THE FREEMAN
IDEAS ON LIBERTY

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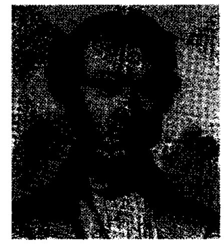

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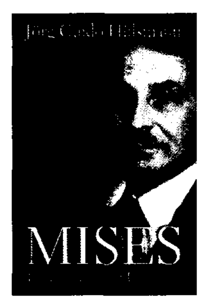

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THE FREEMAN

IDEAS ON LIBERTY

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Perspective

Hubris in the First Degree

"I will commit two billion dollars each year on clean-coal research and development. We will build the demonstration plants, refine the techniques and equipment, and make clean coal a reality."

That's what John McCain, the Republican presidential candidate, said back on June 18 in Springfield, Missouri. My first reaction was this: "That's mighty generous of Senator McCain. I didn't know that he had that kind of money."

Then I remembered he doesn't. But if he wins the election next month he'll have something better: the American taxpayers. In the end, that's why people run for president of the United States, isn't it? They have big ideas, so patently sensible and desirable—to their author, that is—that the rest of us must be compelled to go along whether we want to or not.

Isn't self-government divine?

McCain sees clean-coal technology in our future. But how does he *know* that's the way to go? His experts told him. How do they know? They just do. They're experts.

Either those experts think a *real* free market (as opposed to the reigning mixed corporatist economy) would develop clean-coal technologies if permitted or they fear it would *not* and want the government to step in. If it's the second alternative, we ought to wonder why their preferences should be permitted to override those of the throng whose choices would determine the nature of energy development in a free market.

But if the experts instead believe that clean coal *is* what the market would select, then they indict themselves on a charge of hubris in the first degree. How can they know what a nonexistent unfettered market process would bring about?

Some years ago Nobel laureate James Buchanan rightly criticized a strain of "free-market" thinking which holds that, in principle, an omniscient being could anticipate the outcomes the market process would produce. Wrong, Buchanan said, for that would imply that the market aims at outcomes *external* to itself, and such a view betrays a fundamental misunderstanding of what markets do.

For Buchanan, "[T]he 'order' of the market emerges *only* from the *process* of voluntary exchange among the participating individuals. The 'order' is, itself, defined as the outcome of the *process* that generates it. The 'it,' the allocation-distribution result, does not, and cannot, exist independently of the trading process. . . ."

In other words, human beings do not robotically execute plans formulated in some Platonic realm separate from their day-to-day world. On the contrary, "They confront genuine choices. . . . The potential participants *do not know until they enter the process* what their own choices will be."

Human beings are not program-bound computers. They are *persons* on the Misesian model: creative entrepreneurial beings facing an open-ended world in which genuine surprise is possible.

"From this it follows," concludes Buchanan, "that it is *logically impossible* for an omniscient designer to know, unless, of course, we are to preclude individual freedom of will."

This overlooked function of the market means that competition is more than a "discovery procedure," to use F. A. Hayek's phrase. The market doesn't merely discover what's there waiting to be discovered, like someone's discovering an island. Rather, the market process *creates* what it "discovers" by virtue of being an environment in which freely choosing individuals do things in particular situations that they might never have anticipated doing had they not faced those situations. And remember, those situations themselves are the product of people's making unanticipated choices in earlier situations, and so on ad infinitum.

In light of this radical perspective on the free market, we are entitled to ask: If an omniscient being couldn't know if clean coal is the best choice, how can McCain and his experts know? *Laissez faire, laissez passer.*

★ ★ ★

Virtually everyone thinks America must become energy independent. It's something even opposing presidential candidates agree on. Be careful what you ask for, says David Henderson.

And speaking of oil, are speculators to blame for the run-up in gasoline prices? Are oil companies sitting on lands that could be producing more barrels? Robert Murphy brings some economic sense to the place where demagogues dwell.

Social Security, being a government program, stands on two frauds: that our "contributions" are invested and that our bosses match those "contributions." As J. R. Clark and Dwight Lee show, we've been had.

Should people have to speak English before they can live in the United States? Becky Akers says such a requirement would violate the original American spirit.

In the pantheon of liberty's champions, none stands taller than Richard Cobden, who explicitly connected free trade, anti-imperialism, and peace. Edward Stringham pens a well-deserved tribute.

"Progressive" cities promised free wireless Internet services to their residents. How'd things work out? Not well, Steven Titch writes.

Our regular contributors have been toiling to produce these columns: Lawrence Reed gets an early start celebrating Bill of Rights Day. Robert Higgs explains how the Great Depression *really* ended. Thomas Szasz warns of the metaphor trap. John Stossel inveighs against the "drug war." Charles Baird strikes a blow for workers' freedom. And Lawrence White, encountering the claim that only government can stabilize banking and finance, ripostes, "It Just Ain't So!"

Our book reviewers have immersed themselves in volumes about Ludwig von Mises, "capitalism," phony medicine, and antitrust law.

We wrap up with Capital Letters about the Constitution and voting.

—Sheldon Richman
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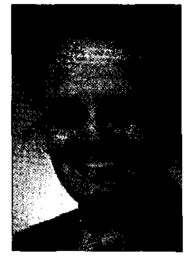
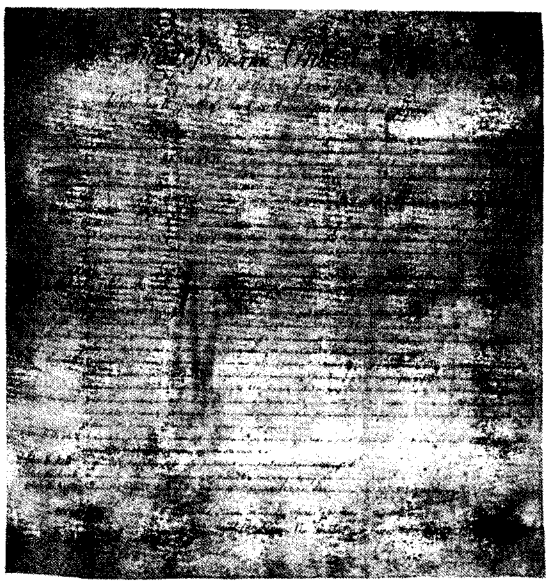


The Holiday That Isn't

BY LAWRENCE W. REED

I know it's only October, but that's late enough in the year for most people to have already begun thinking of the holidays just around the corner. We will each observe the traditional ones according to our personal wishes—a precious right won for us by past and present patriots.

Allow me to advise you, however, not to let 2008 end without taking note of "the holiday that isn't." It's not recognized officially, and few Americans really know of it. I had to be reminded of it by a friend from Arizona, Roy Miller, one of the founders of the Goldwater Institute.



U.S. Bill of Rights
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The day is December 15. It was on that date in 1791 that the fledgling United States of America formally adopted what we know as the Bill of Rights, the first ten amendments to the Constitution. Miller says, "Few days in American history were more critical to securing or proclaiming the principles behind the nation's founding."

A "Bill of Rights Day" is not on the calendar, but a free people don't have to wait for Congress to declare a holiday to celebrate one. On December 15, take a moment to reread the Bill of Rights and reflect on its importance. Call it to the attention of friends and family. Without an agreement that a Bill of Rights would be added or without a consensus of what they would do, the Constitution itself would probably not have been accepted. The ten amendments ultimately adopted guarantee *freedoms of religion, speech, the press, peaceful assembly and petition; the rights of the people to keep and bear arms, and to hold private property; rights to fair treatment for people accused of crime protection from unreasonable search and seizure and se incrimination; and rights to a speedy and impartial jury tri and representation by counsel.*

In this modern and supposedly enlightened age, n many people among the world's 6.6 billion can hon estly say they enjoy many of these rights to the fullest—or at all. Even in America we have to wor hard to educate fellow citizens about the liberties th Bill of Rights is meant to pro tect. There are plenty in ou midst who would sacrifice on or more liberties for the tempo rary and dubious security o a government program. Th past June the Supreme Cou affirmed the right to keep an bear arms but only by a 5– vote. No wonder Benjami Franklin said the Constitutio gave us "a republic, madam, *you can keep it.*"

In the grand scheme o American liberty, how impo tant is the Bill of Rights? It fundamental and foundationa and about as bedrock as it get In fewer than 500 words, man of our most cherished liberties are expressed as righ and unequivocally protected. It's a roster of instructior to government to keep out of where it doesn't belon It bears the heavy imprint of a giant of republican gov ernment, James Madison.

Why did such critical protections end up as amend ments instead of as core elements of the primary docu ment? Here's the background:

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The Second Continental Congress, originally convened in 1775 at the outbreak of hostilities with the mother country, adopted the Articles of Confederation as the new nation's first formal, national government. Some Americans came to believe by the late 1780s, however, that the Articles were weak and inadequate. The Constitutional Convention of 1787 produced a draft Constitution to replace them, subject to ratification by the states.

A great debate ensued and people lined up in one camp or the other—the Federalists or the Antifederalists. The former favored the Constitution and in most cases, at least at first, without any amendments. The latter either opposed it altogether or conditioned their approval on adoption of stronger protections for individual liberties.

Keep in mind that virtually all the leading figures in this great debate were libertarians by today's standards. They believed in liberty and limited government. Even the least libertarian among them would be horrified if he could see how later generations have ballooned the size and intrusiveness of the federal establishment. It never occurred to the most ardent Federalist that government should rob Peter to pay Paul for his health care, art work, alternative energy, prescription drugs, hurricane relief, or his notions of regime change in Somalia.

Even without the Bill of Rights, the Constitution represented a huge advance for civilization.

The Constitution and Centralization

So even without the Bill of Rights, the Constitution represented a huge advance for civilization. But during the ratification debate, enough citizens were wary of any centralization of power that they wanted to go further. I think they instinctively understood something that Thomas Jefferson once so aptly expressed, "The natural progress of things is for liberty to yield and government to gain ground." When the Massachusetts legislature made it clear it would not ratify the Constitution unless language was added to strengthen individual rights, it triggered a movement among the states to do just that.

Madison is regarded as the "Father of the Constitution" because he was its primary author and, along with Alexander Hamilton and John Jay, part of the trio that wrote the Federalist Papers in its defense. On the matter of amending it with a Bill of Rights, he was at first opposed, being of the view that enumerating some rights in the form of amendments would open the door to government violations of any that were *not* listed. He eventually met that very objection by devising what became the Ninth Amendment: "The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people." Madison became one of the most eloquent defenders of the Bill of Rights, and it is unlikely the Constitution would have been ratified without him or them.

In 1789 New Jersey was the first state to adopt the ten amendments that would become the Bill of Rights and when Virginia did so on December 15, 1791, they became part of the supreme law of the land. (Actually, 12 amendments were sent to the states, but two failed to win enough states to be ratified. The unratified amendments, originally numbers 1 and 2, set the ratio of House representative to population and forbade congressional pay raises to take effect "until an election of Representatives shall have intervened." The latter was ratified as the 27th amendment in 1992.)

If you want to bone up on the Bill of Rights before December 15, check out the website of the Bill of Rights Institute (www.billofrightsinstitute.org), which produces instructional materials and sponsors seminars about America's foundational documents. Some excellent books to consult on the subject include *We the People* by Forrest McDonald, *Fighting for Liberty and Virtue* by Marvin Olasky, *Simple Rules for a Complex World* by Richard Epstein, *Restoring the Lost Constitution: The Presumption of Liberty* by Randy Barnett, and *Origins of the Bill of Rights* by Leonard Levy.

Happy Bill of Rights Day!

The Subprime Crisis Shows That Government Intervenes Too Little in Financial Markets? It Just Ain't So!

BY LAWRENCE H. WHITE

Start with two assumptions. No. 1: Banking and financial markets are inherently unstable. No. 2: Government intervention into banking and financial markets can only stabilize (never destabilize). You'll find it easy to conclude that any period of market instability we experience, like the recent subprime-lending problem, is the market's fault and that it could have been avoided with more intervention.

Following the same logic, any lessening of instability that we are now experiencing can't be due to the market's self-correcting, but must be due to timely intervention by government.

Over the broad sweep of history, banking systems with few legal restrictions have been more stable than systems with more intervention.

Thus argues Paul Krugman in his *New York Times* op-ed column "Success Breeds Failure" (May 5). According to Krugman, the subprime troubles occurred only because "Wall Street did an end run around regulation." The "out-of-control financial system" didn't collapse completely only because our government central bank, like the fictional TV hero MacGyver, "has cobbled together makeshift arrangements to save the day." If we listen to "market-worshiping ideology" and fail to impose increased intervention—"fundamental financial reform," he calls it—Krugman expects that "the next crisis will probably be worse than this one."

Krugman's two initial assumptions, however, are false. If even one is false, the case for increased intervention no longer follows.

Over the broad sweep of history, banking systems with few legal restrictions have been more stable than systems with more intervention. Perhaps the most strik ing example is that Canada, which allowed nationwid branch banking (unlike the United States) and ha fewer restrictions on banknote issue, had no bank fail ures during the Great Depression (while the Unite States had thousands). Krugman invokes the Grea Depression, claiming that in the recent troubles "w were in a situation bearing a family resemblance to th great banking crisis of 1930–31," facing "a cascade c financial failures that would crippl the economy." But he fails to men tion that Canada's less-restricted sys tem had no "great banking crisis" i the Depression.

Krugman notes that the Nev Deal imposed new banking regula tions and claims that the "nev system worked well for half a cen tury." He chose the 50-year perio advisedly. Fifty years after th New Deal banking reforms of 193 lands us in 1985, just after the sav ings-and-loan industry collapsed but before regulators had acknowl edged and addressed the collapse. The S&L fiasc demonstrated the dangers of New Deal regulation specifically deposit insurance. Federal regulations com pelled S&Ls to hold portfolios consisting almos entirely of 30-year fixed-rate mortgages, which lef them highly exposed to losses in the event of a shar rise in interest rates.

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When inflation rose sharply in the 1970s (due to sharply expansionary Federal Reserve monetary policy), it drove interest rates sharply upward as well. The interest rates S&Ls had to pay for new deposits rose well above the fixed rates they were earning on old mortgages. The S&Ls quickly bled to death. They had been able to hold such a risky portfolio without depositors noticing or objecting because depositors were insulated by federal deposit insurance. This was the "moral hazard" problem: Recipients of subsidized deposit insurance, with 100 percent coverage and no deductibles, took no care to avoid risky institutions, and so the institutions had much less incentive to avoid taking on risk. When regulators failed to close the "dead" (insolvent) S&Ls promptly, they created a race of "zombie" institutions, the living dead, whose desperate-to-recover strategies made the red ink multiply. This was moral hazard on steroids. Ultimately taxpayers were left with a bill of about $260 billion in today's dollars.

Unprecedented Interventions

The Federal Reserve's interventions in the recent subprime-mortgage crisis have included—at its own initiative, without precedent, and without congressional oversight—the extension of credit lines to investment banks and the lending of Treasury bills to "primary" securities dealers. The traditional role of the central bank as a "lender of last resort" is to make loans only to commercial banks, because the traditional rationale is to protect the economy's payment system. The hope of the traditional last-resort lender is to avoid a collapse of the economy's money stock by injecting reserves into the commercial banking system when there is an extraordinary "internal drain" of reserves (namely bank runs).

In the recent crisis, by contrast, there has been absolutely no threat of a shrinking money stock. Investment banks do not issue checking deposits, are not subject to bank runs, and are not part of the payment system. Neither are securities dealers. The Fed's expansions of its own role therefore had nothing to do with protecting the payment system or stabilizing the money supply. The Fed's new moves were rather made in the hope of protecting investment banks and securities dealers from the consequences of holding portfolios overweighted with mortgage-backed securities, or exotic derivatives based on such securities, while keeping levels of capital inadequate for such portfolios. The reason that some financial institutions have been having trouble rolling over their debts is fundamentally the market's uncertainty about their solvency. It is not a liquidity problem.

By blunting the market penalty for financial imprudence, the Fed is breeding a new kind of moral hazard. If the next crisis is worse than this one, moral hazard —not failure to regulate—will be high on the list of suspects.

By blunting the market penalty for financial imprudence, the Fed is breeding a new kind of moral hazard.

The Fed is currently lending hundreds of billions of Treasury securities from its portfolio and taking junk assets as collateral. In a few years we will be able to tabulate the losses to the American taxpayer.

Krugman declares: "We now know that things that aren't called banks can nonetheless generate banking crises, and that the Fed needs to carry out bank-type rescues on their behalf. It follows that hedge funds, special investment vehicles and so on need bank-type regulation. In particular, they need to be required to have adequate capital."

It just ain't so. Solvency problems for hedge funds and investment banks do not constitute a banking crisis as normally understood. What we now know—and already knew—is that financial firms, especially if they believe they can count on a government bailout, can get into trouble by holding highly leveraged portfolios of risky assets. The way to alleviate the problem is to cure them of that belief by letting them and their counterparties take their lumps. The potential for failure of a hedge fund, investment bank, or other financial institution is no rationale for new legal restrictions on them. Their shareholders and those who lend to them can and should determine how much capital is adequate.

Let's *Not* Be Energy Independent

BY DAVID R. HENDERSON

"Energy independence" is a term that sounds good but falls apart on closer examination. Although the United States could achieve energy independence, we could do so only at an enormous cost. Energy "dependence" is much cheaper and much more desirable.

Before considering the costs and benefits of energy independence, I should define my terms. What is energy independence? Various advocates and analysts have proposed various definitions, but two come up again and again. The first is that a country is energy independent if it is self-sufficient—that is, if it imports no energy from any other country. The second is that a country is energy independent if changes in world energy markets have no effect on that country's price of energy. The first definition is more commonly used.

> A country is energy independent if it is self-sufficient—that is, if it imports no energy from any other country.

Although I could consider the issue of energy independence abstractly, it is more illuminating to examine it in the context of the actual U.S. economy. And I'll focus on the major form of energy for which many Americans want independence: oil.

Currently, the United States uses about 20 million barrels per day (mbd) of oil and petroleum products and imports about 60 percent—or 12 mbd—of that. The most straightforward way to reduce imports to zero would be to ban imports or to impose a stiff tariff on oil designed to reduce imports to zero. With 12 mbd gone from the U.S. daily supply, there would be only eight mbd to serve consumers who were accustomed to using 20. A substantial rise in price would result. As it rose, the amount demanded would fall and the amount supplied domestically would rise. The price would increase until the two were equal.

How high would the price have to go? The honest answer is that no one knows—even the most seasoned, informed energy economist. The reason is that to compute the new equilibrium price, one would have to know the elasticities of supply and demand—that is, the measures of sensitivity to price changes of the amount supplied and demanded. We have reasonable measures of those elasticities for the range of prices of oil that we are used to. But the current price of oil (about $125 per barrel at this writing) is, even adjusted for inflation, above that usual range, and so we know little about elasticities at that price or above.

Yet, even if the elasticities of supply and demand were each as high as 1 (they are generally thought to be much less than that)—so that a 1-percent increase in price would lead to a 1-percent increase in quantity supplied and a 1-percent decrease in quantity demanded—it would still take a price increase of at least 40 percent to equate the amount

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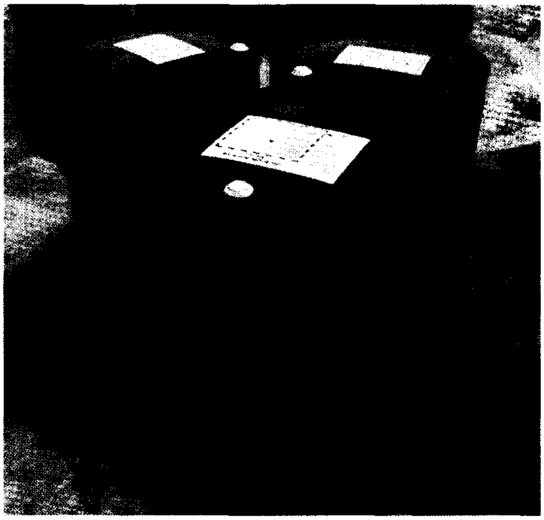
supplied domestically to the amount demanded. That would imply a price of over $180 per barrel. And few economists believe that the elasticities of demand and supply are as high as 1. The lower they are, the higher the price must go to equate the domestic amount supplied to the amount demanded. It would probably go to over $200 per barrel.

This means that to be self-sufficient in oil, Americans would have to pay in excess of $180 a barrel when, instead, they could be "dependent" on other countries' supplies and pay the world market price of $125. That's not a good deal for Americans. To put it in terms that everyone who drives a car understands, a $180-per-barrel price of oil would increase the price of gasoline by about $1.20 a gallon (the $50 increase in price divided by 42 gallons to the barrel).

Comparative Advantage and Dependence

Energy "dependence" is much cheaper. In fact, the case for being "dependent" on other countries for oil is the same as the case for being dependent on other countries for bananas or coffee. At some tariff-protected price, the United States could be self-sufficient in bananas or coffee. If the price were high enough, someone would grow bananas and coffee plants in greenhouses. But why would we want that? Why would we want to pay more for coffee and bananas than we need to? Another way of saying that we would pay more is that we would give up more of our resources (capital, labor, and land) to have domestic bananas and coffee than we now give up by producing other things with these resources and using the proceeds to buy coffee and bananas more cheaply abroad. We would be poorer. The reasoning doesn't change when the good is oil. By preventing people from importing oil, either with a ban on imports or a tariff on oil, the government would make us poorer.



A $180-per-barrel price of oil would increase the price of gasoline by about $1.20 a gallon.

Or think of it another way. Do you ever take your shirts to the local cleaner to be washed? If so, you are "dependent" on the cleaner. You could wash your shirts yourself, but you don't. The reason you don't is that your time is more valuably used producing other things, some of which you sell, and using some of the proceeds to pay the cleaner.

Moreover, think about the word "dependence." The image the word creates is of a poor, helpless waif. I picture Oliver Twist in the musical *Oliver*, who after eating a meager amount of food, says, "Please, sir, I want some more." But U.S. consumers of oil are not poor, helpless waifs seeking the good will of oil-producing nations that are giving us oil out of kindness. Rather, they *sell* us the oil. We "need" the oil and they "need" the money. To the extent that dependence exists, it is mutual. International trade in oil is just that: trade. Since both sides gain from trade, each is therefore "dependent" on the other. Producers of oil are dependent on the dollars, euros, and yen that buy the oil. This fact is commonly recognized when the topic is U.S. exports; many Americans worry that we don't export enough because they want our exporters to earn money from people in other countries. In other words, they see that our exporters need the dollars, yen, and euros that they earn on their exports. But, somehow, they fail to see that this is true of foreign exporters too. Exporters in the Middle East, Venezuela, and Canada need the income from exporting oil. "Dependence on foreign oil," because it is so one-sidedly misleading, is a term that belongs in the dustbin of history.

But isn't it important to avoid depending on oil when so much of it is produced in the politically unstable Middle East? It would be nice if the Middle East were less unstable. But whoever is in charge of the oil wants to produce it to make money. So, it matters little, from the viewpoint of oil supply, which particular tyrant runs which particular oil-producing country.

Dependence and Government Ownership

It is true, and troublesome, that the world oil industry is largely a government-run industry with all the problems that accompany government enterprise—high cost, slow reaction times, little innovation, and so on. And it would be nice if governments in Saudi Arabia, Iran, the United Arab Emirates, Venezuela, Britain, Norway, and Canada denationalized their oil supplies. But until that happens, it's still better to pay the lower price that producers in the world market charge rather than the higher price that would result from "independence."

Some people worry that a government in a major oil-producing country—Saudi Arabia, for example—might get upset at the U.S. government and take it out on Americans by refusing to sell us oil. But such a selective embargo is bound to fail. Imagine that Saudi Arabia cuts oil exports to the United States, but maintains total exports. Then it must sell these suddenly freed-up oil supplies somewhere else. Let's say that it ships the additional oil to buyers in China. Then those buyers will want to buy that much less oil from their old suppliers. Presto! The American buyers' problems are solved because they can get this oil.

Of course, the Saudis could hurt the United States by cutting exports in total. But then the Saudis would hurt all oil-importing countries, not just Americans.

In short, when the government of one country tries to selectively target people in another country, but still wishes to maintain output, it cannot succeed. The selective "oil weapon" is a dud. It's like a game of musical chairs with the same number of chairs as players. The game would be awfully boring, which is why it is not played that way. But in the case of international trade, boring is good.

Of course, the Saudis could hurt the United States by cutting exports in total. But then the Saudis would hurt all oil-importing countries, not just Americans. This is in fact what happened in 1973, when the Saudis embargoed the United States and the Netherlands over those two countries' governments' support of Israel. The countries were hurt by the new, much-higher price of oil. But so was every other oil-importing country. So it is true that a government of an oil-producing country can occasionally get nasty, cut the world supply of oil, and raise the world price. It's also true that if the U.S. government insulated the country from the world oil market by ending imports, it could avoid these occasional price spikes. But the irony is that it would avoid the occasional spike by replacing it with a permanent "spike." Imagine that haircutters unionized and had the occasional strike and that during such strikes the price of a haircut rose to $30 from its normal $20. You could avoid the high price by resolving always to cut your own hair, even when the price is $20. Would that be a good idea?

Subsidizing Alternative Fuels

Many supporters of "energy independence," instead of arguing for a ban or prohibitive tariffs on oil imports, advocate government subsidies for alternative fuels or for conservation. They seem to think that such policies can create energy independence at a low cost. They are mistaken.

The cost of using these alternatives, if successful in driving oil imports to zero, would actually be quite high. What makes these other policies politically attractive is not that they cost little, but that they hide the cost. A tariff on oil is a tax, and people can see the result of the tax in the price of oil. A subsidy to alternative fuels or to conservation, however, comes from the government's treasury or from some other source and therefore is not visible to more than a small percent of the population. Economist David Loughran and engineer Jonathan Kulick studied the effect of state public utility commissions' policies requiring electric utilities to subsidize their customers' investments in conservation. The subsidies came not from tax revenue, but mainly from higher prices to other customers. Loughran and Kulick found that the cost of the conservation was between 14 and 22 cents per kilowatt-hour. This was a whopping two to three times as expensive as the energy conserved. (David Loughran and Jonathan Kulick, "Demand Side Management and Energy Efficiency in the United States," *Energy Journal* 25, no. 1 [2004], cited in Jerry Taylor and Peter Van Doren, "Energy," in David R. Henderson, ed., *The Concise Encyclopedia of Economics*.)

"Energy independence" is a bad idea. Every individual understands that it is far better to depend on others for most of what we want rather than trying to do everything for ourselves. This is true whether we're buying oil or haircuts. The principle applies to groups of individuals living in large geographical areas called countries. Moreover, the dependence is mutual. In 1776, Adam Smith wrote in *The Wealth of Nations*, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner but from their regard for their own self-interest." We can comfortably depend on foreigners for much of our oil because the world's oil suppliers want to make money.

Politicians Eye the Oil Market

BY ROBERT P. MURPHY

With oil prices setting records every week and gas prices topping $4 per gallon, voters are getting increasingly angry. This naturally makes the politicians nervous, so they do what they can to divert blame from themselves at all costs. Two easy targets are "Big Oil" and speculators. In this article we'll see that the politicians' accusations against these scapegoats are nonsensical, while the corresponding policy recommendations will only push oil prices higher.

Before exploring the errors of the political charges, we should first understand exactly what's happening in the oil market. The simple explanation for high prices is: supply and demand. Global oil output has been roughly flat since 2005, while demand in developing economies such as China and India has been growing quickly. In a market the only way to reconcile these facts is for the price to rise; if China is consuming more barrels per day while producers aren't churning out more product, that means other countries have to cut back their daily consumption. Rising prices do just that, without anyone consciously orchestrating the worldwide coordination involved.

Global oil output has been roughly flat since 2005, while demand in developing economies such as China and India has been growing quickly.

To add nuance to the explanation, we should note that the sinking U.S. dollar has played a role. From June 2007 to June 2008, the price of oil—measured in dollars—more than doubled. Yet 15 percent of this rise can be attributed entirely to the sinking dollar, which fell 15.6 percent against the euro during the same interval. Because oil is a fungible commodity traded on a world market, changes in foreign-exchange rates translat immediately into changes in the price of oil (quoted i dollars).

If politicians want to "do something" about recor oil prices, the answer is simple: Enact policies that boos supply and/or reduce demand—and this prescriptio indirectly includes policies that strengthen the dolla For example, opening up the Arctic National Wildlif Refuge (ANWR) and the outer continental shel (OCS) to drilling would boos (expected future) supplies of oil, causing producers with excess capacit today to ramp up current production The feds could also start unloadin the Strategic Petroleum Reserve which currently has some 700 millio barrels stockpiled. As the early Reaga experience showed, large margina tax-rate reductions would boost th dollar on the foreign exchanges. An as far as reducing demand, foreig governments could stop subsidizin gasoline prices for their populations.

All these policies made sense eve five years ago when oil was trading around $30 per barrel. Now that oil is flirting with $150 per barrel (as of thi writing), such policies are imperative. Unfortunately, a we'll now discuss, the suggested remedies coming fron Washington will have the exact opposite impact.

Likely driven more by politics than sound economics, Republicans have increasingly endorsed expande

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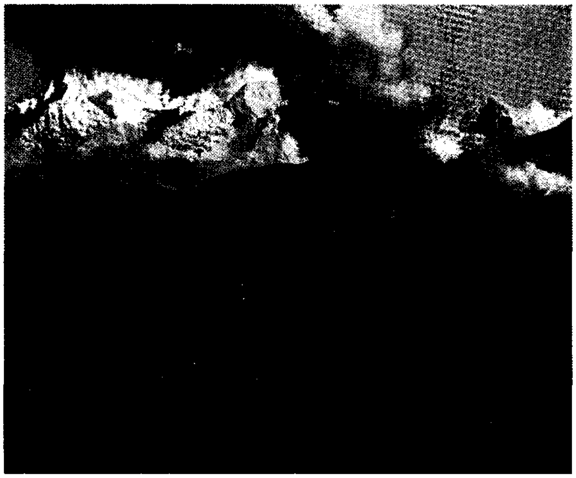
drilling on domestic land and in sea areas controlled by the federal government. For various reasons the standard Democratic response has been to dismiss these proposals as gimmicks that won't solve America's long-term "addiction" to fossil fuels. In this context the rhetorical lengths to which some politicians have gone are simply astounding.

The best (or worst) example concerns statistics on federal land-leasing that have served as talking points during the presidential campaign. The congressional Committee on Natural Resources prepared a report (http://tinyurl.com/6m7ytb) intended to derail the enthusiasm for more drilling by "Big Oil." According to the report:

> Even if increased domestic drilling activity could affect the price of gasoline, there is yet no justification to open additional federal lands. . . . Combined, oil and gas companies hold leases to nearly 68 million acres of federal land and waters that they are not producing oil and gas [from]. . . . Oil and gas companies would not buy leases to this land without believing oil and gas can be produced there, yet these same companies are not producing oil or gas from these areas already under their control.
>
> If we extrapolate from today's production rates on federal land and waters, we can estimate that the 68 million acres of leased but currently inactive federal land and waters could produce an additional 4.8 million barrels of oil and 44.7 billion cubic feet of natural gas each day.



Oil Refinery in Anacortes, Washington

Walter Siegmund, licensed under GNU Free Documentation and Creative Commons Attribution 2.5

Now this is truly astounding. It's hard to know what would be worse: Do the authors of this report—and the politicians who repeat the accusations—actually think this is how the oil industry works, or are they consciously throwing out ridiculous "facts" just to win votes?

If we are to believe the figures in the quotation above, oil companies have the ability to produce an extra 1.75 *billion* barrels of oil per year (4.8 million x 365), which at $140 a barrel would yield around $245 *billion* in extra annual revenues. It's true, they would have to pay a lot more in wages and equipment costs, and the price of oil would certainly drop with that much additional production. Even so, it is ludicrous to think the oil companies are staring at that much money on the ground (or *in* the ground) and ignoring it.

In reality the situation is far less sinister. The oil and gas companies pay the federal government to lease some of the land where it is currently legal to do so, areas they believe are the best prospects for finding oil and gas deposits. Obviously they don't know beforehand exactly *where* the best sites will be; they have to lease the land and *explore*. After doing so, they begin drilling in the areas with the most promise. With record-high oil prices, the companies are naturally going to cast a wide net (insofar as the feds give them legal permission to do so), and so the proportion of leased land that actually ends up being classified as "producing" will be much lower than 100 percent.

Ironically, the higher the fraction of leased land that is producing oil, the *more* suspicious we should be that the oil companies are purposely holding back. After all, assuming they found oil, why would they pay the government to lease lands on which they didn't plan to drill?

Contradictions from Big Oil's Critics

Here we run into yet another nonsensical aspect of the official story from Big Oil's critics. Let's suppose for the sake of argument that the accusations are correct and that opening up ANWR and other federal lands wouldn't lead to more drilling. Then what in the world is stopping the politicians from accepting the oil companies' money? In these hard times, why *not* take billions from ExxonMobil and all the rest? If they don't end up drilling—as the harshest critics allege—then people in Alaska, Florida, and California don't need to worry about their coastlines being soaked in crude spills, now do they?

Things get worse. It's not merely that the conspiracy-charging politicians deny companies access to federal lands that have the potential of major oil and gas discoveries. They want to swing the pendulum in the other direction with so-called "Use It or Lose It" legislation, which would penalize energy companies that lease federal land if they don't begin producing within a specified time.

Putting aside the arrogance of politicians telling oil-industry experts how to run their businesses, such legislation would merely present an additional risk to domestic exploration efforts. As it is, an oil company runs the risk of paying to lease a certain area and finding nothing. The proposed legislation would increase the hazards, causing companies to become more conservative in where they explore.

The "use it or lose it" mentality already prevails when politicians sell access rights to the vast lands they temporarily control.

This sorry episode underscores the flaws with government ownership of land. There are legitimate concerns over environmental quality, just as there are obvious concerns over high gasoline prices. But the political process is a terrible way to settle disputes. If the federal government auctioned off its massive landholdings to the private sector, oil companies and conservation groups alike could make bids and channel resources into appropriate ends, guided by the price system.

As it is, we have the worst of both worlds, where valuable oil and natural-gas deposits are arbitrarily placed off-limits *and* where oil companies are given rights to develop in certain areas without local owners exercising oversight to ensure that the mineral extraction occurs with the appropriate level of attention to long-run resource and environmental value. The "use it or lose it" mentality already prevails when politicians sell access rights to the vast lands they temporarily control—though economists know that this mentality is conducive to economically inefficient exploitation, rather than the wise husbandry that would develo under truly private ownership.

Besides large oil companies, the other popular vil lains are financial-market speculators. According to th official story, oil prices are as much as $70 higher pe barrel than the "fundamentals" justify. Hedge funds pensions, and other institutional investors have floode the futures markets, looking for a piece of the action These investors have gambled on rising oil prices b increasing their holdings of oil futures contracts. Th result (we are told) is a self-fulfilling prophecy, wher institutional purchases push up futures prices, which i turn drive up spot prices. The speculators get riche while the average motorist pays at the pump for thei fat profits.

There is so much wrong with this story that it's har to know where to begin. As always when people accuse market participants of making profits throug "manipulation" we can ask: What too them so long? Why was oil $30 bac in 2003? Were investors back the more altruistic than they are today?

To unpeel the issues in oil speculation, we need to first review th mechanics of the futures market Futures contracts allow producers an consumers to hedge against the risk of price movements. Oil producer can sell futures contracts—which are promises t deliver physical barrels of oil at a future date, for a prespecified amount of money—while major consumers such as airlines, can buy futures contracts to lock in guaranteed price for the massive quantities of oil the will need for operations in the coming years. Future markets thus promote efficiency, as producers and consumers can concentrate on their core businesses an make investments that would be far too risky if the were completely exposed to volatile spot prices.

The True Effects of Speculation

Contrary to popular belief, futures markets do thei job much better in the presence of savvy speculators. When successful, speculators speed price adjustments, and actually make prices less volatile than they otherwise would be. After all, the speculator buys low and sells high (or shorts high and buys back low). These very actions are countercyclical, and keep prices within a narrower band than if the speculators had stayed on the sidelines.

In this environment, large institutional investors provide liquidity to the physical hedgers. It is ironic that while the government takes steps to prop up Fannie Mae and Freddie Mac—whose investors certainly don't plan on living in the houses they finance—politicians and commentators wail about the evil investors who buy oil futures even though they don't ever plan on taking delivery of physical barrels. With large investors willing to pick up the slack, as it were, the traditional hedgers in the oil futures markets can use these contracts more liberally, because they can unload them in a more liquid market.

Markets and Speculation

Up till now we have seen the benefits of speculation. It is true that if speculators are *wrong*, they can distort markets—the housing bubble is a prime example. (There were government policies that encouraged speculation in real estate, but that is another story.) But the market has a handy way of enforcing discipline on speculation. If speculators guess prices will rise, but instead they fall, then the speculators lose money in exact proportion to how wrong their forecasts were. There is no need for government to tack on additional penalties, so long as contracts are enforced and the losers are made to bear the full brunt of their mistakes. The irony is that there is *no hard evidence that speculators have been driving up oil prices*. Thus we have been defending speculators for a "crime" that they don't seem to have even committed.

If it were really the case that the "sustainable" market price of oil that balanced the fundamentals of supply and demand was $80, while speculators had driven the price up to a bubbly $150, we would see a large surplus. Even though supply and demand in the oil market are notoriously inelastic, surely the growth in quantity supplied, and the drop in quantity demanded, from a $70 price hike—especially one that was years in the making—would show up in a sizable excess of crude hitting the market.

This would make perfect economic sense, incidentally. For example, if certain speculators became convinced that an attack on Iran would drive oil to $400 per barrel in the coming months, they would rush to buy futures contracts. This would push up the futures price such that refiners and others with the requisite know-how would find it profitable to sell futures contracts (at the sky-high prices) and buy oil on the spot market. They would literally warehouse the oil for a few months, then unload it when the futures contracts matured.

The Stockpiling Story

Although those stockpiling oil would be doing so for personal gain, the Invisible Hand would ensure that everyone else benefited. Their purchases of spot oil would drive up spot prices, leading to conservation in the present. And of course, when war with Iran interrupted imports, the stockpiled oil would be a blessing.

Official inventory data don't show any stockpiling occurring in the last few years.

However, this story doesn't seem to be playing out when we look at the data. The "yield curve" on oil has been in backwardation—where spot prices exceed futures prices—for large portions of oil's record price run-up, making it difficult to see how investors in futures contracts are pulling up spot prices. Moreover, official inventory data don't show any stockpiling occurring in the last few years.

Now there are ever more convoluted stories that certain economists are spinning to explain away this lack of evidence. For example, it's possible that investors pushed up futures prices, which in turn led Saudi Arabia to scale back its output. This drop in supply then led to rises in spot prices, which explains the lack of massive contango (where spot prices are below futures prices) during the last year. Further, we see no stockpiling in inventory data, because the Saudis are stockpiling the oil under the sand by not pumping.

Even here, the data do not really fit such a story, though admittedly OPEC figures are not as trustworthy as those issued by privately held companies. The

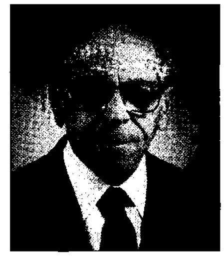
Energy Information Administration estimates that OPEC output did drop from 2005 through the first quarter of 2007. But since then it has been steadily rising, reaching all-time highs in the first quarter of 2008. If we're trying to explain the doubling of crude prices over the last year, a complicated story involving speculators and OPEC restrictions gets ever harder to square with the facts.

In any event, whether or not speculators are responsible for rising oil prices, we can confidently state that proposed regulations to restrict pension and other institutional investors from participating in the oil futures market would do nothing but harm the average American. If millionaires want to bet on rising oil prices, they will still be able to do so, either through hedge funds or in foreign markets. But schoolteachers and assembly-line workers typically do not have the money or savvy for such strategies. Instead, the only way they can hedge themselves against skyrocketing gasoline prices is for their pension- or mutual-fund managers to gain exposure to oil prices. Yet this is precisely what some members of Congress want to crack down on.

Americans are understandably becoming furious over record oil and gasoline prices. In response, the politicians have pointed fingers and proposed fixes that are based on faulty economics. If these odious measures pass, the result will be higher and more volatile oil prices and more exposed consumers. The truly sad thing is that even if this all comes to pass, most voters won't understand what happened, and will believe the politicians when they blame $200 oil on anybody but themselves.

Mendacity by Metaphor

BY THOMAS SZASZ



Once upon a time, law-abiding citizens acknowledged that they wanted lawbreakers punished. They did not say the offenders "needed" punishment. When they used the term "need" metaphorically—as when an outlaw in a bar told his buddies that one of their adversaries "needed" killing—they knew what they were talking about. They did not lie to themselves, nor did they deceive others. This is no longer true. In our society soaked in psychiatry, we systematically use the term "need" metaphorically, to lie to ourselves and to deceive others. Here is an example.

In our society soaked in psychiatry, we systematically use the term "need" metaphorically, to lie to ourselves and to deceive others.

In February 2008 David Tarloff—a career "schizophrenic"—is released from a type of prison we call "hospital." Ten days later he kills a psychologist who shares offices with a psychiatrist whom Tarloff holds responsible for depriving him of liberty. In June the *New York Times* reports: "A lawyer for a schizophrenic man accused of killing an Upper East Side psychotherapist tried three times on Tuesday morning to persuade his client to leave his holding cell for a hearing." The lawyer was unsuccessful. Tarloff was not interested in being cooperative. He was interested in his life situation as he saw (constructed) it. Of course there is nothing new about defendants—especially defendants charged with a capital crime—not cooperating with the judicial system. What is new about it is the way the medical-judicial system now deals with such a person. According to the *Times*,

> The hearing, held in a small courtroom at Bellevue, was held to decide whether doctors could force Mr. Tarloff to take his medication. . . . Justice John E. H. Stackhouse of State Supreme Court in Manhattan granted the hospital's request. . . . Ronald L. Kuby, a defense lawyer, said medication was too often used to create a false sense of sanity. "When the jury sees your client sitting there calmly, peacefully, sort of blankly staring, that person then looks sane," Mr. Kuby said. "But that's a chemically induced stability designed to make the judicial railroad function." . . . "*When somebody is in need of medication*," Mr. Konoski [Tarloff's principal attorney] said, "*forcing them not to have it, forcing them to deal with their demons instead of being able to suppress them through the medication, that's almost like torture.*" [Emphasis added.]

Voilà: The defendant who refuses to ingest a chemical straitjacket has a medical need for the drug. Acceding to the defendant's wish to not be chemically restrained is torturing him. Only in the age of psychiatry could people believe such brazen lies.

I was a trained physician and psychoanalyst before the advent of the class of chemicals we call "psychiatric drugs." I well remember watching—1954 or 1955, when I was serving my required military tour of duty at the National Naval Medical Center in Bethesda, Maryland—what must have been one of the first films promoting chlorpromazine, patented in the United States as Thorazine. The film showed monkeys, rendered irritable and aggressive by starvation and crowding, being injected with the drug and becoming "tranquilized."

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The term was new then. This, we were told, was the new cure for schizophrenia. I did not like what I saw and immediately wrote the following: "The widespread acceptance and use of the so-called tranquilizing drugs constitutes one of the most noteworthy events in the recent history of psychiatry. . . . These drugs, in essence, function as chemical straitjackets. . . . When patients had to be restrained by the use of force—for example, by a straitjacket—it was difficult for those in charge of their care to convince themselves that they were acting altogether on behalf of the patient. . . . Restraint by chemical means does not make [the psychiatrist] feel guilty; herein lies the danger to the patient."

This, then, was the glorious—but unacknowledged and unacknowledgeable—psychopharmacological breakthrough: Restraint could be put in the patient instead of on him and be defined as "drug treatment" (of and for the patient). It was obvious from the start that neuroleptic drugs benefit psychiatrists, not patients. Psychiatrists deal with this predictable result by attributing it to a newly invented mental-brain disease they call "anosognosia."

If you are ignorant of metaphor, warned [Robert] Frost, "You are not safe with science; you are not safe in history . . . in the libraries and galleries."
commons.wikimedia.org

In 1931 Robert Frost (1874–1963) delivered a lecture at Amherst College with the unexciting title "Education by Poetry." It is a profound meditation on, and warning about, uses and abuses of metaphor. Long before I "discovered" the vast errors hidden from us by the metaphor of mental illness, Frost wrote:

> Health is another good word. And that is the metaphor Freudianism trades on, mental health. And the first thing we know, it has us all in up to the top knot. . . . What I am pointing out is that unless you are at home in the metaphor, unless you have had your proper poetical education in the metaphor, you are not safe anywhere. Because you are not at ease with figurative values: you don't know the metaphor in its strength and its weakness. You don't know how far you may expect to ride it and when it may break down with you. You are not safe with science; you are not safe in history. . . . They don't know what they may safely like in the libraries and galleries. They don't know how to judge an editorial when they see one. They don't know how to judge a political campaign. They don't know when they are being fooled by a metaphor, an analogy, a parable. And metaphor is, of course, what we are talking about. Education by poetry is education by metaphor.

Paraphrasing that phrase, I suggest that education by psychiatry is education by and with mendacity, a thesis I have maintained for more than half a century.

Recent reports in the press exposed Dr. Joseph Biederman, professor of psychiatry at Harvard Medical School, and his collaborators of failing to report "at least $3.2 million dollars they had received from drug companies between 2000 and 2007," violating federal and university research rules designed to police potential conflicts of interest.

Biederman is said to be "one of the most influential researchers in child psychiatry, whose work has helped to fuel a controversial 40-fold increase from 1994 to 2003 in the diagnosis of pediatric bipolar disorder, characterized by severe mood swings, and a rapid rise in the use of antipsychotic medicines in children."

He is confident that the children whose behavior displeases their mothers suffer from a brain disease that requires pharmacological treatment. But is drugging children allegedly suffering from "pediatric bipolar disease" analogous to vaccinating them against smallpox, as Biederman suggests? Never mind that antipsychotic drugs are promoted as therapeutic agents, not as prophylactics. Never mind that press reports routinely refer to antipsychotic drugs as subduing involuntary subjects. And never mind that the modern psychiatrists' favorite "patients" are persons who are powerless to resist being cast in that role: children, prisoners, and old people in nursing homes.

If you are ignorant of metaphor, warned Frost, "You are not safe with science; you are not safe in history . . . in the libraries and galleries." You are certainly not safe if you believe that psychiatrists care for and cure sick people, when in fact they coerce and control persons helpless to resist their violence.

Making Social Security More Harmful

BY J. R. CLARK AND DWIGHT R. LEE

Social Security is a fundamentally flawed system. If a private firm offered such a retirement system and made the same claims for it that the federal government makes for Social Security, that firm would quickly become a poster child for corporate fraud, and its managers would soon be convicted of criminal charges.

There are two fraudulent claims the federal government makes about Social Security that deserve special attention. By considering how these two claims interact with each other, it becomes clear that the politicians and pundits who defend Social Security are increasing the harm it is imposing on American workers.

Two Fraudulent Claims

Consider first that ever since Social Security was enacted in 1935 Americans have been told that their "contributions" are being deposited into their own account to pay for their retirement benefits. This claim has become more implicitly suggested than explicitly stated in recent Social Security brochures, but not in the statements of politicians when opposing any attempt to partially privatize the program. Al Gore, in his 2000 presidential campaign, assured the public that if he were elected our Social Security "contributions" would remain secure in a "lockbox" until our retirements. It was never made entirely clear whether we each had our very own lockbox or all the money was in one big lockbox.

We cannot find any serious study that estimates how many people really believe that the taxes they pay to Social Security are being saved and invested to finance their retirement, instead of being spent immediately by politicians, as is actually the case. But it is clear that many do believe that they have a personal Social Security account containing the money to fund their retirement benefits. Alan Greenspan recounts in his recent book, *The Age of Turbulence*, a story told by former House leader Tom Foley. When Foley tried to inform his mother that there were no lockboxes containing the money to pay for Social Security, she told him, "I hope you will not be offended at how surprised and shocked I am to find that the majority leader of the House of Representatives knows nothing about Social Security."

The other fraudulent claim made about Social Security (again, from the very beginning of the program) is that employees pay only half the cost, with employers paying the other half. This claim is widely seen as plausible because the legislation authorizing Social Security clearly stipulates that the required payments are to be split evenly between employees and employers. If this were true, then employees would now be paying 6.2 percent of their before-tax income up to $102,000 a year; employers would match that amount.

As any good student in an economic-principles course should learn, however, the amount of a payroll

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tax actually paid by employees and employers has absolutely nothing to do with what politicians mandate in legislation. It is true that each worker has 6.2 percent of his after-tax income deducted from his paycheck and sent to the Social Security Administration (SSA) and his employer sends in the same amount. But by altering the wages employers pay and workers receive, these payments change the supply and demand schedules for labor—at a given nominal wage, different amounts of labor will be supplied and demanded than before. (In the lingo of economics, the supply and demand curves shift.) Until we know how wages and salaries change in response to these shifts, we cannot tell how much of the Social Security cost is paid by the employees and how much is paid by employers. For example, if a worker's salary is reduced by exactly the same amount that the employer sends to the SSA for her, then the cost to the employer is nothing (what he pays for the worker's Social Security is offset by the lower salary) and the worker ends up paying the entire cost.

We are not going to work out the details for determining how the Social Security cost is divided between workers and employers. But having worked this out with graphical analysis in an October 2006 article in *Economic Inquiry*, we can provide a simple verbal explanation of how those who defend Social Security are adding to the harm it inflicts on American workers.

> It is ironic that those pundits and politicians who oppose even the most timid moves to privatize Social Security . . . are widely seen as protectors of American workers.

The employer requirement to send a check to the SSA for each worker equal to 6.2 percent of salary revises downward the firm's demand schedule for labor according to the amount of this check. This reduction in demand, considered by itself, obviously reduces the salary the firm is willing to pay each worker. Similarly, the Social Security deduction from each worker's paycheck reduces the labor supply by revising upward the supply schedule by the amount of this deduction, *assuming that there is no expected benefit from Social Security.*

But this overstates the reduction in labor supply if workers believe they are going to receive some benefit from Social Security. The more benefit workers expect to realize from Social Security (in present-value terms) the less the labor supply will decline. And indeed, i they expect to receive more in Social Security benefit than the amount deducted from their checks, thei labor supply will increase out from the original level.

But this means that even if workers are receiving benefits greater than the amount being deducted from thei paychecks, they are not necessarily better off. Th decrease in labor demand and the increase in labor supply can result in a salary reduction greater than th amount Social Security benefits are expected to excee paycheck deductions. In fact, as we show in our *Economi Inquiry* article, workers are made worse off by Socia Security unless the benefits they expect *and actually receiv* are at least equal to the total amount paid for Socia Security by *both* the workers and their employers.

Defrauding Workers

We are now able to nail down ou main point—that advocates of Socia Security are defrauding Americar workers in two ways. First, claim which leave the impression tha money paid into Social Security i being saved for our retirements lea workers to believe their benefits ar more secure than they are.

Second, persistent claims tha workers pay only half the Socia Security tax lead them to believ their benefits cost them less tha they really do.

These fraudulent claims clearly increase the political viability of Social Security by misleading worker into expecting larger benefits than they will receive But it is worse than this. By generating exaggerate expectations of Social Security benefits, the two claim are actually reducing the net benefits workers receive b increasing the amount they are paying for them wit lower wages.

It is ironic that those pundits and politicians wh oppose even the most timid moves to privatize Socia Security by downplaying, or denying outright, its Ponzi-scheme nature are widely seen as protectors of American workers.

Language, Loyalty, and Liberty

BY BECKY AKERS

The equanimity with which Americans have watched their freedoms flee puzzles many of us, but perhaps I've solved the mystery: they're too busy worrying about the English language instead. They fear its imminent expiration, however exaggerated reports of that death may be. Some blame rap music, text-messaging, or state-enforced "education" for English's demise; many fault immigrants. After all, these newcomers often cling to their native tongues and traditions instead of assimilating by learning English. This allows Americans to conclude that English is a fragile waif as endangered as Lady Liberty. And they want government to defend her. In June 2005, Zogby International found that 79 percent of Americans approve making English the official language of the United States.

Some blame rap music, text-messaging, or state-enforced "education" for English's demise; many fault immigrants. After all, these newcomers often cling to their native tongues and traditions instead of assimilating.

That's enough of a plurality to support several organizations. One is U.S. English, founded in 1983 by the late S. I. Hayakawa, a semanticist and one-time U.S. senator from California. It boasts 1.8 million members and lobbies to enshrine English as America's "official" language, by which it means that "official government business at all levels must be conducted solely in English." Another association, Pro-English, "work[s] through the courts and in the court of public opinion to defend English's historic role as America's common, unifying language, and to persuade lawmakers to adopt English as the official language at all levels of government."

Both groups bravely and vehemently object to the infamous "Executive Order 13166. Improving Access to Services for Persons with Limited English Proficiency." President Bill Clinton foisted this on the nation in August 2000 when he fretted lest folks who weren't fluent in English forgo their share of federal freebies. The order requires both Leviathan's agencies and "recipients of Federal financial assistance," such as hospitals, schools, and colleges, to "ensure that the programs and activities they normally provide in English are accessible to LEP [limited English proficiency] persons and thus do not discriminate on the basis of national origin in violation of title VI of the Civil Rights Act of 1964."

Thanks to its unconstitutional presumptions, let alone its vague and expansive wording, this spawn of the Civil Rights Act may have wreaked as much harm as its parent. Complying with its open-ended orders has cost taxpayers billions. For example, California's Department of Motor Vehicles alone pays $2.2 million annually in translating costs. Thirty states now limit such damage with "official English" laws. And while economic self-defense seems to require these measures, a far better response is to shrink and defang government. We ought to prohibit it

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from interfering in our lives rather than allowing it to ensure that every serf understands its dictates and snits.

Most Americans who tout "official English" conflate the concept with "Americanization." They not only want immigrants to speak English; they also expect them to assimilate. Conservative activist and ex-bureaucrat Linda Chavez recently advocated "giv[ing] priority to immigrants" who want to live here when they "already speak English, since this is a key factor in their successful integration into American society." Furthermore, "successful assimilation should be the goal of US immigration policy."

No doubt Ms. Chavez believes her former employer, the federal government, should decide which immigrants will best assimilate—a vague term with different definitions for different people. She chillingly advises, "We could also give priority admission to immigrants willing to serve in the US military. . . ."

Distrust of Immigrants

Whatever they mean by "assimilation," Americanizers distrust immigrants who persist in their native customs while living among their kindred and countrymen in a bewildering new land. U.S. English warns that "the lack of an assimilation policy for immigrants to the United States is rapidly changing the successful integration ways of the past. Gone are the days of the American Dream and the upwardly mobile society for immigrants. In its place are low expectations and government policies that encourage Americans to learn the language of the immigrants, instead of the other way around."


Theodore Roosevelt
Library of Congress

Pro-English also bundles speaking English with assimilation. It blames mandatory "multilingualism" for "causing a growing underclass, which is segregated and walled off into linguistic ghettos. A century ago such immigrant ghettos were marked by extreme poverty, 80-hour workweeks and child labor." Though we might credit liberty for unleashing the innovations and technology that ended those hardships, Pro-English instead praises "mandatory public education and reduced immigration" because they allowed the "successful assimilation of ethnic communities into American society." It also extols those long-ago immigrants for realizing that "language skills were the key to entering the emerging 'middle class.'" If only modern migrants were as astute.

Yet the politicians of that halcyon age saw immigrants as anything but cooperative and compliant. In fact, they frequently castigated them for spurning English "language skills" and the "emerging 'middle class,'" that is, assimilation. Yesteryear's officials complained as much as today's Americans about newcomers who stubbornly preferred their own language and lifestyle—so much that contemporary Americanizers still quote them approvingly. One of their favorites is the neoconservative icon Theodore Roosevelt.

On January 3, 1919, the former president wrote to the American Defense Society as its honorary head. This letter of regret at missing one of the Society's events became his last public statement; he died three days later. The rich, retired ruler didn't blush at beating up on people fleeing persecution, disease, war, and wretched poverty: "In the first place, we should insist that if the immigrant who comes here does in good faith become an American and assimilates himself to us, he shall be treated on an exact equality with everyone else. . . . But this is predicated upon the man's becoming in very fact an American, and nothing but an American."

That would be news to the Founding Fathers, who recognized our rights as "inalienable," endowed with our humanity and independent of anything we say or do. Nor does it matter whether immigrants are—or aren't—good for America. Whether they depress labor markets, enlist in the armed forces, or pay more in taxes than they send home to impoverished families is all irrelevant. Immigrating and emigrating are natural rights belonging to individuals; whether immigrants benefit a nation is as immaterial as whether free speech does. Governments may not restrict a person's freedom to speak his mind—in whatever language he pleases—and they may not restrict his freedom of movement. Those that do are tyrannies.

But Roosevelt disdained natural rights and a government too limited to threaten them. His letter next attacked freedom of association.

"If [an immigrant] tries to keep segregated with men of his own origin and separated from the rest of America, then he isn't doing his part as an American. There can be no divided allegiance here. Any man who says he is an American but something else also, isn't an American at all. We have room for but one flag, the American flag . . . and we have room for but one, soul loyalty, and that loyalty is to the American people." (Many commentators excuse "soul" as a typo for "sole"—but we'll accept the sentence as he wrote it.)

Joining the president in his preoccupation with immigrants' souls was Louis Brandeis, future Supreme Court justice. On July 4, 1915, Brandeis decreed, "However great his outward conformity, the immigrant is not Americanized unless his interests and affections have become deeply rooted here. And we properly demand of the immigrant even more than this—he must be brought into complete harmony with our ideals and aspirations and cooperate with us for their attainment. Only when this has been done will he possess the national consciousness of an American."

It's too bad 78 percent of Americans don't realize that "helping immigrants" helps the state far more: it benefits from yet another program.

Naturally, good Americans speak English. Even if an immigrant "adopt[ed] the clothes, the manners and the customs generally prevailing here," he was only a "superficial" American in Brandeis's opinion. "Far more important is . . . when he substitutes for his mother tongue the English language as the common medium of speech." Roosevelt emphatically agreed. The 48-state union of 2,917,652 square miles that he judged too tiny for multiple flags and loyalties couldn't accommodate multiple languages, either: "We have room for but one language here and that is the English language. . . ."

State Compulsion for English

Roosevelt also advocated compulsory English education. In 1916 he declared, "Let us say to the immigrant not that we hope he will learn English, but that he has got to learn it. Let the immigrant who does not learn it go back. He has got to consider the interest of the United States or he should not stay here."

Talk about setting a high bar! If we're going to eject residents who consider their own interests instead of the country's, let's begin with politicians and bureaucrats.

When either group grouses that immigrants must learn English, they mean that Leviathan will teach it to them. Requiring English in 21st-century America implies that government will operate centers to teach it; U.S. English believes that "teaching newcomers English is one of the strongest acts of inclusion our government can provide." And Pro-English cites another poll from Zogby in which "78% of Americans believe that the government should do more to help immigrants learn English." It's too bad 78 percent of Americans don't realize that "helping immigrants" helps the state far more: it benefits from yet another program, with more jobs to dispense and taxes to collect, as well as the chance to indoctrinate victims.

There are the demagogic advantages, too, of pitting people against one another: Politicians encourage natives to fear newcomers with their incomprehensible languages and to turn to government for protection. Roosevelt exploited those fears on July 4, 1917, when he implied that God alone knew what treason German immigrants were plotting: "During the present war all newspapers published in German, or in the speech of any of our foes, should be required to publish, side by side with the foreign text, columns in English containing the exact translation of everything said in the foreign language. Ultimately this should be done with all newspapers published in foreign languages in this country."

Ninety years later the same attitude flourishes, though with even less excuse. The justification this time is not that a warring nation must know what those sneaky foreigners are plotting, but that red-blooded Americans aren't comfortable confronting the unfamiliar. New York City Councilman and mayoral candidate

John Avella represents a district of multiple ethnicities in Queens. He has repeatedly attacked his Korean constituents for posting Korean signs advertising their Korean shops to Korean customers. "I don't think there's racism here," Avella averred in 2004, "but people [as opposed to Koreans?] really feel discriminated against when they suddenly see a store sign in the neighborhood they grew up in, and can't understand it. The obvious response is to say, 'They don't want me in their store; they don't want me here.' "

And the obvious response from a politician is to say, "There oughta be a law." So it's no surprise Avella announced "he was preparing a bill requiring all signs in the city to be 'at least half in English.'" This inversion of Executive Order 13166 went far enough that a councilman who opposed it, John Liu, led a task force that surveyed 293 businesses in the suspect neighborhood. It concluded that only 5 percent of the signs included no English—though another 12 percent boasted some English words without actually describing the shop. Those inscrutable immigrants are a wily bunch.

Government and Xenophobia

Xenophobia seems to be part of the human condition. Newcomers have always struggled with the suspicion and dislike most people harbor for those who look, act, or speak differently. The federal government endorsed these dark emotions in the 1870s, when the Supreme Court discovered a constitutional "interest" in immigration. Curiously, the feds had somehow overlooked that "interest" for the nation's first century. It's even more curious that despite pressure from Westerners who resented the cheap Chinese workers flooding their states, the Court couldn't come up with the constitutional clause concerning this "interest," either. The justices compensated by citing "national sovereignty" and other euphemisms for "wink-wink-the-Constitution-actually-prohibits-federal-interference-here-but-who-cares?"

> Rather than immigrants, Americanizers ought to attack government for sponsoring the programs—public schools, Social Security, food stamps, Medicaid—they claim newcomers abuse.

Meanwhile, with the rise of the welfare state, immigrants' alleged greed for "public services" has also earned Americanizers' wrath. They forward emails ("WAKE-UP FOLKS. A REAL EYE OPENER") warning that "$12 Billion a year is spent on primary and secondary school education for children here illegally and they cannot speak a word of English." The eye-openers rightly resent Leviathan's theft of our money to brainwash kids, but where those children were born and what they speak are irrelevant to that crime.

Rather than immigrants, Americanizers ought to attack government for sponsoring the programs—public schools, Social Security, food stamps, Medicaid—they claim newcomers abuse. (Our friends are on thin ice here: Every study proving that immigrants disproportionately abuse the taxpayers' largess has an equal and opposite study crowning born-and-bred Americans as welfare kings and queens.) When the state dangles free money in front of people, almost everyone will grab it, regardless of nationality or citizenship.

The reality also differs from the stereotype regarding English. Most immigrants want to learn English and struggle valiantly to do so. Common sense tells them that communicating with employers and clients is requisite for prospering in their new home. A Pew Hispanic Center/Kaiser Family Foundation poll in 2002 reported that 90 percent of Latinos believe Latino immigrants must learn English to succeed here. Yet Americanizers slander immigrants as too stubborn and unpatriotic to bother. Jingoists who have never tried to master a foreign language themselves apparently forget that children pick up new lingo far more easily than adults do. Older immigrants who aren't verbally facile strain to understand English, let alone speak it; they may want to learn it every bit as much as the Americanizers want them to. There's added incentive if they need to converse with other immigrants who don't come from their country or sometimes even their particular region: people newly arrived from China have to learn English if they expect to do business with their Mexican neighbors.

English also enjoys cachet as an international language, the patois of Coca-Cola, McDonald's, rock music, and Hollywood's glitter. Plus it's easier than other languages, with straightforward, uninflected grammar. Philip Sidney rejoiced in 1598 that English is "void of those cumbersome differences of cases, moods, genders and tenses, which I think was a piece of the tower of Babylon's curse that a man should be put to school to learn his mother tongue." Kids immediately grasp this. When I asked a little girl born in New York City to Spanish-speaking parents which language she uses with her Hispanic friends, she gave me a look that showed how dumb my question was. "English, a course," she said. "It's faster." Life's an exciting whirl when you're six years old; who has time to spout ten Spanish words when only three or four English ones convey the same idea?

Language is a deeply personal trait that shapes the very way we think. No wonder the state tries to insinuate itself here.

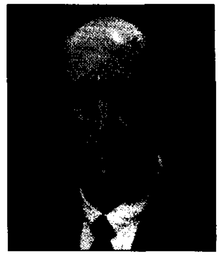
The Paternalism of Americanizers

But none of these advantages deflect the Americanizers from enforcing English. They often cloak their insistence with the excuse that they want to help new citizens take advantage of all America offers. ("Illegal" immigrants are another matter. The only help Americanizers would spare them is a ticket home. People who hope to live in the land of the free must first obtain a bureaucrat's permission.) If newcomers are too stupid to understand their own best interests, Americanizers stand ready to assist them—by force, if necessary.

But why measure patriotism with language? How does vernacular determine devotion to the American ideals of liberty, private property, and equality under law? The Americanizers, with their faith in compulsion, betray freedom far more than the non-English-speaking immigrant.

Language is a deeply personal trait that shapes the very way we think. No wonder the state tries to insinuate itself here—which makes it all the more imperative that we grant government no say in something so subjective, essential, and vital. Encouraging immigrants to speak their native tongues at home, as the Los Angeles Unified School District did in the 1990s, is every bit as offensive as forcing them to speak English. (We won't even start on bilingual education in Leviathan's schools: Why inveigh against that detail when the whole structure is rotten?) If we must have a government, its sole purpose is to protect our rights to life, liberty, and property; it has no place promoting one language over another. Lovers of liberty should object strenuously each time the state intrudes in this area, whether on behalf of English or any other tongue.

John Milton wrote in *Areopagitica* that English is "the language of men ever famous and foremost in the achievements of liberty." Let's keep it that way.



The Great Escape from the Great Depression

BY ROBERT HIGGS

Questions about the Great Depression may be usefully framed as pertaining to three distinct issues: the Great Contraction, the extraordinarily severe economic decline from 1929 to 1933; the Great Duration, the persistence of subpar economic performance for more than a decade; and the Great Escape, the ultimate recovery from this uniquely deep and long depression. Although economists continue to debate the causes of the Great Contraction and the Great Duration, a rough consensus has emerged that major policy blunders of various sorts deserve most of the blame for these calamities. With regard to the Great Escape, economists have also reached substantial agreement, but unfortunately they have come to agree on an interpretation that is almost completely wrong.

It is wrong factually because it places the Great Escape in the early 1940s, around the time the United States became a declared belligerent in World War II, whereas the economy did not return to what we may properly describe as prosperity until after the war. Economists have misconstrued the specious "wartime prosperity" as the real thing, but diverting nearly 40 percent of the total labor force into military-related employment and producing mountains of guns and ammunition do not create genuine, sustainable prosperity, as people would discover if they tried to operate an economy on this basis for more than a brief period. The true Great Escape did not occur until 1946.

Economists generally recognize, of course, that normal, civilian-oriented prosperity resumed after the war.

Economists generally recognize, of course, that normal, civilian-oriented prosperity resumed after the war, but their explanations of this resumption generally rest on factual and theoretical mistakes, and they fail to take into account certain factors that were critical to a successful transition from the wartime command-and-control economy to a peacetime market-oriented economy.

Perhaps the main reason why economists have misunderstood the remarkably smooth transition is that they have first misunderstood the war economy itself. They have viewed the war "boom" in simple Keynesian terms: Government spending, financed by huge budget deficits and accommodated by rapid increases in the money stock, propelled the economy from the lingering depression to unprecedented heights—indeed, during the peak years of war production the economy appeared to be operating far beyond its "capacity to produce," even though by 1945 more than 16 million prime-age men had been pulled from the labor force at some point and replaced by teenagers, women with little or no experience in the paid labor force, and elderly men.

In truth, however, this apparent Keynesian "miracle of production," during which the unemployment rate had been pushed to an all-time low of less than 2 percent, rested not on shrewd fiscal and monetary policy, but on massive military conscription, which had directly pulled more than 10 million men out of the labor force and indirectly induced millions of others to enlist in hopes of avoiding service in the dreaded infantry.

After the war most of the wartime economic controls were discontinued, more than 10 million men were mustered out of the armed forces, and the released warriors and civilian war workers quickly found private employment or left the labor force for home or school.

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The unemployment rate in 1947, when the transition was nearly complete, was less than 4 percent.

The standard interpretation of the transition after 1945 emphasizes that during the war people had accumulated enormous amounts of bonds and bank deposits, and afterward these financial holdings were "released" to finance consumer spending, especially for durable goods whose production had been prohibited or greatly diminished during the war. This interpretation, however, makes no sense: the bonds one man sold another bought, leaving the economy's overall holdings unchanged. Similarly, the money one man spent by drawing down his bank account reappeared in the sellers' bank accounts, leaving the economy's overall bank deposits unchanged. In fact, holdings of liquid assets did not decline at all after the war. People financed their spending for consumer goods by reducing their saving rate.

Nor did people attempt to reduce their holdings of liquid assets by decreasing their demand for cash balances—equivalently, by increasing the average dollar's "velocity of expenditure." Velocity actually fell slightly during the immediate postwar years (because, some economists have conjectured, people still expected postwar deflation).

Holdings of liquid assets did not decline at all after the war.

Nor did consumers reduce their holdings of government bonds. Although the amount of outstanding government debt declined between 1945 and 1948, this occurred almost entirely because of reductions in the holdings of commercial banks and corporations other than banks and insurance companies.

Postwar Business Expansion

While consumers were financing their postwar spending binge simply by reducing their saving rate, which had risen to extraordinary heights during the war, businesses financed their postwar investment surge by selling government securities acquired during the war; by retaining more of their current earnings, in part because business taxes were reduced substantially after 1945; and by entering the capital markets, where stocks and bonds could be sold on very attractive terms. Even greater business expansion was prevented mainly by lack of materials, rather than by lack of desire to invest or lack of financial resources—to the great astonishment of the elite Keynesian economists, who had forecast that a severe postwar depression would occur when the government reduced its purchases of war-related goods and services.

The Keynesians had failed completely to understand that the prewar depression had persisted in large part because during the Second New Deal (1935–38) the Roosevelt administration had created extreme apprehension in the minds of investors and businessmen about the security of private property rights, and hence had discouraged these parties from making the large volume of long-term investments necessary for the economy's full recovery and for its sustained long-run growth. During the war, investor-friendly businessmen in temporary government service had administered the command economy for the most part, but concentration on winning the war had kept the civilian economy starved for resources.

By the war's end, however, Franklin D. Roosevelt was dead, the Second New Deal's most zealous advisers and administrators had left the government or had been pushed into less influential positions, and therefore the future security of private property rights looked considerably more auspicious than it had looked before the war—a change in outlook sufficient to induce a great deal of long-term private investment for the first time since 1929. Because "regime uncertainty," which had dominated the later 1930s, no longer cast such a dark shadow over business and investment, the economy finally recovered from the Great Depression and the economic hardships of the war years, even as it simultaneously reallocated about 40 percent of the labor force from war-related uses to civilian uses.

The year 1946, when civilian output increased by about 30 percent, was the most glorious single year in the entire history of the U.S. economy. By 1948, real output was back on its long-run growth trend, and during the decades that followed, the economy was spared the sort of deep and long debacle that a congeries of wrongheaded government policies had caused during the 1930s.

Commerce, Markets, and Peace: Richard Cobden's Enduring Lessons

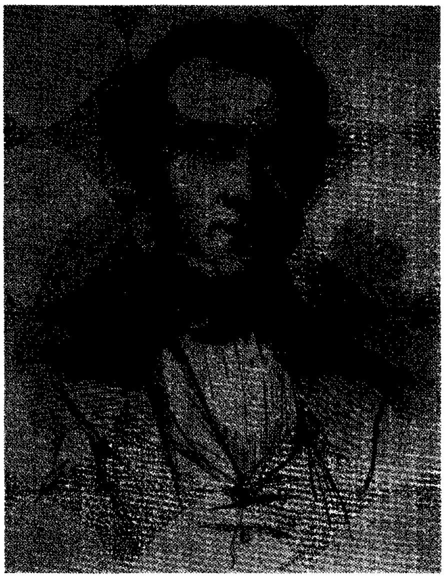
BY EDWARD P. STRINGHAM

The progress of freedom depends more upon the maintenance of peace and the spread of commerce and the diffusion of education than upon the labour of Cabinets or Foreign Offices.

—RICHARD COBDEN (1804–1865)

In a 1944 review of F. A. Hayek's *Road to Serfdom*, George Orwell declared, "Capitalism leads to dole queues, the scramble for markets, and war." Indeed, if we look at the past century, we see significant advances in markets, but we also see an era plagued by war. Do capitalism and conflicts go hand in hand? Are the military and markets complements? Indeed, many conservative advocates of markets also passionately support the military, and many people who oppose war also oppose markets.

Nineteenth-century writer Richard Cobden, however, maintained that the military and markets were substitutes: More military entails less market. Although the ideas in *The Political Writings of Richard Cobden* (1903) are a century and a half old, Cobden considered many arguments for military interventionism still made today. He discussed whether military spending was beneficial to the economy, to commerce, and to peace, and in all three cases he answered no. Both conservatives and left-liberals can learn much from Cobden's discussion of commerce, markets, and peace. As he demonstrated, the advocate of markets must be an advocate of peace.



Richard Cobden (1804–1865)

Cobden began his 1835 pamphlet *England, Ireland, and America* with a quote from George Washington's farewell address to the American people: "The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations, to have with them as little political connection as possible." Whereas Washington made the political case for trade with all and entanglements with none, Cobden outlined an economic case; he was not a pacifist on principle.

Cobden emphasized first the opportunity costs of military spending. Unlike later economists influenced by John Maynard Keynes, he did not fall victim to the "broken window" fallacy. He recognized that each million the government spent was necessarily a million (or more) not spent by private parties. When the government devotes resources to armies and navies, those resources have an opportunity cost.

Cobden did not view all government expenditures as promoting the public good. As the government consumes more resources, fewer resources can be devoted to private wealth-generating activities. Government agents may gain from increased public spending, but the

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public loses. Cobden drew a distinction between the interests of the productive class and the interests of government. "Our history during the last century may be called the tragedy of 'British intervention in the politics of Europe'; in which princes, diplomatists, peers, and generals, have been the authors and the actors—the people the victims; and the moral will be exhibited to the latest posterity in 800 millions of debt." When the state directs resources, its beneficiaries certainly gain, but unfortunately the public foots the bill.

Cobden on Military Adventurism

Cobden viewed Britain's military expenditures as wasted resources. Rather than encouraging commerce, the army and navy were a drain on the economy. He maintained that the productive citizens did not profit from the British government's activities around the globe. He wanted to educate members of the business class that they had to pay for all of the government's projects. When the government creates programs around the world, he argued, the bureaucracy can only grow. Although this activity may look good for government, the average person receives little benefit when government exerts its influence abroad.

Cobden recognized that taxes constitute a weight on the economy and that decreasing military spending abroad would result in significant savings.

Although the public's benefits are murky, its costs are crystal clear. Cobden recognized that taxes constitute a weight on the economy and that decreasing military spending abroad would result in significant savings: "[W]e know of nothing that would be so likely to conduce to a diminution of our burdens, by reducing the charges of the army, navy, and ordnance (amounting to fourteen millions annually), as a proper understanding of our relative position with respect to our colonial possessions." Although England's international affairs were conducted under the pretext of enhancing the public good, Cobden believed that much of public policy benefited only special interests: "The honours, the fame, the emoluments of war belong not to [the middle and industrious classes]; the battle-plain is the harvest-field of the aristocracy, watered with the blood of the people."

At the time Cobden wrote, Britain had more than ten times more ground soldiers than the United States maintained and a significantly larger navy as well. He hypothesized that American enterprise had become so important in such a short time because it was relatively unburdened by heavy taxes. "It has been through the peaceful victories of mercantile traffic, and not by the force of arms, that modern States have yielded to the supremacy of more successful nations." He upheld the Americans' lesser military spending as a model to be followed: "The first, and, indeed, only step towards a diminution of our government expenditure, must be the adoption of that line of foreign policy which the Americans have clung to, with such wisdom and pertinacity, ever since they became a people." Cutting back government spending is the easiest way to improve economic performance.

Cobden's hypothesis seems to be corroborated by empirical work by Malcolm Knight, Norman Loayza, and Delano Villanueva ("The Peace Dividend: Military Spending Cuts and Economic Growth," *International Monetary Fund Staff Papers*, 1996, 1–37), which indicates that the greater the military spending in an economy, the worse the economic performance. These analysts hypothesize that "military spending adversely affects growth; namely, through crowding out human capital investment and fostering the adoption of various types of trade restrictions."

Markets and the Military

Although all able economists recognize military spending as costly, these costs may be necessary for the existence of markets. If so, opposing military spending would amount to opposing markets, as many conservatives contend. Commerce certainly has beneficent characteristics and war does not, but perhaps society has to take the bad with the good. The only choice might be to accept both markets and militarism or to oppose both. To Cobden, however, this union was a false marriage: Markets and military do not go hand in hand; the success of an economy depends on the achievements of free enterprise, which do not depend on military spending.

We can see this reality by looking at where the government devotes military resources. Discussing how much trade occurred between England and the United States, Cobden asked, "Now, what precaution is taken by the Government of this country to guard and regulate this precious flood of traffic?" Although the commerce certainly had great importance, the merchants who conducted it were for the most part on their own. With great passion, Cobden argued that commerce did not depend on the navy:

> How many of those costly vessels of war, which are maintained at an expense to the nation of many millions of pounds annually, do our readers suppose, are stationed at the mouths of the Mersey and Clyde, to welcome and convoy into Liverpool and Glasgow, the merchant ships from New York, Charleston, or New Orleans, all bearing the inestimable freight of cotton wool, upon which our commercial existence depends? Not one!

Similarly, he asked about the army: "What portion of our standing army, costing seven millions a year, is occupied in defending this more than Pactolus—this golden stream of trade, on which floats not only the wealth, but the hopes and existence of a great community? Four invalids at the Perch Rock Battery hold the sinecure office of defending the port of Liverpool!" The world is too big for any nation to police every mile of it, so merchants were left to themselves.

> But our exports to the United States will reach . . . more than ten millions sterling, and nearly one half of this amount goes to New York: —what portion of the Royal navy is stationed off that port, to protect our merchants' ships and cargoes? The appearance of a King's ship at New York is an occurrence of such rarity as to attract the especial notice of the public journals; whilst, all along the entire Atlantic coast of the United States—extending, as it does, more than 3,000 miles, to which we send a quarter of our whole yearly exports—there are stationed two British ships of war only, and these two have also their station at the West Indies. No! this commerce, unparalleled in magnitude, between two remote nations, demands no armament or safeguard.

The trade between the nations was immense, but British merchants simply could not depend on their navy to defend their every journey. The British military, although significant, was not devoting its resources to protecting merchants.

The Legacy of Mercantilism

Why then are so many arguments for the military made in the name of commerce? One reason is the legacy of mercantilism, under which the government played an active role attempting to manage the economy. This intervention included the establishment of foreign trading monopolies by law. Because the government maintained these commercial monopolies with armed forces, the discussion of commerce and the military went hand in hand. To Cobden, however, mercantilist policies conflict with free trade. The military should not be used to enforce monopolies.

Cobden favored abandoning military conquest for the benefit of "commerce" and adopting instead a system of free trade. The entire military involvement with commerce was unnecessary, so superfluous spending could be cut without harming the market.

If the spread of trade increases the risk of incurring greater costs—due, for example, to thievery or extortion by governments or by pirates—the simple solution is to implement policies friendly to business. Triumph in the world market hinges on successful private enterprise, which depends not on military superiority but on lower costs. By cutting the military drastically, the savings can be passed on to productive enterprise. "By this course of

Cobden favored abandoning military conquest for the benefit of "commerce" and adopting instead a system of free trade.

policy, and by this alone, we shall be enabled to reduce our army and navy more nearly to a level with the corresponding burdens of our American rivals."

Markets Foster Peace

Not only does free trade require little military backing, but, moreover, markets should substitute for the military. Replacing military relations with commercial relations would lead to significant tax savings, as well as to more peace. "[B]esides dictating the disuse of warlike establishments, free trade (for of that beneficent doctrine we are speaking) arms its votaries by its own pacific nature, in that eternal truth—*the more any nation traffics abroad upon free and honest principles, the less it will be in danger of wars*" (emphasis in original). Thus rather than creating antagonistic relationships, trade encourages peaceful relations between nations. Nothing encourages cooperation so much as a mutually advantageous enterprise. Manufacturing, not naval strength, is the key to prosperity.

Cobden believed that trade would flourish as long as manufacturers lowered their costs. When trading partners specialize according to their comparative advantage, they produce increased output and consumption for all traders.

The dilemma concerning international trade is that it requires more than one party. If one country adopts policies inimical to markets, it reduces others' opportunities for trade. Can liberating such a country benefit both its citizens and its liberators? Citizens would have their government overthrown, and the liberators would have newfound trading partners, so might the outcome be a win-win situation? Cobden considered such justifications for military involvement abroad, recognizing that appeals for military involvement were made in the name of promoting good. He favored the preservation of peace, but he disputed that military involvement was an effective means to that end. In his view military intervention served the interest of neither the intervening nation nor the distant country.

Foreign Policy of Non-Intervention

Cobden made a case first by appealing to the self-interest of his fellow citizens. He argued that a country embroiled itself in other people's affairs only at its peril: "Our sole object is to persuade the public that the wisest policy for England, is to take no part in these remote quarrels. . . . We shall claim the right of putting the question upon a footing of self-interest."

Although many problems exist in the world, becoming involved in each one would be futile. "Upon what *principle*, commercial, social, or political—in short, upon what ground, consistent with common sense—does the foreign secretary involve Great Britain in the barbarian politics of the Ottoman Government, to the manifest risk of future wars, and the present pecuniary sacrifice attending standing armaments?" (emphasis in original). Moreover, not only are such endeavors costly, but they also risk full-fledged war. Why should a country be surprised when it is attacked after its government has involved itself in far-off concerns? Cobden believed countries that do not maintain an international military presence would be less at risk.

Why should a country be surprised when it is attacked after its government has involved itself in far-off concerns? Cobden believed countries that do not maintain an international military presence would be less at risk.

Even though other governments may well be in the wrong, why chance the further muddying of already roiled waters? Viewing British involvement with foreign nations as a problem, Cobden argued that the British had no business interfering in overseas politics. "If we go back through the Parliamentary debates of the last few reigns," he observed, "we shall find this singular feature in our national character—the passion for meddling in the affairs of foreigners." With sufficient problems at home, why worry about the entire world's problems? "Public opinion must undergo a change; our ministers must no longer be held responsible for the every-day political quarrels all over Europe." Intervention struck Cobden as counterproductive: "Again we say (and let us be excused the repetition of this advice, for we write with no other object but to enforce it), England cannot survive its financial embarrassment, except by renouncing that policy of intervention with the affairs of other States which has been the fruitful source of nearly all our wars."

A second type of argument for military involvement abroad is humanitarian. Yes, military intervention entails costs, but when a country is blessed with more liberty, compassion requires helping others to attain such liberty. Although Cobden favored liberty throughout Europe, he did not believe that British military action could establish it.

Exporting Liberty by Force

He questioned whether war can advance markets. Simply deposing and replacing a country's leaders will not lead to more liberty. Cobden wrote: "[L]et it never be forgotten, that it is not by means of war that states are rendered fit for the enjoyment of constitutional freedom; on the contrary, whilst terror and bloodshed reign in the land, involving men's minds in the extremities of hopes and fears, there can be no process of thought, no education going on, by which alone can a people be prepared for the enjoyment of rational liberty." Liberty requires enlightenment, which can come about only by means of education and persuasion, not military force.

Public opinion must undergo a change toward respecting private property rights; otherwise, a market economy cannot function. Cobden described how the French were having so many difficulties precisely because of war: "[A]fter a struggle of twenty years, begun in behalf of freedom, no sooner had the wars of the French revolution terminated, than all the nations of the continent fell back into their previous state of political servitude, and from which they have, ever since the peace, been qualifying to rescue themselves, by the gradual process of intellectual advancement." Cobden viewed the transition to liberty as a learning process that cannot be imposed by brute force. If we want markets, the public has to be convinced, not forced, to support them.

Public opinion must undergo a change toward respecting private property rights; otherwise, a market economy cannot function.

Because war does not advance liberty, foreign nations must be left to sort out their own affairs, no matter how difficult their problems. A desire to step in and control the situation is a natural feeling, but Cobden opposed such intervention. Rather than trying to fix every problem using might, England should stay out. With so much strife between European nations, Cobden wrote, "it becomes more than ever our duty to take natural shelter from a storm, from entering into which we could hope for no benefits, but might justly dread renewed sacrifices." Precisely at a time of so much discord, the best policy is nonintervention. Rather than venturing into the storm, a nation, instead, should focus on free trade. Rather than acting as the world's policeman, England should devote its energy to commerce.

The Humanitarianism of Liberty

Would eschewing foreign political squabbles be tantamount to abandoning everyone else and refusing to help those in need? To Cobden, the answer was no. He recommended laissez faire as the most humanitarian course of action. A policy of nonintervention would actually help other nations more than activist policies. Serving as a model for foreign nations would help them far more than becoming embroiled in their conflicts.

Consider the trade between the United States and England in the nineteenth century. Despite the lack of political reunification, peaceful relations existed because the private sectors of the two economies were so closely connected. "England and America are bound up together in peaceful fetters by the strongest of all ligatures that can bind two nations to each other, viz., commercial interests; and which, every succeeding year, renders *more impossible*, if the term may be used, a rupture between the two" (emphasis in original). Much of

England's manufacturing depended on raw materials imported from the United States. When groups are interdependent, aggression is less likely. Where no trade exists, in contrast, both countries have less to lose by resort to warfare.

Conflict often occurs where trade barriers are present. Have embargoes ever brought about more cooperation or produced more liberty? Empirical evidence demonstrating the effectiveness of these policies is scant. Government interference with trade jeopardizes peace. With each new trading relationship under free trade, a bond comes into existence between otherwise separate parties. By expanding trade around the globe, nations develop more such peaceful relations. In this realm, government relations are superfluous.

> England . . . has . . . united for ever two remote hemispheres in the bonds of peace, by placing Europe and America in absolute and inextricable dependence on each other; England's industrious classes, through the energy of their commercial enterprise, are at this moment influencing the civilization of the whole world, by stimulating the labour, exciting the curiosity, and promoting the taste for refinement of barbarous communities, and, above all, by acquiring and teaching to surrounding nations the beneficent attachment to peace.

Cobden was right: Trade is "the great panacea." To promote a world of peace, we must promote a world of free markets.

Beyond Municipal Wireless

BY STEVEN TITCH

The harsh daylight of fiscal reality has rudely awakened city administrators across the country to the unfeasibility of funding or partnering in citywide consumer wireless-broadband services.

Over the past year, city after city has retreated from large-scale municipal wireless projects. Most, including Houston, Chicago, Los Angeles, and Anchorage, Alaska, backed away before committing any substantial funds or city assets.

The final nail in the municipal wireless coffin may have been EarthLink, Inc.'s May 13 announcement that it will be shutting down its system in Philadelphia. The City of Brotherly Love was the first major U.S. city to wade into the municipal wireless waters, announcing its deal with EarthLink in 2005. The agreement was launched with high hopes. Philadelphia's chief information officer, Diana Neff, who engineered the deal, was named the city's public official of the year. Meanwhile, EarthLink had hoped that municipal wireless would be the springboard to rebuild its flagging telecommunications business, which had never recovered from the dot-com bust. Three years and $17 million later, EarthLink can't even give the network away. The company was set to begin dismantling the network June 12, after Philadelphia turned down its offer to take over ownership at no charge.

EarthLink's competitors fared no better. In late May, MetroFi closed down its remaining municipal systems in Portland, Oregon, and Naperville, Illinois, and disclosed that it was considering a bankruptcy filing. This followed the company's 2007 decision to limit partnerships to cities that agreed to purchase a significant level of wireless services themselves, thus providing the operation with immediate cash flow. Azulstar, which had won the contract to construct a multicity municipal wireless system covering much of Silicon Valley, was forced to exit the deal after failing to raise the necessary capital. That followed Rio Rancho, New Mexico's decision to pull the plug on an Azulstar system there after the company failed to pay $33,000 in electric bills owed to the city.

The case for municipal wireless was founded on the premise that broadband service was equivalent to basic consumer utilities, such as electricity, water, or sewerage.

In policy circles municipal wireless, a subset of the larger municipal-broadband concept, intensified the debate over what role, if any, local governments should have in the funding, construction, and ownership of infrastructure designed to provide retail phone, cable-TV, and high-speed Internet services, often in competition with commercial providers.

The case for municipal wireless was founded on the premise that broadband service was equivalent to basic consumer utilities, such as electricity, water, or sewerage. Conventional wisdom considered broadband, like water and power, a universal need. San Francisco Mayor Gavin Newsom went so far as to call broadband a human right. Conventional wisdom

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also held that the market was failing to reach lower-income households because commercial providers believed they were unprofitable to serve. To some extent, these critics were correct. The first half of the decade, when most municipal plans were hatched, broadband buildouts were limited to wealthier areas as service providers calculated that it would take average monthly revenue of $50–$100 per household to justify a cable or digital-subscriber-line (DSL)—the two most common hardwired broadband platforms—investment in a given neighborhood.

Municipal advocates believed that wireless systems could be cheaper to build and could provide enough bandwidth to support no-frills high-speed Internet (no cable or phone) to the point where ubiquitous service could be offered for as little as $10–$20 a month, if not free. But cities, while hatching their plans two and three years ago, failed to take the speed of market and technology evolution into account. By the time they began to rev up for launch, commercial service providers, not to mention hotel chains, coffee shops, and shopping-mall food courts, had the same WiFi technology in operation that the cities had hoped to pioneer—in the very places that cities had hoped would generate early revenues.

Even before municipal wireless became all the rage, government-owned broadband had a poor record.

Falling Rates in the Private Sector

Meanwhile, rates for wired residential broadband services were dropping. Low-end DSL service, which was still faster than wireless, reached the $20–$25 per month level in 2006. Verizon in 2007 began an extensive rollout of more robust fiber-optic networks across all demographic markets. For example, in 2006 Nassau and Suffolk counties in New York, which make up suburban Long Island, proposed an extensive government wireless network in the belief that the private sector was leaving many Long Island communities behind. Municipal talks faded after Verizon began rolling out fiber-to-the-home service not just in towns like Laurel Hollow, where, according to the U.S. Census Bureau, per-capita income is $83,366, but also in Massapequa, Mineola, Valley Stream, and Roosevelt, where per capita incomes range from $16,950 to $32,532.

At the same time, wireless Internet services from the legacy cellular companies—AT&T, Verizon Wireless, T-Mobile, and Sprint Nextel—greatly improved. Verizon Wireless introduced V Cast, which delivers full-motion video to cell phones. AT&T and Apple teamed on the snazzy iPhone, which combines the functionality of a phone, web browser, and digital-video and music player into one pocket device that can use both cellular and WiFi networks. Google unveiled plans for Android, a new type of software for wireless phones that would allow users more freedom and control over wireless web surfing. Each of these developments required municipal officials and their wireless business partners to revise costs and budgets upward. Broadband was not like water and power, where annual revenues and costs were predictable and infrastructure could be amortized over 20 to 30 years. The telecommunications industry seemed to change every six months, and cities just couldn't keep up.

Finally, the announcement that Sprint and Clearwire were planning a nationwide rollout of local wireless services using WiMax, a broadband platform that can cover areas measured in square miles, versus WiFi, which is measured in feet, forced most governments to realize that any networks they build today, to remain remotely competitive, would have to be substantially upgraded, if not replaced, in less than five years.

Smaller cities and towns that jumped on the municipal bandwagon early suffered the greatest financial penalties, but in doing so they gave pause to larger cities that, in deciding to back off, may have saved their already beleaguered taxpayers millions.

What's been learned so far? First, municipal broadband still is a bad idea. Even before municipal wireless became all the rage, government-owned broadband had a poor record. Since the 1990s numerous cities have attempted to finance, own, and operate competitive cable-TV and high-speed Internet networks. In the past several years the focus has been on extending fiber optics to the home, often at a cost of more than $100 million. In a 2007 report the Pacific Research Institute estimated that 52 municipal broadband systems had consumed a total of $840 million over the past 20 years, falling deeper into debt while failing to gain positive cash flow.

Municipalities that followed the government-ownership model for wireless fared no better. Even municipal wireless advocates were shaken when city officials in Chaska, Minnesota, who had long touted their system as one of the first municipal success stories, disclosed in June 2006 that it had gone over budget by $300,000—some 50 percent. At the same time the city also reversed a long-standing claim that it had been providing citywide service since early 2005. TechDirt, an online technology publication, reported that most residents were unable to access the system until May 2006, a few weeks before the news of the cost overruns broke. The city has since privatized the system, selling it to Siemens Communications.

In addition to running over budget, cities struggled with the sheer physics of radio-system engineering and design. In April 2006 St. Cloud, Florida, reportedly became the first city to launch free (read tax-subsidized) WiFi service. Coverage was so bad that few residents could connect to it. Would-be users were soon told that to get "free" service, they had to purchase a special wireless bridge device for $170. Most opted to go with wireline broadband service from local telephone or cable companies.

Governmental Incompetence

Similarly, the Lompoc, California, city administrators found themselves red-faced when, after deploying a citywide WiFi network, they realized that most of the houses were built with stucco—something a radio-engineering team in the private sector would have made a point of checking at the outset. Stucco is reinforced with metal wire, which blocks radio waves at certain frequencies, including those used by WiFi. Lompoc, due to inexperience with basic radio properties, spent $1.5 million on a wireless service few could use. It's not funny. It's what happens when cities buy into the idea that they can build wireless telecom networks more efficiently and inexpensively than national businesses with more than 20 years of experience working with low-power, short-range radio technology.

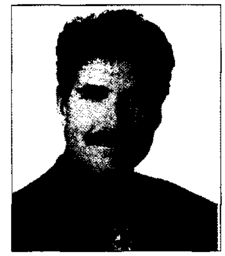
Although proponents of municipal broadband and wireless often deny or rationalize the string of documented failures, the experiences of Chaska, St. Cloud, and Lompoc led many of the larger cities to pursue partnerships with companies like EarthLink, MetroFi, and Azulstar. Under this model, which was adopted in Philadelphia, the private-sector partner would finance, build, and operate the network, sharing a portion of the revenues with the city, or in the case of Philadelphia, a nonprofit corporation, Wireless Philadelphia, that would fund digital-inclusion programs in the city. In return for pledging citywide buildout, the partner would get exclusive, discounted access to city rights of way where it would place antennas and wireless access points.

The approach initially looked promising, chiefly because it took local governments out of the competitive telecom business. Still, in the end, the private sector underestimated the costs of covering an entire city. In a number of cities, including Philadelphia, EarthLink concluded it would need as many as twice the wireless access points than originally thought to cover the entire city—additional costs that not even discounted rights of way could overcome.

If municipal wireless is unfeasible either as a government-owned operation or in partnership with the private sector, what then is sound policy when it comes to encouraging broadband adoption?

Anaheim, California, took a different approach. It offered a low-cost right of way to any wireless company seeking to build a network. No one company was favored with exclusivity. From Anaheim Mayor Curt Pringle's perspective, granting wide-scale access to the city's right of way would do far more to encourage build-out than limiting it to one player. He was right. The moves sparked investment from a number of small wireless-service providers who now compete for local consumers.

As this shows, the taxpayers need not be the first, nor even the last, resource for broadband funding.



Legalize All Drugs

BY JOHN STOSSEL

Reading the *New York Post*'s popular Page Six gossip page recently, I was surprised to find a picture of me, followed by the lines: "ABC'S John Stossel wants the government to stop interfering with your right to get high. The crowd went silent at his call to legalize hard drugs."

I had attended a Marijuana Policy Project event celebrating the New York State Assembly's passage of a medical-marijuana bill. I told the audience I thought it pathetic that the mere half passage of a bill to allow sick people to try a possible remedy would merit such a celebration. *Of course* medical marijuana should be legal. For adults, *everything* should be legal. I'm amazed that the health police are so smug in their opposition.

Of course medical marijuana should be legal. For adults, *everything* should be legal. I'm amazed that the health police are so smug in their opposition.

After years of reporting on the drug war, I'm convinced that this "war" does more harm than any drug.

Independent of that harm, adults ought to own our own bodies, so it's not intellectually honest to argue that "only marijuana" should be legal—and only for certain sick people approved by the state. Every drug should be legal.

"How could you say such a ridiculous thing?" asked my assistant. "Heroin and cocaine have a permanent effect. If you do crack just once, you are automatically hooked. Legal hard drugs would create many more addicts. And that leads to more violence, homelessness, out-of-wedlock births, etc.!"

Her diatribe is a good summary of the drug warriors' arguments. Most Americans probably agree with what she said.

But what most Americans believe is wrong. (For details, see the links here: http://tinyurl.com/3phw3s.)

Myth No. 1: Heroin and cocaine have a permanent effect.

Truth: There is no evidence of that.

In the 1980s, the press reported that "crack babies" were "permanently damaged." *Rolling Stone*, citing one study of just 23 babies, claimed that crack babies "were oblivious to affection, automatons."

It simply wasn't true. There is no proof that crack babies do worse than anyone else in later life.

Myth No. 2: If you do crack once, you are hooked.

Truth: Look at the numbers—15 percent of young adults have tried crack, but only 2 percent used it in the last month. If crack is so addictive, why do most people who've tried it no longer use it?

People once said heroin was nearly impossible to quit, but during the Vietnam War, thousands of soldiers became addicted, and when they returned home, 85 percent quit within one year.

People have free will. Most who use drugs eventually wise up and stop.

And most people who use drugs habitually live perfectly responsible lives, as Jacob Sullum pointed out in *Saying Yes*.

Myth No. 3: Drugs cause crime.

Truth: The drug *war* causes the crime.

Few drug users hurt or rob people because they are high. Most of the crime occurs *because* the drugs are illegal and available only through a black market. Drug sellers arm themselves and form gangs because they cannot ask the police to protect their persons and property.

In turn, some buyers steal to pay the high black-market prices. The government says heroin, cocaine,

John Stossel is co-anchor of ABC News' "20/20" and the author of Myths, Lies, and Downright Stupidity: Get Out the Shovel—Why Everything You Know is Wrong, *now in paperback. Copyright 2008 by JFS Productions, Inc. Distributed by Creators Syndicate, Inc.*

and nicotine are similarly addictive, and about half the people who both smoke cigarettes and use cocaine say smoking is at least as strong an urge. But no one robs convenience stores for Marlboros.

Alcohol prohibition created Al Capone and the Mafia. Drug prohibition is worse. It's corrupting whole countries and financing terrorism.

The *Post* wrote, "Stossel admitted his own 22-year-old daughter doesn't think [legalization] is a good idea."

But that's not what she said. My daughter argued that legal cocaine would probably lead to more cocaine use. And therefore probably abuse.

I'm not so sure.

Banning drugs certainly hasn't kept young people from getting them. We can't even keep these drugs out of prisons. How do we expect to keep them out of America?

But let's assume my daughter is right, that legalization would lead to more experimentation and more addiction. I still say: Legal is better.

While drugs harm many, the drug war's black market harms more.

And most importantly, in a free country, adults should have the right to harm themselves.

Capital Letters

Mistreating the Constitution?

If recent items in *The Freeman* are any indication, its writers take a rather dim view of the Constitution and the Framers thereof. While I couldn't agree more regarding the people who wrote our federal compact (with a few exceptions), I must take issue with how the magazine treats the Constitution itself.

Sheldon Richman started what seems to have become a trend in Constitution-bashing with his article regarding the Tenth Amendment and its non-similarity to Article II of the Articles of Confederation, which withheld powers not "expressly delegated" from the Confederation Congress ("The Constitution or Liberty," January–February). A couple of months later, Joseph Stromberg noted the not-so-honest nature of the delegates to the 1787 Convention that produced the Constitution ("Slick Construction Under the Articles of Confederation," April). And now, most recently, a book review of Kevin Gutzman's *Politically Incorrect Guide to the Constitution* by J. H. Huebert once again raises the argument that the Constitution written in 1787 was at worst a hoax, and at best useless (May).

The key problem with all the above authors, in my mind, is not their evaluation of the intentions of nationalists like Madison and Hamilton. These men were indeed snakes of the worst sort, with Hamilton being the least dangerous precisely because he never pretended to favor republican government. Rather, the authors misunderstand the notion of originalist jurisprudence. A true originalist jurisprudence looks not to what individual delegates to the Convention wanted, but to what they said when they were asked to explain the fruit of their labor, especially to the state conventions that ratified the Constitution. Only when such explanations fail us should we turn to what was said in Philadelphia, and even that is better than what a single delegate such as Hamilton would have desired.

Why must originalism be understood in this way? In short, because any compact (which is what the Constitution was claimed to be) is only valid insofar as it is not fraudulent. Hence, if Hamilton admitted in the Federalist that the federal government could not do such-and-such, and the New York ratification convention ratified it under that understanding, then that is the meaning, regardless of the language of the Constitution or Hamilton's particular desires.

It is true, as Huebert says, that ambiguity inheres in any constitution, especially short ones. However, relying on only the "people's eternal vigilance" obviously works no better, since even with both a written constitution and a population bred to liberty, we have reached a deplorably unfree state. The key is to have both, because a vigilant people can be vigilant of nothing without a universal reference, unless the writers of *The Freeman* suggest a pure democracy. That universal reference is a written constitution. Likewise, a written constitution is also, by itself, worthless. It is mere paper, after all. However, we can control, to some degree, whether there is a constitution and what it says. We cannot, on the other hand, control whether the population under that constitution is "vigilant." So let's not leave out the one element we have control over, lest we abandon all hope to limit government.

—JOSHUA SCOTT
SCOTTJ82@lsus.edu

Sheldon Richman replies:

Mr. Scott raises several provocative issues in his thoughtful letter—alas, too many to respond to here. So I will address them and related matters in a future article. For now, let two quotations suffice:

"[A]ny interpretation still hangs in the air along with what it interprets, and cannot give it any support. Interpretations by themselves do not determine meaning." —Ludwig Wittgenstein, *Philosophical Investigations* (198)

"[I]f the Constitution demands just compensation for victims of eminent domain, then such victims must receive whatever is *actually just*, not what the framers thought was just, since the Constitution says to give 'just compensation' rather than saying to give 'whatever we consider just compensation.' "—Roderick T. Long, "The Nature of Law," Part III (http://tinyurl.com/5nxdwy)

Voting Locally

Donald Boudreaux's article "I Won't Vote" (April) . . . illustrates one of my main concerns with libertarian thought, e.g. the complete failure to recognize the difference between what local, state, and federal levels of government can and should do. While Mr. Boudreaux's ideas make some sense for the election of a president or a senator, they make no sense whatsoever for the election of a city councilman or a school board member. In my community, at least, these are frequently decided by a mere handful of votes. In a city-council election, a tally of 100 to 105 votes is not at all uncommon. In such an election, if I were to switch my vote and I could convince two others—say, my wife and an older child—to do likewise, I could completely change the outcome of the election. Mr. Boudreaux pats himself on the back for his attitude toward voting. In local elections, 90 percent, and frequently more, of the voters share his attitude exactly.

One reason, of course, is that for both liberals and libertarians, these elections mean, or should mean in their view, next to nothing. That this should be the case for so-called liberals, who feel that every responsibility should rest ultimately with the federal government, is not surprising. What I find annoying is that although libertarians, in theory, at least, are opposed to that sort of thing, on a practical level they lend it de facto support. Local leaders, elected for the most part by a handful of friends and neighbors, struggle to do what they can to make life as pleasant as possible for those same people, find themselves characterized by libertarians, when they don't agree with absolutely everything the local leaders do, as "lifestyle Nazis" or something similar. I am perfectly aware that there is a great deal of corruption and downright stupidity in local politics, but I can't help but feel that such problems would be greatly reduced if fewer people adopted Mr. Boudreaux's attitude.

. . . Indeed, if we would take a greater interest in our local government, it would be greatly strengthened and there would be a greater demand for the state and federal governments to "play by the rules." One quote that Mr. Boudreaux chose to highlight, "I implicitly agree—by voting—that the process of selecting people to exercise power over me is legitimate," indicates that he does not feel he should be subjected to government rules at any level. This indicates a belief that his behavior and thought is, or should be, the standard of right. As I understand his position, Leonard Read felt that this very attitude was the greatest enemy of the free market. . . .

—MERRILL GEE
Salt Lake City, Utah

Donald Boudreaux replies:

I appreciate Mr. Gee's response to my article. I concede that voting in local elections presents less of a moral problem than does voting in national elections. Local governments aren't as able to be as oppressive as national governments, if for no reason other than that each of us can more easily move out of any particular local jurisdiction than out of any country.

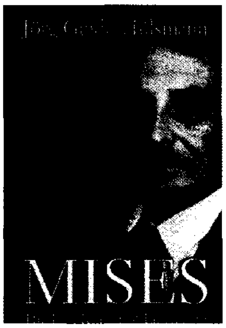
But I disagree that any practical reasons counsel an individual to vote in a local election. Even in local elections an individual's vote is extremely unlikely ever to decide an outcome. The analytics of determining the probability of decisiveness of a single vote are quite complex—see chapter four of Geoffrey Brennan and Loren Lomasky's *Democracy and Decision* for a comprehensive treatment of this issue—but, practically speaking, the probability of one vote deciding the outcome of an election in a small town with, say, 1,000 voters is not meaningfully much higher than is the probability of one vote determining the outcome of a national election with millions of voters.

Book Reviews

Mises: The Last Knight of Liberalism

by Jörg Guido Hülsmann
Ludwig von Mises Institute • 2007 • 1143 pages • $50.00

Reviewed by Bettina Bien Greaves



Biographer Guido Hülsmann has written a magnificent book, describing in detail not only the life of Ludwig von Mises, but also his writings, his intellectual development, and his importance. Hülsmann studied all Mises's works in German, English, and French, and the biographer's fluency served him well. He traveled widely to locate Mises's papers, files, personal correspondence, and documents and did vast research into his life and background.

First and foremost, the book covers Mises's great contributions to economic understanding. He was not the most popular, renowned, or influential economist of the twentieth century, but was undoubtedly the most important. Perhaps his greatest contribution was the development of subjective-value economics as a science of reason, logic, and immutable laws. He explained all economic phenomena as outcomes of people's actions, choices, and decisions on the basis of their respective subjective values. Those actions generate prices, production, money, trade channels, markets, wages, interest rates, capital goods, savings, investments, competition, profits, losses, and more.

Mises's second important contribution was in the field of money and the monetary theory of the trade cycle. In his first theoretical book he explained that money was a market phenomenon. It developed out of barter as individuals, seeking to improve their personal situations, traded with one another. Each trader was attempting to exchange something he possessed for something he preferred more. Eventually, some individual ventured to offer what he had for something he could use, not immediately but in a later trade. Other would-be traders attempted similar exchanges. In time, people began to accept a readily tradable commodity as a medium of exchange—money.

Mises also described how inflation (monetary expansion) fostered by the banks leads to widespread price increases, economic malinvestment, and then inevitably, when the banks stopped inflating, the collapse of businesses, economic stagnation, and a readjustment of prices. Thus Mises—in 1912—laid the groundwork for understanding the economic crises and boom/bust cycles that have plagued capitalistic economies.

Mises's third significant contribution was his analysis of socialism, considered "the wave of the future" in the early 1920s. In a socialist society all property would be owned and controlled by the state. Thus there would be no market and no market prices reflecting buyers' and sellers' bids and offers for property. Without market prices for either consumer's or producer's goods, government "planners" would have no guidance as to what people wanted and did not want, and no way to know when, where, and how best to produce anything. In short, there could be no economic planning.

Hülsmann describes the life and times of Mises in his native Austria—his family, cultural, and historical background. Mises grew up in a world in which almost everybody was an interventionist or socialist. He confessed later that when he entered the university he was "a complete statist." Then in 1903 he read Carl Menger's *Principles of Economics,* which introduced him to the subjective value theory and turned Mises's thoughts in an entirely new direction; he said it "made an economist" of him.

Hülsmann tells about Mises's search after World War I for a position in which he could not only earn his living but also pursue his interest in economics. In 1918 he joined the Austrian government's advisory Chamber of Commerce. While with the Chamber he was able to continue his study of economics. He also taught at the University of Vienna as an unsalaried lecturer with the title of Professor Extraordinary, conducted a private economic seminar, and established the Austrian Institute for Business Cycle Research. In 1922, as economic adviser to the Austrian government, he was influential in halting the Austrian inflation before it reached such a disastrous level as in Germany.

Mises was always writing—newspaper articles, economic papers, and books on nationalism, socialism, liberalism, epistemology, money, and economic crises. His entire life was dedicated to trying to improve his own understanding of economics and to explain to others how the market operates. By quoting from Mises's books, papers, and correspondence, Hülsmann does a masterful job of showing how Mises gradually refined his ideas and improved his explanations.

Hülsmann's biography portrays a man of principle who was dedicated to pursuing the truth. By dint of his studies, he transformed himself into a powerful advocate of peaceful social cooperation and the free market. The book is fascinating reading for anyone interested in Mises, the person, the economist, the libertarian.

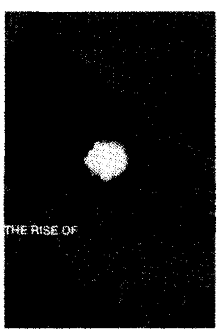
Bettina Bien Greaves (bbgreaves@aol.com) served FEE for more than four decades as a senior staff member and resident scholar.

The Shock Doctrine: The Rise of Disaster Capitalism

by Naomi Klein

Metropolitan Books/Picador • 2007/2008 • 576 pages • $28.00 hardcover; $16.00 paperback

Reviewed by Joseph R. Stromberg



The core thesis of Naomi Klein's *Shock Doctrine* is that American foreign and domestic policies of the last 30 years have shaped a new corporatism. Corporatism, Klein writes, "originally referred to Mussolini's model of a police state run as an alliance of . . . government, businesses and trade unions . . . in the name of nationalism." Latter-day corporatism involves "a huge transfer of wealth from public to private hands, followed by a huge transfer of private debts into public hands." Neo-liberal corporatism "erases the boundaries between Big Government and Big Business," while organized labor—indeed all labor—is locked out of the new arrangements.

Klein's case is tightly organized, well presented, and overwhelming in cumulative impact. She makes a complex argument dealing with what are, indeed, complicated matters. Some reviewers complain that Klein forces the evidence into a pattern. They say her treatment of the views of certain psychologists, economists, and military planners and her comparative account of how those views are (were) implemented, are "unfair," especially to the economists. But Klein rightly pursues the ideas in question across these fields of knowledge (and action) by *analogy*—a perfectly good Aristotelian and Thomistic procedure. "Hooding" a captive and "blacking out" an entire city by bombing *are* analogous, because they are done *for the same reason*—to disorient and confuse, and so on, through further stages of comparison.

The said psychologists, economists, and military planners dwell endlessly on certain themes because they see the world as a manipulable object and proceed from shared mechanistic, Hobbesian, positivist premises, whereby actual people are mere atoms, objects, or empty ciphers on indifference curves. We cannot be surprised that these experts' activities complement one another in real life and reveal an indifference to "unforeseen consequences," while a kind of mathematical Platonism underlies the supposedly "empirical" performances. Shared themes include "shock," "shock therapy," crises as experimental opportunities, and "clean slates" (Hobbes's "clean paper") on which to plot out new worlds. *They* talk this way; Klein makes nothing up.

Klein follows these common threads from the "free-market" Chilean tyranny, through Mrs. Thatcher's rather mixed reforms, phony "privatizations" in Poland and Russia, the half-mad U.S. invasion of Iraq, with more phony "privatizations," dispossession of smallholders in Sri Lanka, and "state failure" in New Orleans, where school vouchers were imposed while the city rotted.

The Sri Lankan case must suffice here. There, long-established fishermen, having survived the tsunami, were barred from their beach holdings, so that resort hotels favored by the World Bank, U.S. operatives, and investors might expand. This is precisely what a Chicago Law and Economics (Coasean) judge would do. The fishermen are "socially inefficient." They got no "growth." Away with their land! They may come back in the reformed "free market" as waiters and busboys.

One key to the new order, I would add, is this: By excluding war-making capacity ("defense") from the concept of "state" *by implicit definition*, Republican "anti-statists" create a desert mirage. We can wrangle over smaller government any time; no one can reasonably hold that we are getting such a thing *now* from those in power, sundry "privatizations" notwithstanding.

Klein somewhat overplays the verbal opposition of "public" and "private." The current rulers set up expensive contractors to coordinate already expensive defense-industry suppliers. This done, the contractors—clothed in state power—are no longer exactly "private"; neither are they "public" like the post office. Our "free market" reformers may answer for any conceptual confusion. And here, Klein may not see that the contractor fad is partly about empowering the Unitary Executive—shielding its operations from congressional oversight. But she is quite right to see numerous threats to democracy.

I would add that *imposing* "spontaneous orders" by debt-leveraging, "privatization," or invasion amounts to right-wing social engineering—not an especially "conservative" vocation. Neither are "privatizations"—amounting to confiscations on the scale of Henry VIII—*conservative*. Our current regime calls to mind institutionalized Whig corruption after 1689, when (in E. P. Thompson's phrase) England was a "banana republic," everything was for sale, and income migrated upwards via the state.

There are some problems of language throughout the book. Reading it, one might think the author deplores any conceivable free markets whatsoever. Klein uses "capitalism" and "free market" to refer to *assertions* made by policymaking ideologues merchandising *corporatist* and imperial policies. I wish she had somehow separated official rhetoric from other possible, face-value meanings of these words, by putting them in quotes or occasionally writing "state-capitalist."

This is, in any case, an important, insightful book. Klein's specific critique of new-wave corporatism outweighs any disagreements some might have with her "third way" politics. Accordingly, I hope people *read* the book before falling into predictable, knee-jerk reactions.

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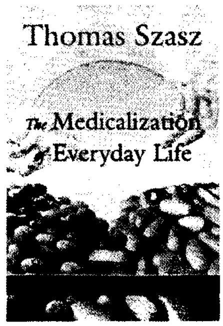
The Medicalization of Everyday Life: Selected Essays

by Thomas Szasz
Syracuse University Press • 2007 • 168 pages • $19.95

Reviewed by Ross Levatter



Thomas Szasz's most recent book is, in a sense, not recent at all. *The Medicalization of Everyday Life* is a compilation of 16 essays Szasz published over the last third of a century. Recent or not, these essays are still quite valuable.

There was a time when people led rich lives, filled with mistakes and successes, bad habits and good ones, cowardice and heroism. Now lives are simply filled with a variety of ailments, most of them psychiatric, that cause us to act in cowardly, evil, or mistaken ways. Were it not for narcissistic personality disorder and neuroses, schizophrenia and separation anxiety disorder, paranoia and panic disorder, life would be grand. It's only mental disease that separates us from nirvana, and we place our faith in psychiatry and psychopharmacology to bring us to the promised land.

While we wait, we follow the new rules. We're used to doctors telling us what to do. That's how they help us get better. As more and more aspects of everyday life are viewed as types of illness, doctors try to become more and more helpful by promulgating more rules. They morph into powerful bureaucrats, often backed by the force of law.

Szasz describes this process as it has occurred over the last half of his professional lifetime. The change in the past few decades has been striking. Szasz makes this point by telling us about a psychiatric symposium he attended in 1973. He listened to discussions by psychiatrists "proving" that alcoholism was genetically determined and noticed that (as was then fashionable) the vast majority of psychiatrists in attendance were smoking cigars or cigarettes.

Szasz says: "When my turn came to speak, I asked why, if alcoholism is a mental disease, is nicotinism not also a mental disease?" This, he argued, is because most psychiatrists like to smoke but do not drink to excess. And since they control what counts as disease, they do not place their favorite pastimes in the disease category. Looking back 34 years later, we find the profession responds to outside pressures; the desire to smoke has become yet another mental illness since psychiatrists themselves have largely given up the habit.

This compilation contains several rare pieces most Szasz admirers have not previously seen. These include his thoughts on routine neonatal circumcision, his evaluation of the Terri Schiavo case, and his hostile view of philosopher Peter Singer's ethics of medicalization. (Singer is the philosopher who argues that lower life forms have rights, not just humans.)

The book also includes an excellent essay on the history of psychiatry, originally published in the journal *History of Psychiatry*, which Szasz subsequently expanded into a major book, *Coercion as Cure*.

Although many of the essays deal with specific issues, there are also some excellent general essays that introduce new readers to Szasz's approach to medicine and psychiatry. These include such classics as "Mental Illness: A Metaphorical Disease," "Diagnoses Are Not Diseases," and "Hysteria as Language."

Szasz is perhaps best known for his views that psychiatry has become an excuse factory for criminality and a justification for authoritarian treatment of people who have committed no crime. The book contains two famous articles on those topics, "Psychiatry's War on Criminal Responsibility," and "Pharmacracy: The New Despotism."

For libertarians the most controversial essay is apt to be Szasz's analysis of the Terry Schiavo case. He describes her as "half-alive" (dead brain, living body). I would restrict terms like "half-alive" to patients with, say, cord lesions rendering them with a living upper half and "dead" lower half. My personal take is that dead brain means one is dead, even when, as in the case of a persistent vegetative state, the body still has a heart that beats and lungs that breathe.

Szasz argues that the family's desire to maintain their daughter on life support should have prevailed, at least if they were willing to cover the costs, and that her husband had clear motives for desiring her death. But after decades of psychiatric practice, Szasz should be aware that parents don't always have their children's best interests at heart. He also should know that children of very religious parents are not always that religious themselves, yet frequently hide this fact. Thus it is not inconceivable that Michael Schiavo spoke truthfully in saying that, contrary to her religion, Terry didn't want to live that way. Why didn't he speak up earlier? Perhaps he had hoped that she'd revive. I see the issue as more morally ambiguous than Szasz does, but his discussion is nonetheless stimulating and based, as always, on libertarian principles.

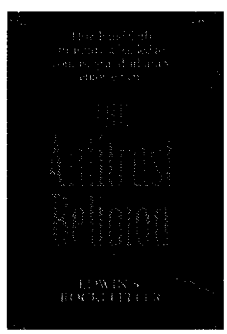
The Medicalization of Everyday Life is a great introduction, or re-introduction, to the deep insights and delightful prose of Thomas Szasz. You won't regret the time you invest in this book.

Dr. Levatter (rlevatter@mac.com) was the recipient of the Thomas S. Szasz Award for Outstanding Contributions to the Cause of Civil Liberties, Professional Category, in 2007.

The Antitrust Religion

by Edwin S. Rockefeller
Cato Institute • 2007 • 124 pages • $16.95

Reviewed by George C. Leef



Many years ago when I was in law school, I listened to a talk by a fellow student on antitrust law. Right at the beginning of his presentation, he earnestly stated that the antitrust laws were a "charter of freedom." I was probably the only person in the room who winced. That "charter of freedom" line is an item of faith among most people (and nearly all lawyers) who have been told that antitrust laws protect companies—and thereby consumers—from the monopolistic designs of greedy business tycoons.

The reason I winced was that I knew that line is nonsense. As an undergraduate I had read Dominick Armentano's iconoclastic book, *The Myths of Antitrust*, and understood that antitrust, far from protecting freedom, is an assault on it. Armentano subjected to withering analysis the naïve belief that antitrust law is necessary to the preservation of free markets. Had my classmate read that book, he'd have known how foolish his remarks were.

Since Armentano's seminal work, there have been other scholarly critiques of antitrust. The most recent is Edwin Rockefeller's *The Antitrust Religion*. Rockefeller has impeccable credentials to write such a book. He is a lawyer who has served on the staff of the Federal Trade Commission, chaired the American Bar Association's antitrust section, and taught at Georgetown Law School. Instead of writing the kind of book you might expect from someone with that background—a dense treatise with in-depth analysis of dozens of cases—Rockefeller has given us a concise book that anyone can easily read. He doesn't try to cover all the many erroneous doctrines of antitrust, but only to prove his thesis that "antitrust is not consistent with our aspirations for a rule of law." And why is that? Rockefeller explains, "[A]ntitrust enforcement is arbitrary political regulation of commercial activity, not enforcement of a coherent set of rules."

That is to say, antitrust is the rule of *men*, not of *laws*.

Coming back to the book's title, Rockefeller argues that antitrust has all the trappings of a religion. It's accepted as a matter of faith and is built around a number of myths.

The central myth is one blindly accepted by almost all educated Americans. They have heard that the evil Standard Oil Company had a virtual monopoly in the oil business, causing government authorities to break up the gigantic, dangerous firm. If you believe that, the rest of the antitrust catechism falls neatly into place: We need government officials to constantly monitor business activity and to stop the ever-present threat of monopoly.

Rockefeller shows that the accepted Standard Oil tale is as baseless as a Halloween scare story. During the time of Standard's supposed market dominance, the price of refined petroleum products continually fell and competitors—yes, there were quite a few—steadily chipped away at Standard's market share. *There was no problem.*

The antitrust religion thrives on false history and encourages confused thinking. True believers call for antitrust enforcement to prevent the kinds of competitive "injury" that is inevitable under capitalism. "Belief in antitrust," Rockefeller writes, "is based on a kind of competition in which some win but none lose."

But why does our author contend that antitrust is not really "law" at all? Because true law must be *knowable* so people can adjust their behavior in order to avoid legal difficulties. Antitrust, however, is so vague that people can never be certain that they won't be prosecuted for "attempted monopolization" whenever they compete vigorously. The rule of antitrust authorities is like that of a capricious dictator.

Rockefeller is absolutely correct that antitrust is not compatible with the rule of law. It was America's first instance of law so vaguely written that people didn't know what it meant. Unfortunately, since then it has been joined by others, as politicians enact legislation that in effect says to bureaucrats and judges, "Here are a few broad objectives—now you figure out what to do to achieve them."

Despite his solid case that antitrust is wasteful and counterproductive, Rockefeller holds out no hope that we will escape from its clutches. The religion is just too deeply ingrained, and opinion leaders see it as a component of "social justice." And even if we somehow repealed the antitrust statutes starting with the Sherman Act, that might make things worse because of the existence of the Federal Trade Commission, which has been invested with broad, open-ended powers to regulate business "for the public interest." That's just as vague as a statute that makes it illegal to "attempt to monopolize."

The only way to root out the antitrust religion is to teach people the truth about capitalism.

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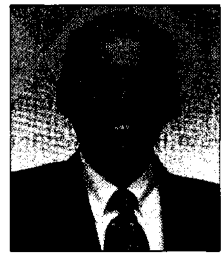

Worker Freedom in Peril

BY CHARLES W. BAIRD

The Alliance for Worker Freedom (AWF) recently published its *2007 Index of Worker Freedom* (IWF). The index ranks each of the 50 states on the basis of ten variables that affect the freedom of workers. "Freedom" is defined properly as the absence of interferences with individual worker choices. The full report is found at www.workerfreedom.org.

After explaining the ten variables used and identifying the five states with most, and the six states with least, worker freedom, I will explain why I think Congress may eliminate interstate differences in some of these variables in the next few years. This "harmonization" will significantly reduce both worker freedom and the usefulness of the IWF.

The ten variables, and the reasons for their inclusion, are:

Right to work (RTW) laws. Twenty-two states have RTW laws. They receive a 1; the others receive a 0. RTW laws protect workers from being forced to pay union dues.

Minimum wage (MW) laws. States with MWs lower than the federal minimum, and the five states with no such laws, receive a 1; the others receive a 0. A free worker is one who decides the minimum he will accept for himself.

Union density (UD). This is the percentage of the workforce, both private and government, who are union members. States with UDs below the national average (12 percent) receive a 1; the others receive a 0. In states with high UDs the usual union apparatus of coercion, intimidation, and wholly owned politicians will be more prevalent and well established than in states with lower UDs.

Paycheck protection (PP) laws. States with them receive a 1; the others receive a 0. PP prevents union bosses from using dues forced from government employees for political purposes without their express permission. A free worker is one who decides for himself whether to engage in political advocacy.

Prevailing wage (PW) laws. States without them get a 1; the others get a 0. They stipulate that union wage rates must be paid—even by union-free firms—on construction projects funded with tax money. A free construction worker is one who may work for a union-free firm on terms to which he and his employer agree.

Defined contribution (DC) pension plans. States that offer them to their government employees get a 1; those that don't get a 0. Workers have control over their DC plans, and they are free to move from job to job without losing benefits.

Government-employee collective bargaining (CB) laws. The 13 states without them receive a 1; the others, a 0. While the National Labor Relations Act (NLRA) exposes private-sector workers to coercive unionism, the states, at least for now, are free to decide whether to do the same to their government employees.

Government-sector union membership (UM). States with UM lower than the national average (36 percent) receive a 1; the others, a 0. UM indicates the extent to which government-sector unions can override decisions by individuals as to whether they will be represented by a union.

Entrepreneurial activity (EA). This is measured as the number of entrepreneurs who start new firms in a year as a percentage of total adult population. The national average is 0.3 percent. States with EA above the national average receive a 1, while the others receive a 0. EA activity creates additional union-free employment alternatives for workers, and states with more worker freedom are more hospitable to EA.

Workers compensation (WC) premiums. States with premiums below the national average ($2.49 per $100 of

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payroll) receive a 1; those above the national average, a 0. WC premiums are most often paid to government monopoly agencies rather than private insurance companies, which would compete with each other. High monopoly premiums reduce the amount of money for capital and other business expenses, thus reducing worker employment alternatives.

Ranking Worker Freedom

A state's ranking is determined by summing up the scores for the ten variables. Utah, the state with the best score, received a 9 (out of 10); it does not offer DC plans. Colorado, Idaho, Mississippi, and South Carolina each had 8. The six worst states—Connecticut, Hawaii, Minnesota, New York, Pennsylvania, and Rhode Island—received 0.

The IWF is a helpful resource for employers and employees alike who are trying to locate in states with a more favorable labor environment than others. Just as the Heritage and the Fraser–Cato indices of economic freedom have resulted in healthy competition among nations to increase economic freedom, the IWF might be expected to result in healthy competition among states to increase worker freedom. For this, union bosses have called AWF an antiunion group. But AWF is concerned with worker freedom. It is antiunion only insofar as unions decrease worker freedom.

There are ominous noises in Congress that suggest interstate competition in worker freedom will be thwarted by naked government force.

There are ominous noises in Congress that suggest interstate competition in worker freedom will be thwarted by naked government force. For example, the Public Safety Employer–Employee Cooperation Act was passed in the House in 2007, and the Senate voted 69–29 to limit debate on the measure (cloture) in May. At this writing the Act has not received a final vote in the Senate, but the margins in both bodies are veto-proof. The Act would force state and local governments to submit to the unionization of their police and firefighters. Before this, states could decide whether to expose their employees to unionization or not. Remember the camel's-nose-under-the-tent strategy of the New Deal: Get part of what you want first and later use that base to grab it all. Today it is police and firefighters. Later, the union bosses pray, all state and local government employees will be herded into unions. This would eliminate any interstate differences in AWF's collective-bargaining and union-membership variables. Individual state CB laws will be moot, and each state's UM will be 100 percent.

By any reasonable reading of the Tenth Amendment, the federal government has no power over state- and local-government labor relations. But in 1935 Chief Justice Charles Evans Hughes wrote in the Gold Clause Cases, "We are under a Constitution, but the Constitution is what the judges say it is." Any five justices of the Supreme Court can reinvent the Constitution anytime they wish. In *Garcia v. San Antonio Metropolitan Transit District* (1985), five justices decided that state and local governments are mere players, on an equal footing with unions, in the game of influencing Congress on questions of labor relations. Alas, the federal government may pass any state and local labor-relations statutes it likes.

Further, union bosses have long sought to eliminate the right-to-work clause of the NLRA. If they have their way with the new Congress and president, state RTW laws will be abolished. And the recent attempts by Congress to apply the federal Davis–Bacon Act's prevailing-wage provisions through legislation concerning farms, cap-and-trade global warming, clean water, school construction, and housing bailouts suggest that individual state PW differences may not survive for long.

Just as the bureaucrats in Brussels seek to "harmonize" economic policy among members of the EU, the new Congress and the new president are likely to try to restrict interstate competition in worker freedom. This is "change we can believe in."