to the collapse of the Asian financial markets to the Russian devaluation of the ruble (which President Boris Yeltsin promised on bended knee he would never permit) to the faltering Euro to the decade-old sick Japanese yen or the roller-coaster currencies of Argentina, Brazil, and Venezuela.

Look then to the storms and meltdowns that mark the last dozen years or so in the international capital market, a market in which some $1.5 trillion of funds daily race across the world seeking the opposite goals of yield and safety.

So, ask a number of "experts," why not let us simply re-regulate the system and rid ourselves of financial turbulence? Were it only that simple. Yet pontificates one dyed-in-the-wool regulator, billionaire currency trader George Soros: "There is an urgent need to recognize that financial markets, far from tending towards equilibrium, are inherently unstable. . . . Thus, in finding a remedy, 'market discipline' may not be enough. There is also the need to maintain stability in the financial markets."

Amazingly, the tool Soros would use for stability is none other than the disaster-prone International Monetary Fund (IMF) itself.

Hence this book's rightfully worrying subtitle, "the case against a new international financial architecture." The author, himself a professional currency trader, an adjunct professor of finance at the Yale School of Management, and a thrice-weekly columnist for Bloomberg News, wins dust-jacket blurbs for his well-mounted case from the respected likes of Milton Friedman and Johns Hopkins's Steve Hanke. DeRosa argues firmly against those like Soros who want to "restructure" international financial markets.

DeRosa acknowledges that recent currency markets have indeed been rocky and costly in terms of damaged global growth and loss of taxpayer funds via bankrupt investments in the IMF. But he holds that a cure of a strengthened IMF with authority over a new bureaucracy, an "International Credit Insurance Corporation," would be worse than the disease.

Undoubtedly, centralized control of money and credit is no better than centralized control of any other aspect of the economy. But isn't this disease at base the nationalization of virtually every currency in the world? And can't this disease be greatly eased if not cured by currency privatization or the restoration of the gold standard?

Sadly, DeRosa does not pursue that question to its logical conclusion, but contents himself with the immediate question of aggrandizing the IMF's powers.

DeRosa asks: Can IMF bureaucrats, even armed with a giant insurance stabilization fund, be any more successful in stabilizing the international currency regime than they were in stabilizing the Russian ruble or the Malaysian ringgit or the Indonesian rupiah or the Argentine peso, or scores of other debacles in which IMF officials have prescribed precisely the wrong medicine for mending battered welfare-state-based currencies? Merely to ask that question is sufficient: No. The IMF has a miserable track record and is able to continue wasting money precisely because it itself suffers no harm or loss from its blunders.

DeRosa sees as the common denominator in almost every currency crisis an experiment with a newly fixed exchange rate, followed by the propping up of a wobbly currency with IMF loans and "conditionalities" that ignore the underlying flaws of an interventionist state. Fixed exchange rates are the problem; and the IMF doesn't solve that, but only engages in costly and wasteful diversions.

Should we have the IMF at all? Joseph Stiglitz, Nobel laureate economist at Stanford and chief economist at the World Bank from 1997 to 2000 declared: "Every recession eventually ends. All the IMF did was make East Asia's recession deeper, longer, and harder." And George Shultz, secretary of state under President Reagan, treasury secretary under President Nixon, and distinguished fellow at the Hoover Institution, goes farther and asks that the IMF be abolished. Period.

Unfortunately, DeRosa seems unready to call for a death-blow to the benighted IMF, to declare openly: "End it, don't mend it." A clarion call for the termination of U.S. support for this meddlesome institution would have made the book truly useful, but the call never sounds.

That said, his book still makes a good read on the basic illogic and politicized vacillation in national or IMF currency interventionism. □

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Coming in the September issue of *Ideas on Liberty*:

Steven Greenhut, "The Blight of Eminent Domain"

Clayton Cramer, "Michael Bellesiles and Guns in the Early Republic"

Guillermo Yeatts, "Plunder in Argentina"

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IDEAS ON LIBERTY
AUGUST 2002

The PLA Hustle

A project labor agreement (PLA) is a hustle by unions in the construction industry to make it extremely difficult for union-free contractors to bid successfully for construction projects funded by taxpayer money. In 1947 construction unions had an 87 percent market share nationwide. In 2001 that figure was only 18.4 percent. Failing the market test, construction unions have turned to politics. They lobby politicians to require that open-shop (union-free) contractors sign an agreement to operate according to union rules before they are permitted to bid on any project. In return, compliant politicians get monetary and in-kind electoral support from the unions. Taxpayers be damned.

An open-shop contractor that signs a PLA in order to be able to bid agrees to: (1) force all its employees to either join, or pay dues to, the unions specified in the PLA; (2) do all new hiring associated with the PLA through designated union hiring halls; (3) operate according to union work rules and craft-jurisdiction definitions; and (4) force its employees to pay (or agree to pay on their behalf) into union welfare, benefits, and pension funds. Since it usually takes at least five years for workers to become vested in such funds, and most projects last less than five years, the money is forfeited to the unions when the projects are completed. Moreover, unless employees are to lose their regular benefits and pension plans, payments to them must be maintained during the life of the PLA project.

PLAs should not be confused with "prevailing wage" regulations in taxpayer-funded construction. The federal Davis-Bacon Act and similar laws in many states force successful union-free bidders to pay their employees union wages on such projects. But even when forced to pay union wages, union-free contractors have cost advantages over union-impaired contractors that enable them to bid lower to get contracts. The unions' restrictive work rules and job classifications drive up costs substantially. The obvious solution to the politicians and their union clients is, through PLAs, to remove all union-free cost advantages.

Of course, politicians cannot simply say that they impose PLAs as a condition for bidding in order to favor unionized over union-free contractors. That's too transparent. Instead, they claim that PLAs are a way of assuring safe, quality work without labor disputes and project delays, and on-budget. Facts belie those claims.

A nationwide study in 1995 by Charles Culver, a former OSHA official, revealed that on-the-job fatalities were significantly lower in union-free construction than in comparable unionized construction in every year from 1985 through 1993 (*Comparison of Nonunion and Union Contractors Construction Fatalities*, National Center for Construction Education and Research; www.nccer.org). Moreover, the quality of

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union-free work is usually just as good as unionized work, and it is often better. It is revealing to note that union-free contractors deemed unqualified to do a job suddenly are deemed well qualified when they sign a PLA.

Unions are synonymous with labor disputes. In the hustle, unions threaten to disrupt the work of union-free contractors who win bids without PLAs, then they say that PLAs will avoid those disputes. It is simple extortion. Moreover, PLAs are not even effective guarantees against strikes by the unions on the jobs they win. For example, the San Francisco Airport PLA includes a no-strike pledge that has been violated at least three times. Nor are PLAs effective guarantees against project completion delays. The Boston "Big Dig" PLA has resulted in substantial delays. It was supposed to be completed in 1998; now the earliest possible completion date is 2004. As for on-budget performance, the original budget for the Big Dig was $2.5 billion. Best estimates now put the cost close to $15 billion.

Sanctioned by the Supreme Court

The legality of PLAs was affirmed in 1993 by the U.S. Supreme Court in the *Boston Harbor* case. This involved a massive cleanup of Boston Harbor. The Massachusetts Water Resources Authority (MWRA) said that no union-free contractors could bid on the project unless they first agreed to the terms of a PLA. Opponents of the PLA argued that the National Labor Relations Act (NLRA) pre-empted state authority to impose a PLA. The Court upheld the PLA on the grounds that MWRA was acting as an owner-developer of the project, not the employer of the people who actually worked the project. The NLRA controls relations among employers, employees, and unions, not relations between owner-developers and the employers with whom they contract. So a state agency is free to choose whether or not to impose a PLA as a bid qualification.

On February 17, 2001, President Bush reversed Clinton administration policy by signing an executive order that prevents federal agencies from including PLAs as bid specifications on federal construction projects. Under the executive order, union-free firms can use their cost advantages to try to win the bidding, but if a contractor submits a winning bid for a federal project, it is thereafter free to agree with construction unions that it and its subcontractors will work on a union-only basis.

Labor unions and their logrolling partner, the Sierra Club, immediately challenged the legality of Bush's executive order in federal district court, and on November 7, 2001, Judge Emmet Sullivan declared, on the basis of the *Boston Harbor* case, that the executive order was pre-empted by the NLRA. This is a manifestly silly ruling because in *Boston Harbor* the Supreme Court ruled that the NLRA does *not* pre-empt *state* PLAs if the state agency involved is an owner-developer rather than an employer. The NLRA is silent on PLAs. If *Boston Harbor* says anything about federal PLAs, it says that the president, as owner-developer of federal projects, is free to permit or forbid them. Sullivan's decision is on appeal to the D.C. Circuit Court of Appeals.

The Associated Builders and Contractors (ABC), a nationwide coalition of union-free contractors, has undertaken effective anti-PLA litigation and public education programs in several states. Another organization, the Coalition for Fair Employment in Construction (CFEC), formed in 1998, has organized grassroots opposition to PLAs in California. Eric Christen, its indefatigable executive director, says that the recent victory of which he is most proud is the defeat of a PLA for the construction of the new campus of the University of California at Merced. At this writing, the most important California battles still to fight, according to Christen, involve PLAs on San Mateo Community College, San Francisco City College, and Santa Rosa Junior College.

Alas, there will be many more battles nationwide until politicians begin to think that PLAs cost them more than unions can cover. Groups like ABC and CFEC intend to make that so. They deserve our applause. □

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The more prohibitions there are
The poorer the people will be.

The more laws are promulgated,
The more thieves and bandits there will be.

Therefore a sage has said:

So long as I "do nothing" the people will of themselves be transformed.

So long as I love quietude, the people will of themselves go straight.

So long as I act only by inactivity the people will of themselves become prosperous.

—LAO-TZU

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