THE FREEMAN
IDEAS ON LIBERTY
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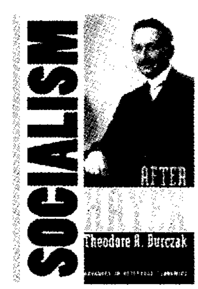

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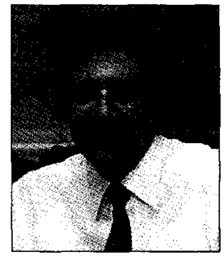
From the President



The Great French Inflation

BY RICHARD M. EBELING

Governments have an insatiable appetite for the wealth of their subjects. When governments find it impossible to continue raising taxes or borrowing funds, they have invariably turned to printing paper money to finance their growing expenditures. The resulting inflations have often undermined the social fabric, ruined the economy, and sometimes brought revolution and tyranny in their wake. The political economy of the French Revolution is a tragic example of this.

Before the revolution of 1789, royal France was a textbook example of mercantilism. Nothing was produced or sold, imported or exported, without government approval and regulation.

Within five years the money of revolutionary France became worth less than the paper it was printed on.

While the French king's government regulated economic affairs, the royal court consumed the national wealth. Louis XVI's personal military guard numbered 9,050 soldiers; his civilian household numbered around 4,000—30 servants were required to serve the king his dinner, four of whom had the task of filling his glass with water or wine. He also had at his service 128 musicians, 75 religious officials, 48 doctors, and 198 persons to care for his body.

The nobility and the clergy were mostly exempt from paying taxes, so the tax burden fell on the "lower classes." When Louis XVI assumed the throne in 1774, government expenditures were 399.2 million livres, with tax receipts only about 372 million livres, leaving a deficit of 27.2 million livres, or about 7 percent of spending. Loans and monetary expansion that year and in future years made up the difference.

In an attempt to put the government's finances in order, in July 1774 the king appointed a brilliant economist, Anne-Robert-Jacques Turgot, to serve as finance minister. Turgot did all in his power to curb government spending and regulation. But every proposed reform increased the opposition from privileged groups, and the king finally dismissed him in May 1776.

It was the chaos of the king's finances that finally resulted in the Estates-General's being called into session in early 1789, followed by the beginning of the French Revolution with the fall of the Bastille in Paris in July 1789. But the new revolutionary authorities were as extravagant in their spending as the king. Vast amounts were spent on public works to create jobs, and 17 million livres were given to the people of Paris in food subsidies.

On March 17, 1790, the revolutionary National Assembly voted to issue a new paper currency called the assignat, and in April, 400 million were put into circulation. Short of funds, the government issued another 800 million at the end of the summer. By late 1791, 1.5 billion assignats were circulating and purchasing power had decreased 14 percent. In August 1793 the number of assignats had increased to almost 4.1 billion, its value having depreciated 60 percent. In November 1795 the assignats numbered 19.7 billion, and by then its purchasing power had decreased 99 percent since first issued. In five years the money of revolutionary France had become worth less than the paper it was printed on.

The effects of this monetary collapse were fantastic. A huge debtor class was created with a vested interest in the inflation because depreciating assignats meant debtors repaid in increasingly worthless money. Others had speculated in land, often former Church properties the government had seized and sold off, and their fortunes were now tied to inflationary rises in land values. With money more worthless each day, pleasures of the

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moment took precedence over long-term planning and investment.

Goods were hoarded—and thus became scarcer—because sellers expected higher prices tomorrow. Soap became so scarce that Parisian washerwomen demanded that any sellers who refused to sell their product for assignats should be put to death. In February 1793 mobs in Paris attacked more than 200 stores, looting everything from bread and coffee to sugar and clothing.

On whom did the burden of the inflation mostly fall? The poorest. Financiers, merchants, and commodity speculators who normally participated in international trade often could protect themselves. They accumulated gold and silver and sent it abroad for safekeeping; they also invested in art and precious jewelry. Their speculative expertise enabled many of them to stay ahead of the inflation and to profit from currency fluctuations. The working class and the poor in general had neither the expertise nor the means to protect the little they had. They were the ones who ended up holding the billions of worthless assignats.

Finally, on December 22, 1795, the government decreed that the printing of the assignats should stop. Gold and silver transactions were permitted again after having been banned and were recognized as legally binding. On February 18, 1796, at 9 o'clock in the morning, the printing presses, plates, and paper used to make assignats were taken to the Place Vendôme and before a huge crowd of Parisians were broken and burned.

Price Controls Follow

As the inflation grew worse, an outcry was heard from "the people" that prices must be prevented from rising. On May 4, 1793, the National Assembly imposed price controls on grain and specified that it could only be sold in public markets under the watchful eye of state inspectors, who were also given the authority to break into merchants' private homes and confiscate hoarded grain and flour. Destruction of commodities under government regulation was made a capital offense.

In September 1793 the price controls were extended to all goods declared to be of "primary necessity." Prices were prohibited from rising more than one-third in 1790. And wages were placed under similar control in the spring of 1794. Nonetheless, commodities soon disappeared from the markets. Paris cafes found it impossible to obtain sugar; food supplies decreased as farmers refused to send their produce to the cities.

During the Jacobin Republic of 1792–1794, a swarm of regulators spread across France imposing price ceilings and intruding into every corner of people's lives; they imposed death sentences, confiscated wealth and property, and sent men, women, and children to prison and slave labor. In the name of the war effort, after revolutionary France came into conflict with many of its neighbors, all industries any way related to national defense or foreign trade were placed under the direct control of the state; prices, production, and distribution of all goods by private enterprises were under government command. A huge bureaucracy emerged to manage all this, and that bureaucracy swallowed up increasing portions of the nation's wealth.

This all followed naturally from the premises of the Jacobin mind, which under the shadow of Rousseau's notion of the "general will" argued that the state had the duty to impose a common purpose on everyone. The individual was nothing; the state was everything. The individual became the abstraction, and the state the reality. Those who did not see the "general will" would be taught; those who resisted the teaching would be commanded; and those who resisted the commands would perish, because only "enemies of the people" would oppose the collectivist Truth.

In late 1794 the anti-Jacobin Thermidorians gained the upper hand in the government, and the advocates of a freer market were able to make their case. One of them, M. Eschasseriaux, declared, "A system of economy is good . . . when the farmer, the manufacturer, and the trader enjoy the full liberty of their property, their production, and their industry." And his colleague, M. Thibaudeau, insisted, "I know that when the government attempts to regulate everything, all is lost."

Finally, on December 27, 1794, the price and wage controls were lifted, and market-based terms of trade were once again allowed. And following the end of the assignats a year later, goods once more flowed to the market and a degree of prosperity was restored—until Napoleon's experiment in government planning.

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Cover illustration: "The Africans of the Slave Bark 'Wildfire'," *Harper's Weekly*

Perspective

Made Everywhere

In June I suggested that since exports and imports are defined with reference to economically irrelevant political boundaries, the very concepts are invidious: "There is only what I make and what everyone else makes." Here's another way to illustrate the point, compliments of economist Sudha Shenoy of the University of Newcastle, Australia. Shenoy shows that in a global economy, specifying where goods are made can be tricky.

Take China, for example, which keeps today's neomercantilists up at night. Why? Because it has a big trade surplus with "the United States." The Chinese do sell us a lot of clothing and other products. But what do we mean when we say something is "Made in China"? Perhaps not what we think we are saying.

Shenoy emphasizes that Chinese workers do the final assembly of many products, but final assembly is but the tip of the iceberg of production. When you look at the full manufacturing process, you find a system of worldwide cooperation. Most of the materials and machines the Chinese use in assembly were made somewhere else: sewing machines in Japan, Korea, and the United States; dyes in Germany; button-making machinery in the United States, Taiwan, and Hong Kong; zippers in Japan; spinning and weaving machinery in the United Kingdom; raw cotton in Uzbekistan, Egypt, and the United States (subsidized by the government); cotton gins in the United States; and steel in Japan and Korea.

Once assembled, the goods have to be moved to the docks for transport to the United States. The trucks that do the moving are made in Japan. The ships and containers are made in Korea, Japan, America, and Britain. The shipping services are Greek and Norwegian.

"When you read a label which says 'made in China,' it is not made in China," Shenoy says. "It is made by the world economy, by the globe as a whole. . . . *It is impossible to make anything in one country.* And that is why, as Mises pointed out, the market economy does not respect political frontiers. Its field is the world."

Shenoy's point is reinforced by economist Tyler Cowen of George Mason University. The neomercantilists blame China's trade surplus on its policy of keeping the yuan undervalued against the dollar. But Cowen argues that if that policy were to stop, it might not make much difference. Since China has to import parts in order to manufacture its exports (it runs a trade deficit with East Asia), the stronger yuan would enable the Chinese to buy imported components and materials at lower cost. Thus the price of Chinese goods in the United States might not change much, and Americans would still eagerly buy them up. Incidentally, the yuan floats against the euro, but Chinese exports to Europe equal those to the United States.

Cowen also destroys the notion that China is "draining the United States of money": "Most of the growth in Chinese exports to the United States has come from switching manufacturing and assembly from other, more expensive, Asian countries. In 1985, China, Japan, Hong Kong, Taiwan and South Korea accounted for 52.3 percent of America's trade deficit. By 2005, this percentage had fallen to 40.9 percent, in part because of cost savings from buying Chinese. From 1986 to 1988, Taiwan and South Korea accounted for 60 percent of American footwear imports; China was only 2 percent. By 2001, market positions had reversed; China produced about 60 percent of the total and Taiwan and South Korea about 2 percent."

In other words, Americans are substituting Chinese goods not for American-made goods but for higher-priced Asian goods.

There is no question that thanks to the expansion of world trade we have more stuff, a larger variety, and lower prices. This does not mean all is well in the developing nations. There's little laissez faire out there, sorry to say. But the remedy is not to harm consumers by closing our market.

Shenoy disarmingly answers the neomercantilists' big question: "You say, how are we going to compete with all these other countries? The answer is, of course, you compete by producing goods that were not produced before."

And because the expanded division of labor, global trade, and competition lower prices, there's capital left over for the production of goods we couldn't afford yesterday.

* * *

It's common to hear people grouse about the high salaries that athletes make. Even sports fans do this. But as Gene Callahan points out, it's they who pay those salaries.

Ethanol—the potion that promises to solve all our problems. Too good to be true? Gardner Goldsmith has the facts on this empty promise.

Freedom works—even in the workplace. C. L. Dickinson continues his case for rethinking the employment relationship in this second of a two-part reprint.

This year marks the bicentennial of Britain's withdrawal from the slave trade. The focus naturally is on the great anti-slavery activist William Wilberforce. But, as T. Norman Van Cott notes, important American contributions are suspiciously overlooked.

The family has undergone dramatic transformations over the centuries. And the driving force for this unforeseen change has been economic growth and individual freedom. Steven Horwitz explains.

The Astronaut Farmer, just out on DVD, is a libertarian movie about perseverance in pursuit of a dream. Ray Keating has a review.

There's a new, strange-sounding political idea being floated: libertarian paternalism. Worthwhile proposal or contradiction in terms? Dwight Lee has a little test.

Our columnists' labors at their word processors have yielded these results: Richard Ebeling relives the great French inflation. Lawrence Reed describes England's old Liberty and Property Defence League. Thomas Szasz says defining psychiatry is easy. Robert Higgs shows why the Great Depression endured. Charles Baird takes on the Employee Free Choice Act. And Howard Baetjer, mulling over the claim that inflation can have non-monetary causes, protests, "It Just Ain't So!"

This issue's book reviewers sink their teeth into volumes about socialism after Hayek, occupational licensing, Roosevelt's economics, and John Dewey's education philosophy.

—*Sheldon Richman*
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Something Besides Money Growth Causes Inflation? It Just Ain't So!

BY HOWARD BAETJER, JR.

Some economic phenomena can result from a variety of causes. A temporary increase in unemployment, for example, might be caused by a sudden, disruptive change in production technology, or in trade patterns, or in labor or tax laws; or it could be caused by natural disasters or wars, or by recessions due to monetary or fiscal policy. In such cases the exact cause is unclear.

By contrast, a few economic phenomena have one and only one root origin; when we see the effect, we can be sure of the cause. One of these is inflation. Its root cause is a settled matter for most economists. In the words of the great Milton Friedman, whose masterwork with Anna Schwartz, *A Monetary History of the United States*, did a lot to settle the matter, "Inflation is always and everywhere a monetary phenomenon."

Unfortunately, many educated commentators have not learned this important truth. One of these is Robert Samuelson, who wrote in the *Washington Post* ("The Upside of Recession?" April 25) that government subsidies can increase inflation and that recessions can reduce it. But that ain't so.

To understand Friedman's aphorism, let us consider this thought experiment: Suppose tonight, as we sleep, Harry Potter flies across the country and waves his magic wand to cast a money-doubling spell. The spell has no effect on the amount of goods and services; it affects only money. Every nickel becomes a dime, every quarter becomes a 50-cent piece, every dollar becomes two, every ten-dollar bill becomes a twenty, every checking account doubles its balance—in short, the money supply doubles overnight. What would we expect to happen to prices over the next day or two?

Even if no one knew that everybody else's money holdings had also increased, we would expect to see prices rise very fast as sellers discover that they can charge more for their goods than they could yesterday. Picture automobile dealerships. As people perceived an apparent sudden increase in their "wealth"—it's not wealth, it's just money, but they don't know that yet—many of them would head out excitedly to buy a new car. The dealerships would see many more customers than yesterday, all willing to pay much more than yesterday. The dealers would quickly raise their prices, realizing that they can charge more for their cars (which are no more numerous than yesterday). A similar process would occur at every store, market, online retailer, and real-estate agency in the land, and soon the price of just about everything would (to oversimplify a bit) approximately double.

The experiment illustrates the core of Friedman's insight—the general level of prices is a consequence of the money supply.

Now, would we say that Harry Potter had caused inflation? No, not if we use the term precisely. Inflation is a *continuing* increase in the level of prices, whereas the money-doubling spell would cause only a one-time doubling of prices. If Harry uses the spell only once, and nothing else increases the money supply, then we should expect prices to stabilize after their one-time jump. (Or, rather, in a healthy and innovative economy in which entrepreneurs continually figure out ways to cut costs and produce ever-greater abundance of goods and services, we should expect prices overall to *decrease* gradually. After all, with ever-increasing amounts of stuff to buy,

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and a fixed quantity of money to buy it with, everything should sell for less and less as time passes.)

If Harry Potter wanted to cause *inflation*—a *continuing* increase in the level of prices—he would have to cast a money-increase spell *and leave it on* so that more money would be created every night. Without a continuing increase in the quantity of money, there can be no inflation. This is what Milton Friedman meant by his memorable aphorism.

A consequence of this insight exposes the mistake made by Robert Samuelson and many others. Anything that does *not* continually increase the money supply can *not* cause inflation.

So what does cause inflation? Well, what or who increases the money supply? Central banks do. In the United States, the Federal Reserve System (the Fed) controls the money supply and thereby causes any inflation that occurs.

Let us look at some of Samuelson's specific points. He implies that high oil prices are driving inflation when he writes, "We all know about oil. Prices are about $60 a barrel," and he asserts that government spending drives inflation when he writes, "[T]he government's subsidies for corn-based ethanol are worsening inflation." Samuelson is surely correct that government should not subsidize ethanol and thereby push up the prices of corn and all things made with corn. But high oil prices and government spending on ethanol do not change the money supply, so they cannot change the level of prices.

Surely higher prices for oil and corn drive up the prices of goods and services produced using oil and corn, such as transportation and many foods, so we should expect to see higher price levels in those sectors of the economy. But inflation is an increase in the prices *overall*, not in just some sectors. If the prices of transportation and food rise, then the prices of other goods and services must fall *unless more money flows into the system*. If we have no more to spend *in toto*, then when we must spend more money on gasoline, we have less money to spend on, say, clothing. This means that clothing makers would have to *lower* their prices in order to sell their wares; they in turn would have less to spend on cloth, labor, and other inputs, so we should expect to see lower price levels in *those* sectors of the economy. The higher prices in one sector would be offset by lower prices in other sectors, as long as there is only so much money to go around.

Anti-inflationary Recessions?

Samuelson also says that "downturns check inflation." But that ain't so either, at least not when we consider what happens after the recession. He says, plausibly, that "it's harder to increase wages and prices" in a downturn. While this may be true during the downturn, if the money supply is increasing unabated—so that eventually prices and wages will have to adjust to the larger money supply—people's hesitancy to raise wages and prices during the downturn simply creates a lag. Prices and wages will have to catch up later.

In practice, causation will more frequently run the other way, with inflation today causing a downturn later. As Steven Horwitz and others have explained, inflation not only increases the level of prices, it also *distorts* relative prices, the economy's essential means of communicating the relative scarcity of various goods, and thereby interferes with economic coordination. (See Horwitz's *Microfoundations and Macroeconomics: An Austrian Perspective*.) That interference can itself cause or prolong recessions. The longest period of poor economic performance in my lifetime was the 1970s, a period of inflationary recession. Not only did the long, deep downturns of that decade not "check inflation," on the contrary the inflation likely deepened the downturns.

Friedman's maxim bears frequent repeating. Who controls the money supply controls inflation. As for any claim to the contrary, it just ain't so.

Athletes' Salaries Too High? Sports Fans, Blame Yourselves

BY GENE CALLAHAN

I was sitting in a sports bar recently when the bartender and three of the patrons near me began discussing the salary of New York Yankee third-baseman Alex Rodriguez. (Rodriguez currently makes roughly $25 million per season.) One of the customers said it was absurd that Rodriguez makes so much when, for instance, teachers, charged with educating our children make only $50,000 or $60,000 per year. The bartender defended Rodriguez's salary, asking, "If someone offered you $25 million, would you turn them down? And besides, if the owners can pay ballplayers that much, how much are *they* making?" (His second defense of Rodriguez's income level is, of course, open to the objection that the owners are even *more* overpaid than are players.)

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I am presenting an account of their conversation here not because I suspect that the readers of *The Freeman* are especially interested in Rodriguez, but because it struck me as representative of a type of complaint commonly made about the workings of the market: To many people it just doesn't seem *right* that pop stars/investment bankers/athletes get paid so much more than nurses/firemen/teachers.

What no one participating in the barroom banter that afternoon seemed to consider was the question of just *who* is responsible for the size of Rodriguez's salary. The correct answer, especially given that we were in a sports bar, is that the discussants themselves ultimately are the ones setting such high rewards for being an outstanding athlete. (Not just the four of them, of course, but them in concert with all other sports fans.)

It is the very fans who often grumble about the "ridiculous" wages paid to top athletes who in effect set their salaries. That's because in a market economy the price paid for any factor of production (including labor services) arises from the choices consumers make about the items they wish to buy and how much they are willing to pay. Producers face costs in providing a good, and if they estimate that buyers will not pay at least enough for their output to cover their costs plus some profit, the good will not be produced. Those estimates can turn out to be overoptimistic: producers are often mistaken in gauging consumer demand, and many a business has gone under because it spent more to manufacture its offerings than consumers were willing to pay. But competition among entrepreneurs for buyers' dollars rewards those entrepreneurs whose forecasts are generally most accurate with profits that allow them to remain in business and invest even more in the future.

Consumers must bid enough to prompt producers into action, and the price of every good—industrial products as well as consumption items—can be traced to consumer choice. Producers of items needed for the

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production of consumer goods will find it rewarding to produce those items only if consumers value the final goods enough to pay for the resources and work necessary to create them.

What's more, the costs producers face in their operations are not determined by nonhuman factors such as energy expenditures, chemical transformations, or the abundance or scarcity of various raw materials; rather they are the consequence of the producers' evaluation of alternative ways in which they might earn their livings by meeting consumer demand. Of course, producers must not ignore physical reality in their business decisions: it will clearly require far more time and energy to manufacture skillets from iron mined on Mars than from the same metal mined on earth. However, unless consumers value "Martian skillets" more than the terrestrial variety, expending all that effort to procure otherworldly metal will not result in a higher price being paid for it. It is the preferences of consumers that drive the formation of prices all the way backwards along the production chain. If some resource *could* be used in the creation of a consumer good, but producers judge that their efforts to acquire it will not add enough to the value of the final product to be worth their while, they simply will choose not to employ it; they have no power to drive up the price of the end product by picking an extravagant way of manufacturing it.

If we are to allow free speech and treat our fellow citizens as autonomous individuals responsible for and entitled to make their own decisions, then it follows that they must be allowed to evaluate arguments as to how they should allocate their time and resources themselves.

This aspect of the market economy, which has been termed "consumer sovereignty," is entirely independent of how concerned a proprietor is about the welfare of his customers. One entrepreneur may start a firm because of a sincere conviction that the product or service he plans to provide will bring immense benefits to his clientele. Another may be motivated solely by his desire to become fabulously wealthy. But to succeed, both will be equally bound to judge accurately as to how much consumers will value his offerings. Certainly, an unscrupulous businessman may try to deceive consumers about the true nature of what he is selling, but that is more accurately classified as theft rather than commerce and properly is subject to legal sanctions.

Often the understanding of consumer sovereignty as presented above is attacked for not taking into account the character flaws and cognitive shortcomings of the flesh-and-blood people who really populate any economy. However, asserting that in a free market the consumers are sovereign in no way implies that every decision they make about spending their money is perfect and immune to moral or prudential criticism. If a father bets extravagantly on horseraces while neglecting to provide adequately for his children's needs for food, clothing, shelter, and education, then his friends and family are quite justified in reproving his conduct, and if the neglect is severe, legal remedies may be appropriate. If a wealthy heiress spends her inheritance entirely on lavish evenings of debauchery, then a newspaper's society columnist is perfectly entitled to bemoan that she is not putting her fortune to a better use. And while it is not immoral if I buy apples for $10 a bag despite their being available for $5 just down the street, a friend may sensibly and helpfully point out that I am needlessly wasting my money.

The recognition that, in the market, the consumer is the ultimate boss does not rely on any idealized model of him as a perfectly rational, fully informed, utility-maximizing supercomputer, whose choices are beyond reproach and are incapable of being improved on through reasoned consideration.

Some critics of "consumerism" argue that, in today's market societies, consumers' choices about what to purchase are "not really free" because they have been unduly shaped by massive and pervasive marketing efforts designed to convince people that they want or even need products that they could easily forgo, some of which actually diminish their quality of life. A paradigmatic case is cigarettes: smokers are persuaded to buy them because tobacco companies have made them seem glamorous or sources of great pleasure, but in reality they ruin the health of smokers, who will come to regret their habit.

Not Immune from Error

It is true that consumers are no less immune from error in their choices of what to buy than are producers in their choice of what to make. But if we are to allow free speech and treat our fellow citizens as autonomous individuals responsible for and entitled to make their own decisions, then it follows that they must be allowed to evaluate arguments as to how they should allocate their time and resources themselves. In a free society the proper remedy available to those who deplore smoking or are convinced that their fellows should buy fewer Britney Spears CDs and more Bach is to persuade others of their beliefs. That such efforts at persuasion will sometimes fail is an inescapable consequence of treating others as free agents rather than as one's vassals whose lives can be directed as one wills.

It is important to note than nothing argued here suggests that every salary we see today is the result of consumers' voluntary choices. To the extent that any interest group, such as corporate managers, can successfully lobby for favorable legal restrictions on free-market processes, such as laws hampering corporate takeovers, then the members of that group might be able to earn more than they would through purely voluntary transactions. Similarly, the owners of baseball teams who receive municipal subsidies to build fancy, new stadiums can pay their players more than they could without that government largess.

Nevertheless, the enormous salaries earned by sports stars are chiefly the result of the willingness of their fans to pay to see them play. If my neighbors in the sports bar are seriously distressed that star athletes make so much more than educators, the power to alter that situation lies with them. They can stop paying so much for ESPN and tickets to ballgames and instead spend the money they save on their children's schooling. I certainly would not complain about such a shift in people's priorities. But it is the only way a free people can address the situation.

Ethanol versus the Poor

BY P. GARDNER GOLDSMITH

It is nearly axiomatic that anything Cuban "President" Fidel Castro says will be false, incorrect, misleading, and downright pernicious. It's not as if the bearded relic from the Cold War—who seems to have replaced his traditional olive military clothing with a more sedate sweatsuit look—has a stellar record for veracity or economic punditry. But recently, el Presidente's grumblings have been worth hearing, not because they are precisely right, but because they are at least on the right track.

At the end of March Castro spoke out with great fire and resentment about the attempt by the Bush administration and Congress to increase ethanol use in the United States. "More than 3 billion people in the world are being condemned to a premature death from hunger and thirst," he said in a March 29 op-ed published in *Granma*, the official Cuban Communist Party newspaper.

Coming from a man responsible for the torture, death, and exile of many people, these humanitarian claims are more than a bit hypocritical. But despite the source, and the overblown nature of the rhetoric, there is a barely discernible ring of truth to his words.

Ethanol, of course, is derived from the fermentation of certain carbohydrate-rich plants, such as sugar cane, wood pulp, sugar beets, and—as shocking as it seems—*corn*. And since politicians in Washington for decades have taken it upon themselves to interfere in not only the energy markets, but also pretty much *every* market, they recently have shown no qualms about forcing consumers to use more ethanol in their automobiles.

Since politicians in Washington for decades have taken it upon themselves to interfere in not only the energy markets, but also pretty much *every* market, they recently have shown no qualms about forcing consumers to use more ethanol in their automobiles.

As H. Josef Hebert of the Associated Press reported on May 1, "There is an ethanol juggernaut moving through Congress that will call for a sevenfold increase in biofuels production—almost all of it ethanol—over the next 15 years."

This push includes the approval on May 2, by a 20–3 vote in the Senate Energy and Natural Resources Committee, of a bill that would require 36 billion gallons of "renewable fuel" use by 2022. It includes a proposal by House Speaker Nancy Pelosi to have an "energy security" bill ready for a vote by the summer, just in time to feed off anger over high fuel prices, and just in time to promote ethanol even more. The push encompasses loan guarantees, tax breaks, and subsidies for the building of cellulose-based ethanol plants in the United States, much like a 2002 law, the Renewable Energy Systems and Energy Efficiency Improvements Program, that wasted $73 million through grants and loans to farmers to buy renewable energy systems. And finally, it piles all of this on top of a requirement passed two years ago making

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oil refiners double the amount of ethanol in their gas products, from 4 to 7.5 billion gallons.

Of course, President Bush has pledged to cut gasoline consumption ("addiction") by 20 percent over the next decade. Ethanol is to play a large part in that plan.

So much for the free market.

Such a comment could come off as glib, or merely colorful—a punctuating sentence with little more than rhythmic literary value. But it is of far greater significance, for this interference by politicians in the market for fuel (added to the massive existing interference) has real-world impact, and Fidel Castro, of all people, understands.

"The market" encompasses and integrates every market sector. It represents the dynamic flow of usable capital, time, natural resources, skills, preferences, and opportunities each participant uses to fulfill his needs. Only the individual can make the proper judgments about these factors, and when he participates in any market sector, he helps establish a price system that imparts this information to other participants of not only his sector, but others as well. As a result, absent political interference, the personal needs of market participants drive capital, time, skills, and other resources to their most productive uses, maximizing human effort in all sectors, and minimizing waste.

> The government push for ethanol indirectly increases the price of the fuel required to ship produce, harming consumers—especially poorer people—once more.

But by imposing their will on participants in the market for fuel, politicians not only commit the unethical act of coercion, they intercede in, and interfere with, the proper flow of capital in all sectors of the market.

As strange as it appears, and as insincere as it is, Castro's statement about starvation and thirst points this out.

U.S. government requirements for increased ethanol use have already caused a higher demand, and thus higher prices, for corn, and the trend will only worsen as more government strictures interfere with the market. These higher prices have devastating effects on people living on the margins. In Mexico the cost of corn tortillas has more than doubled in the past year. Between August and December 2006, anticipation of increased demand for corn drove prices from $2.09 to $3.01 per bushel, making it more difficult for the impoverished to afford the basic foodstuff on which they rely.

But this unnatural increase in costs is not restricted to corn. Government intervention in one sector has effects on all. For example, the sharp, artificially increased demand for corn, and its relative increase in value to farmers, has prompted, and will continue to prompt, those farmers to shift acreage accordingly. As most economists recognize, but few politicians seem to consider, this rapid, nonmarket driven shift in acreage has caused reallocation of resources *away* from other produce and toward corn. Such shifts mean rapid changes in the supplies of these other forms of produce, and, as a result, higher prices. Keith Collins, chief economist at the U.S. Department of Agriculture, testified before a Senate committee in January, "Looking ahead to the 2007 crop of corn, it is quite likely, based on current ethanol plant construction, that corn used in ethanol production will rise by more than 1 billion bushels from the 2.16 billion bushels of the 2006 corn crop used for ethanol. Use of 1 billion bushels, at a trend yield of 152 bushels per acre, would require an additional 6.5 million acres of corn, if corn consumed in other uses remains unchanged from this year's projected levels."

This can mean only higher prices for people interested in buying not just corn, but also other produce.

"With ethanol fueling a push for more corn acres, major crop prices are generally expected to be higher over the next couple of years than in the past," Collins said. "Soybeans, while facing competition from ethanol feed co-product . . . are still likely to face higher prices over time, as lower expected soybean acreage offsets the lower soybean meal demand, and soybean oil is demanded for biodiesel production."

Then, of course, there are all those products that rely on corn for their creation. With a nonmarket player intervening in the proper flow of capital, prices for everything from cereal to sodas sweetened with corn syrup to poultry and pork must increase in cost. Since the passage of the 2005 energy bill requiring an increase of ethanol production to 7.5 billion gallons, the cost of poultry alone has increased 40 percent.

As Collins told the committee, "Livestock and poultry profitability declines under higher corn feeding costs. For example, for hogs, which are heavily dependent on corn… a $1 per bushel increase in the price of corn would raise the price of producing hogs by about $6 per cwt (hundred weight)."

These are all costs that will be passed on to the consumer. They will not only make it more difficult for the poor to afford their basic foods, but they will also decrease the money that would normally be available to purchase other products, thus retarding the pace of economic growth and harming everyone.

These economic realities merely compound the problems inherent in the use of ethanol as a fuel itself. As has been noted by Edmund Contoski, in his book *Makers and Takers*, corn-based ethanol is still a net energy *loser*. "The energy needed for growing the corn (for farm machinery, fertilizers and pesticides) and distilling the alcohol is more than you get from burning the ethanol that is produced," he writes.

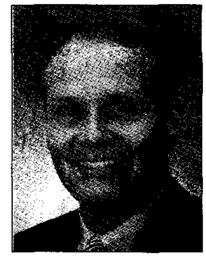
Thus the government push for ethanol indirectly increases the price of the fuel required to ship produce, harming consumers—especially poorer people—once more.

Supporters of the congressional and presidential push to force ethanol on us seem oblivious to these scientific and economic realities, but highly attuned to the special interests who would gain from the program.

And there are other drawbacks. Ethanol is not compatible with colder temperatures. This makes it virtually impossible to run it through pipelines, and necessitates shipment by truck or train, which increases costs—and energy use—even more. On arrival, the ethanol can only be used above certain temperatures, for if it is cool, the aerosolized particles left over from ethanol combustion stubbornly remain at lower atmospheric levels, causing terrible smog. That is why politicians from California—particularly Los Angeles—fought the U.S. government over required ethanol content during the winter months.

Supporters of the congressional and presidential push to force ethanol on us seem oblivious to these scientific and economic realities, but highly attuned to the special interests who would gain from the program. Ethanol advocates self-servingly bandy about claims that we need to "help the environment," and "get off of foreign oil." Meanwhile, they force on us higher costs that retard our ability to better our lives, a fuel that creates smog in winter and takes more energy to make than it produces, and a series of unconstitutional mandates that earlier Americans would have loudly protested. How much better off we would be if the energy planners lifted their smothering hands from the marketplace. That means deregulation *and* desubsidization.

Of course, that kind of thinking is a pipe dream, about as realistic as expecting Fidel Castro to ever be on the right track about economics again.



Prophets of Property

BY LAWRENCE W. REED

In 1800 fewer than a million people lived in London; a century later, well over six million did. As the twentieth century dawned, London had already been the most populous city on the planet for seven decades. Britain's population as a whole soared from eight million in 1800 to 40 million in 1900. In the previous 2,000 years, even a fraction of such population growth anywhere in Europe was usually nipped in the bud by famine, disease, and falling incomes.

But Britain in the nineteenth century was a special place, the legendary "workshop of the world." London had become the capital of capital, with private investment in agriculture and manufacturing burgeoning at a record-breaking pace in the latter half of the century. The year Victoria ascended to the throne, 1837, saw fewer than 300 patent applications for new inventions, but by the end of the century the number exceeded 25,000 annually. Per capita income on the eve of World War I was three times what it was a century before, and life expectancy had risen by 25 percent. There were many more mouths to feed and bodies to clothe, but British entrepreneurship was feeding and clothing them better than the world had ever experienced. It was the greatest flowering of problem-solving creativity, ingenuity, and innovation in history.

Colin Pullinger, a carpenter's son from Selsea, typified the nineteenth-century British entrepreneur. He designed a "perpetual mousetrap" that could humanely catch a couple dozen mice per trap in a single night, and then sold two million of them. Perhaps Emerson had Pullinger in mind when he famously wrote, "If a man write a better book, preach a better sermon, or make a better mousetrap than his neighbour, tho' he build his house in the woods, the world will make a beaten path to his door."

As the 1800s drew to a close, the framework that made possible these extraordinary achievements—the market economy—fell under assault. As poverty declined massively for the first time, the very presence of the poverty that remained prompted impatient calls for forcible redistribution of wealth. Around the world Marxists painted capitalists as exploiters and monopolists. In Britain, Charles Kingsley argued that Christianity demanded a socialist order, and the Fabian Society was formed to help bring it about. Many unscrupulous businessmen turned to the state for favors and protections unavailable to them in competitive markets. Would anyone come to the defense of the market with as much vigor and passion as those who opposed it?

At least one group did: the Liberty and Property Defence League. Though its work has been largely forgotten, what the world learned about socialism in the following century surely vindicates its message. Its name derived from the members' belief that liberty and property were inseparable and that unless successfully defended, both could be swept away by the beguiling temptations of a coercive state.

The founder of the League in 1882 was a pugnacious Scot by the name of Lord Elcho, later the tenth earl of Wemyss, a member of the House of Lords and thereafter known simply as Wemyss. Originally elected to parliament in 1841 as a protectionist Tory, he embraced free trade and repeal of the Corn Laws by 1846. He later evolved into a full-throated advocate for what we today would call "classical liberal" ideas. At the League's third annual meeting in 1885, he expressed his hope that its efforts to educate the public would "cause such a flood as will sweep away, in the course of time, all attempts at state interference in the business transactions of life in the case of every Briton of every class . . . . No nation can prosper with undue state interference, and unless its people are allowed to manage their own affairs in their own way . . . ."

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Wemyss and his friends rounded up spokespersons and financial support. They enlisted writers and public speakers. They published and circulated essays and leaflets. The organization operated as an activist think tank with a lobbying arm. The League attempted to mobilize public opinion against specific bills, functioning as a "day-to-day legislative watchdog" in the view of historian Edward Bristow. It even arranged testimony before parliamentary hearings. One League pamphlet attacked the introduction of "grandmotherly legislation" as a transgression against the freedom of contract. Armed with arguments provided by League members and sympathizers, Wemyss's allies in Parliament killed hundreds of interventionist bills in the 1880s and 1890s.

Opponents often accused the League of being motivated by its members' drive for profits, but actually, its philosophical ideals were paramount. Among its members were some of the brightest intellects of the era, Herbert Spencer being perhaps the most notable. Author of the libertarian classic, *The Man Versus the State*, Spencer was the best-selling philosopher of his day and was nominated for a Nobel in literature. Spencer saw liberty as the absence of coercion and as the most indispensable prerequisite for human progress. The ownership of property was an individual right that could not be morally infringed, and no one had a right to interfere with the property of another. Spencer has been demonized as an apostle of a heartless "survival of the fittest" Darwinism by those who choose to ignore or distort his central message, namely, that individual self-improvement can accomplish more progress than political action. One creates wealth; the other merely takes and reapportions it.

Auberon Herbert was a Spencer acolyte whose championship of voluntarism found fertile soil among fellow League members. His now century-old warning about the danger of state intervention is positively prophetic: "No amount of state education will make a really intelligent nation; no amount of Poor Laws will place a nation above want; no amount of Factory Acts will make us better parents . . . . To have our wants supplied from without by a huge state machinery, to be regulated and inspected by great armies of officials, who are themselves slaves to the system which they administer, will in the long run teach us nothing, [and] will profit us nothing."

In a 1975 essay in *The Historical Journal* from Cambridge University Press, historian Bristow contended that the Liberty and Property Defence League changed the language in one important, lasting way. Prior to the 1880s, "individualism" was a term of opprobrium in most quarters, referring to "the atomism and selfishness of liberal society." The League appropriated the word and elevated its general meaning to one of respect for the rights and uniqueness of each person.

The Socialist Impulse

But was the League successful in its mission to thwart the socialist impulse? In the short run, lamentably, no. By 1914 socialists had convinced large numbers of Britons that they could (and should) vote themselves a share of other people's property. Two world wars and a depression in between seemed to cement the socialists' claim that their vision for society was inevitable.

Good ideas, however, have a way of resisting attempts to quash them. Bad ideas sooner or later fail and teach a valuable lesson or two in the process. Britain and most of the world gave socialism in all its varieties one hell of a run in the twentieth century. The disastrous results now widely acknowledged underscore the warnings of those who said that we could depart from liberty and property only at our peril.

The warriors of the Liberty and Property Defence League may have lost the battle in their lifetimes but a hundred years later they offer prophetic wisdom to those who will listen.

Free Men for Better Job Performance

PART II

BY C. L. DICKINSON

Recognizing the employee as a tenant with a contract to utilize his own property (skills, talents, etc.) to increase the productivity and enhance the value of the employer's property certainly is not the view now prevailing of the employer-employee relationship.

To make the owner-tenant relationship effective, it is necessary to describe the boundaries and objectives of each job. This procedure will generally result in finding many overlapping jobs that require boundary straightening through new descriptions. Some jobs may be eliminated. The job holder must have freedom for action, or control of the application of his properties to his job.

Any restriction on his authority or control of his job performance is similar to a restriction on the use of any property. Such restrictions reduce value by preventing maximum productivity. The production employee who is restricted from producing beyond a quota which is set below his personal ability and goal, no longer has control of his job performance. Both he and his employer have been robbed of their property. The supervisor or manager whose superior retains the authority essential for successfully carrying the responsibilities delegated to him is simply a servant to that boss. He has no real ownership in his job performance, doing only what and how he is told to do. Regardless of how able he might be, his performance will be lower than it would be if his superior conveyed the authority commensurate with the delegation of responsibilities.

Land owners who contract with tenants have been successful in delegating control of their property to operators who devote their management skills to attain objectives favorable to both owners and tenants. Some of the most successful farmers do not own the land they work. They combine their own property—skills, experience, tools, and capital—with the land owner's property, to obtain a better return for both. The terms of successful owner-tenant operations are precisely defined as to property description, the responsibilities and obligations of each party, and the controls (initiative to take action) retained by the owner and those delegated to the tenant.

All kinds of schemes have been tried for distributing shares of stock of proprietary corporations to employees or for assisting employees to "invest in the company" through payroll deduction plans. These tend to become employee benefit plans rather than work incentive plans. They have the virtue of providing a share of ownership in the company, but if they are not a part of a much larger program for the company, recognition of ownership in job performance, they will fail to stimulate fully the employees' productive abilities and energy. Ownership of stock in the company is not needed to establish the conditions that are essential to the ownership principle as applied to job performance.

What is needed are clearly defined functions, duties, and responsibilities, accompanied by adequate freedom to carry them out, and the courage of owners and managers to let freedom prevail.

These requirements apply not only to proprietary corporations and unincorporated business, but also to governments, universities, and all other organizations that conduct operations with people.

C. L. Dickinson was the vice president for business affairs at the Institute for Humane Studies with a background in business management and academia. This essay was first published in 1966. This is the second of two installments.

Successful operations in any endeavor are dependent upon a great deal more than precise descriptions of property, responsibilities, and delegations of authority. But without descriptions of property, responsibilities, and authority, confusion results and initiative dies. Parkinson's Law fills the vacuum.

Management of organizations can be divided roughly into three types:

1. The autarchy in which the boss rules everything. Every detail must be approved. There is one way and only one way to do the job—the boss's way.
2. The committee system in which no important decisions are made except by group action. If the results are good, the members of the committee share the credit equally. If the results are bad, no one is at fault to take the blame or to learn from the error.
3. The true free enterprise type in which all participants know their jobs, have the freedom to perform, accept the responsibility for their own mistakes, and receive credit for their accomplishments.

Of course there are many shades and combinations of these three general managerial arrangements. A large company may include all three types in its several divisions and many departments. The same applies to a lesser extent in universities, institutions, and all levels of government.

Privately owned businesses, including corporations, partnerships, and single proprietorships that are organized for profit, are more easily adapted to the property concept of job performance than are nonprofit institutions or units of government because ownership is more easily identified in business. This concept is applicable and will work wherever there are jobs. The commercial organization that can produce at the lowest unit cost for equal quality can compete for the customers' favor while bringing higher returns to the owners and the employees. The individual job holder, whether he is a responsible executive or a minor clerk in a nonprofit organization, an academy, or a government bureau, may also apply his faculties more completely when he has the right (freedom) to apply his property, that is, all he owns in skills, experience, knowledge, and conscience to his job.

It is a mistake to assume that administrative problems can be solved, management made more effective, and productivity increased by designing organization charts—little boxes or circles in neat designs to scatter through the pages of the company manuals. Improvement will not automatically follow the preparation and distribution of job descriptions that fit the organization charts, and define the duties and responsibilities, functions, and relationships of each job. These are the management architect's plans. It's the craftsmanship of the builder that gives final character to the plans. Paper organizations are everywhere. Management texts and books are full of them. They gather dust on managers' shelves, waiting for the organization specialist or consultant to review and revise. They are simply maps to use as guides. The men and women who are represented by the boxes or circles and the job descriptions make the decisions, run the machines, keep the books, sell and distribute the goods. How efficiently they do these things will depend not only on the formal organization and methods, the qualities of the facilities and tools, but far more importantly on whether they work as slaves for a master or as individual enterpriser tenants.

Individual Freedom Leads to Positive Group Action

Farming is a good testing ground for group behavior and for the principle that ownership, control, self-reliance, and reward according to production stimulate productivity. The Plymouth colony tried for two years to produce for the common good and almost starved into oblivion. No member of the colony was permitted to cultivate his own acreage—or even to know how much he produced. Each shared according to need and supposedly contributed according to ability. When Governor Bradford permitted the establishment of privately owned individual lands, the immediate response in productivity brought plenty in place of famine.

The colonies prospered, largely on the returns from an expanding agriculture based on ownership and freedom. Two kinds of products came from the farms to enrich the nation—agricultural products and people to add to the non-farm work force and to the professions. Until very recent times these products were cultivated and grown in an economic climate of relatively free enterprise and the people were raised and trained in a social climate of individual responsibility.

How did these people behave when brought together for group accomplishment? The quilting bees, husking bees, and community barn raisings were enjoyed as social occasions as well as for practical, productive results. Later, as machinery increased the amount of land one man could tend, so it increased beyond his own capacity the bushels he could harvest. Then the threshing ring was born. Other practical group action programs were silo filling, potato spraying, and ice house filling, where each shared the ownership of the tools and contributed, each his share, to the physical work until all was done.

What was the behavior of the group under these conditions, where each was his own master but except for the time on his own farm, worked for his neighbors? My recollection from my own farming experience is that there were usually one or two laggards in a group of ten, while the eight or nine hotly competed for the reputation of the fastest loader, or bag toter, or thresher tender. For 300 years American farmers, as independent owners and entrepreneurs and in group activities, have utilized their faculties and their capital to increase productivity from the starvation level of the Plymouth commune to today's level where the average farm worker produces enough for himself and 35 other people, and the most efficient farm worker may easily feed himself and 100 others.

Ownership is the anchor that kept the agricultural ship afloat through all of America's economic storms. When man is working alone or cooperating with neighbors to do together what each cannot do at all or as well alone, ownership is the incentive that rarely fails to spur him to voluntary, high-level output.

Farm tenancy, where a bona fide lease binds the landowner and the farm manager-operator to mutually agreeable conditions, has been a proven method of utilizing resources for efficient production in civilized parts of the world ever since private ownership has been legally protected. Karl Brandt, Director Emeritus of the Food Research Institute at Stanford University, describes the lease ". . . as a most important feature of private property in means of production because it makes the utilization of such property far more adaptable and flexible. . . . As is true for all human institutions, tenancy as such does not automatically guarantee favorable results for the partners or for society as a whole. How the farm enterprise or any leased enterprise functions and how its assets and productivity fare under tenancy depend on the intelligence, character, and abilities of both parties and their mutual interest in the development of the income earning capacity of the operational unit. There are no economic undertakings in which several cooperating parties cannot arrive at contractual arrangements which yield optimal returns to all jointly and fair shares to each individually."[1] This observation holds true for owners, managers, supervisors, factory and office workers, public service employees—wherever people combine their talents for productive purposes.

Some do not respond to responsibility; there are always those who prefer indolence and others who want no part of responsibility but are good workers when directed. To illustrate, one farmhand never failed to get up at four in the morning, milk the cows, clean the barn, load the milk cans on the truck—all before breakfast. But when he was given the job of sorting potatoes, alone, he became a nervous wreck in two hours. He couldn't make decisions between potatoes for seed, potatoes to eat and sell, and the culls to discard. This illustrates the need for management to develop its skill to fit the particular properties of the employee to the job he can perform best.

Difficulties to Overcome

Establishing an organization based on the tenant-ownership relationship where the employee freely uses his faculties to enhance the property of both owner and tenant is made more difficult by the present economic and political climate. Foremost, outside of the organization itself, are the education, training, and world-wide political philosophy which have molded the last two generations into believers in organized security guaranteed by government, professional associations, unions, or other pressure groups. Civil service rules protect the government employee; union contracts, the worker. Tenure secures jobs for professors and teachers. Even that rugged individualist, the farmer, has accepted restrictions on his freedom in order to obtain government-established, rather than market-established prices for some of his products. Many businessmen have promoted price fixing through fair trade laws. The increasing power of governments to interfere in the market place, in the management of business, and in the mores stifles freedom. "The corporate and managerial revolutions have led to a moral crisis in American business by undermining the profit ethic."[2] We have the partnership of government and business, the "good citizen" concept of corporations—meaning they should distribute the corporate owners' property for good causes. These developments tend to destroy property and the meaning of ownership, that is, the right of one or more persons to possess and use to the exclusion of others.

The chief internal difficulty in establishing an administrative organization in which the property concept prevails is the administrative superiors' unwillingness to delegate responsibility *and* authority. Many bosses think that they know not only what to do, but exactly how to do it, leaving little chance for a fertile and willing mind to propose alternatives that may be better. Few bosses have the courage to choose and assign the person whose ownership of faculties best fits the job to be done—and then to let him have free choice in the manner of employing them.

Many attempts to establish "incentive" systems have been discarded or are simply tolerated as an established part of a particular labor price system. But the fact that bonuses or other types of incentive payments are not an uncommon part of the history of wages surely indicates an understanding of the normal reaction of humans to the carrot versus the authoritarian stick—to freedom versus slavery.

The failure of managers to carry out the principles of free enterprise throughout the business structures they manage results in lower productivity and higher costs. Beyond these financial losses, the lack of free enterprise throughout the business organization from top to bottom has led to an ever increasing bureaucracy of administrators; it has led to organized restrictions on the men who run the machines. Bennett E. Kline and Norman H. Martin observed, "The management of a corporation has the responsibility of attaining efficiency and discipline and at the same time of allowing individuals freedom to display initiative, to create, and to express themselves. Otherwise it cannot keep faith with our economic ideals of progress or with our Christian ideals of the dignity of the individual. Granted that not all people in a company will use their freedom, however hard management tries to maintain it. But if there is to be freedom for the few who *will* take advantage of it, freedom must be offered to the many. If any lesson is clear from history, it is this."[3]

Most business managers are strong believers in what they call free enterprise, the competitive system of free markets. But many hesitate to allow the same system to work in their own establishments. The usual textbook approach to the definition of management runs something like this: "management is getting things done through people," and the function of management is "planning, organizing, and controlling." Much of the organizing and controlling by management applies to people, rather than to the development of conditions and environments in which people are relatively free to invest their abilities. "It appears to many millions of Americans that, while they live in a free society, earning and using their incomes in a free economic system, they spend most of their working hours in authoritarian institutions playing the role of the managed. The employing institutions do not match the system in their use of freedom. Being managed, it seems, is not the same as exercising freedom."[4]

But surely you can't turn the 600,000 employees of a vast corporation like General Motors Corporation, or even the 150 employees of a small company, into an unorganized mass without rules and directions and expect them to produce anything but chaos. True. However, there are proven ways to extend freedom to employees that result in greater satisfactions, in higher productivity, and in the extension of liberty—all this while preserving the control by owners and employees of their respective properties.

Some California farmers do it by allowing harvest workers to organize their own teams. The teams divide the harvesting job into the physical operations which each member of the team does best in concert with the others. The farmer pays the team on the basis of product picked, packed, and loaded. The team divides the payment. Obviously labor organizations do not approve of this method.

As mentioned before, owners of manufacturing facilities, particularly in New England, practiced a system of "inside contracting" for upwards of 100 years. "By 1876 the production of guns at Winchester was divided among a dozen large departments, each headed by a contractor with another half-dozen minor operations performed by separate contractors working alone or with one or two helpers. . . . The single capitalist had been supplemented by a managerial group."[5]

The factory "inside contract" system expired with World War I and the period of "scientific management" commenced. Now, after 50 years, management is beginning to rediscover what Governor Bradford learned in 1620–21. There is no substitute for liberty as a stimulus for man to improve his lot. And as each improves, gains are multiplied for all.

Management needs to recognize that every employee in the organization is the owner of special properties, talents, experience, skills, and ideas that cannot be bought and controlled like machine tools, but only can be leased under a voluntary agreement between the business proprietors and those whose properties are needed. This concept is at the heart of successful decentralization. The relationship between the farm owner and his tenant is quite different from that of the farmer and the "hired man." The tenant has complete freedom, within the terms of the lease, to choose the methods that enable him to get the best results. The hired man does as he is told. Herein lies the great difference in the incentives that stimulate the ideas and the will.

More Freedom—Higher Production

Some companies are experimenting with ideas of increasing the freedom of production workers. Lee Berton reports in the *Wall Street Journal* that the Raymond Company of Greene, New York, ". . . will earn 14% net profit on sales of $18 million this year. In 1963, when the company began to use 'participative' management the profit was 12% on sale of $8.5 million." Participative management at Raymond Company means that workers are free to use their initiative and suggest, all the way to top management, methods to improve efficiency. Berton also reports that disabling injuries among overhead line crews of Detroit Edison "have declined 30% to 40% each year" since that company ". . . began giving its . . . crews a voice in how transformers and high voltage wires should be installed."

Texas Instruments, Inc., has divided some production employees into teams, the members of which are permitted to decide which team members does each operation best. Production has risen 10% to 40% and many new ideas for improving efficiency have come from the team members.[6]

These are moves toward the utilization of employees' skills and faculties as tenants instead of hired hands. The principal element is freedom—more of it for each individual to use his faculties best.

We are all familiar with bonuses paid to employees for the money-saving ideas they pass along to management. It is spectacular to announce a $500 onetime award for a worthy employee idea. Less spectacular but more certain progress will come from the ideas, innovations, better methods, and the thousand and one ways that free men find to lessen the expenditure of physical energy and increase the values from their use of their faculties.

Job Descriptions and Property Lines

The organization of people inevitably leads to some kind of hierarchy, with selected leaders and followers—superiors and subordinates. Will the competition for position, which is basic in freedom, bring chaos when the discipline of authority is lessened?

The long established rules of property may be applied to employment at all levels. If the property lines for real estate or the identifying characteristics of any tangible property are described accurately, confusion in the ownership, use, sale, or transfer is reduced or eliminated. These rules, when set forth in job descriptions, guide the orderly transfers, exchanges, leases, and sales of the intangibles that make up the properties of men's skills, experience, courage, initiative—and all attributes owners of capital look for in managers and workers.

Owners and managers who believe in freedom should not find it difficult to extend freedom to employees who are willing to assume the responsibilities that go with freedom. Production will increase and satisfactions for owners, managers, and all workers will rise.

W. H. Hutt reminds us,

. . . that the rights we take for granted were fought for by a long line of martyrs; and we have not consciously studied the course of history in order to perceive exactly how the accumulation of technical knowledge and the expansion of occupied area have proved conducive to the winning of liberty of thought, discussion, and decision—that security from central or sectional force which is conferred by the institution of property.

In particular we have failed as peoples (or our teachers and elected representatives have failed) to perceive the origin of that security which emerges from the right to enter into and rely upon contract, a right which permits cooperation without coercion—cooperation under conditions of freedom. Even less do we perceive the true source of two subsidiary yet fundamental rights, (a) *the right to work* (in the sense of the right to acquire valuable skills, and to contract with those who want our skills or with those who can organize our skills to satisfy demand), and (b) *the right to use the accumulation of valuable resources* in the manner which is expected to be most acceptable to society in its consumer role.[7]

Business owners and managers can create the climate to revive individual enterprise and the incentives for efficient output. Workers can jealously guard their most valuable properties—their lives, talents, ideas, and all their faculties and apply them to obtain the greatest satisfaction.

Property, inseparable from liberty, is the key.

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Defining Psychiatry

BY THOMAS SZASZ

In the United States today everyone considers himself an expert on psychiatry, especially in the aftermath of a mass murder by a "deranged madman." Yet academically and legally qualified experts in the field keep telling us that they cannot even define psychiatry.

In 1886 Emil Kraepelin, the undisputed founder of modern psychiatry as a medical specialty and science, declared: "Our science has not arrived at a consensus on even its most fundamental principles, let alone on appropriate ends or even on the means to those ends." Eighty years later, the encyclopedic *American Handbook of Psychiatry* opened with this statement: "Perhaps no other field of human endeavor is so . . . difficult to define as that of psychiatry." Two years ago, Andrew Lakoff, a professor of sociology at the University of California in San Diego, airily opined: "Two centuries after its invention, psychiatry's illnesses have neither known causes nor definitive treatments." This did not prevent him from writing a book about the diagnosis and treatment of a particular mental illness in a particular country: "bipolar illness" in Argentina.

I define psychiatry as the theory and practice of coercion, rationalized as the diagnosis of mental illness and justified as medical treatment aimed at protecting the patient from himself and society from the patient.

Contrary to these and similar assertions, I submit that it is easy to define psychiatry. The problem is that doing so—acknowledging its self-evident ends and the means used to achieve them—is socially unacceptable and professionally suicidal. The law, social expectation, and psychiatric tradition and practice point to coercion as the profession's paradigmatic characteristic. Accordingly, I define psychiatry as the theory and practice of coercion, rationalized as the diagnosis of mental illness and justified as medical treatment aimed at protecting the patient from himself and society from the patient. It is impolite and impolitic to take this truism and its consequences seriously.

Consider this parallel between psychiatry and missionary Christianity. The heathen savage does not suffer from lack of insight into the divinity of Jesus, does not lack theological help, and does not seek the services of missionaries. Similarly, the psychotic does not suffer from lack of insight into being mentally ill, does not lack psychiatric treatment, and does not seek the services of psychiatrists. This is why the missionary tends to have contempt for the heathen, why the psychiatrist tends to have contempt for the psychotic, and why both conceal their true sentiments behind a façade of caring and compassion. Each meddler believes that he is in possession of the "truth," each harbors a passionate desire to improve the Other, each feels a deep sense of entitlement to intrude into the life of the Other, and each bitterly resents those who dismiss his precious insights and benevolent interventions as worthless and harmful.

Non-acknowledgment of the fact that coercion is a characteristic and potentially ever-present element of so-called psychiatric treatments is intrinsic to the standard dictionary definitions of psychiatry. According to the *Unabridged Webster's*, psychiatry is "A branch of medicine that deals with the science and practice of treating mental, emotional, and behavioral disorders."

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Plainly, voluntary psychiatric relations differ from involuntary psychiatric interventions the same way as, say, sexual relations between consenting adults differ from the sexual assaults we call "rape." Sometimes, to be sure, psychiatrists deal with voluntary patients. As I have shown elsewhere, it is necessary therefore not merely to distinguish between coerced and consensual psychiatric relations, but to contrast them. The term "psychiatry" ought to be applied to one or the other, but not both. As long as psychiatrists and society refuse to recognize this, there can be no real psychiatric historiography nor any popular understanding of the varied practices called "psychiatric treatments."

The writings of historians, physicians, journalists, and others addressing the history of psychiatry rest on three erroneous premises: that so-called mental diseases exist, that they are diseases of the brain, and that the incarceration of "dangerous" mental patients is medically rational and morally just. The problems so created are then compounded by failure—purposeful or inadvertent—to distinguish between two radically different kinds of psychiatric practices, consensual and coerced, voluntarily sought and forcibly imposed.

In free societies, ordinary social relations between adults are consensual. Such relations—in business, medicine, religion, and psychiatry—pose no special legal or political problems. By contrast, coercive relations—one person authorized by the state to forcibly compel another person to do or abstain from actions of his choice—are inherently political in nature and are always morally problematic.

Mental disease is fictitious disease. Psychiatric diagnosis is disguised disdain. Psychiatric treatment is coercion concealed as care, typically carried out in prisons called "hospitals." Formerly, the social function of psychiatry was more apparent than it is now. The asylum inmate was incarcerated against his will. Insanity was synonymous with unfitness for liberty. Toward the end of the nineteenth century a new type of psychiatric relationship entered the medical scene: persons experiencing so-called "nervous symptoms" began to seek medical help, typically from the family physician or a specialist in "nervous disorders." This led psychiatrists to distinguish between two kinds of mental diseases, neuroses and psychoses. Persons who complained of their own behavior were classified as neurotic, whereas persons about whose behavior others complained were classified as psychotic. The legal, medical, psychiatric, and social denial of this simple distinction and its far-reaching implications undergirds the house of cards that is modern psychiatry.

Fashionable Clichés

Psychiatry and society face a paradox. The more progress scientific psychiatry allegedly makes, the more intolerable becomes the idea that mental illness is a myth and that the effort to treat it a will-o'-the-wisp. The more progress scientific medicine actually makes, the more undeniable it becomes that "chemical imbalances" and "hard wiring" are fashionable clichés, not evidence that problems in living are medical diseases justifiably "treated" without patient consent. And the more often psychiatrists play the roles of juries, judges, and prison guards, the more uncomfortable they feel about being in fact pseudomedical coercers—society's well-paid patsies. The whole conundrum is too horrible to face. Better to continue calling unwanted behaviors "diseases" and disturbing persons "sick," and compel them to submit to psychiatric "care."

> The more progress scientific medicine actually makes, the more undeniable it becomes that "chemical imbalances" and "hard wiring" are fashionable clichés.

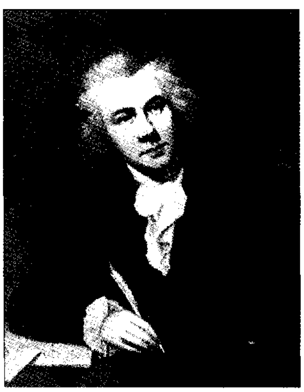
It is easy to see, then, why the right-thinking person considers it inconceivable that there might be no such thing as mental health or mental illness. Where would that leave the history of psychiatry portrayed as the drama of heroic physicians combating horrible diseases? Where would it leave psychiatrists, the law, and the public that depend on the myriad social institutions which rest on the mendacious premises that the phenomena we call "mental illnesses" are illnesses—and that "mental illnesses are like other illnesses"?

America's Role in Ending the Slave Trade: A Second Look

T. NORMAN VAN COTT

Honoring Great Britain's withdrawal from the international slave trade has been an ongoing public event this year. The recurring message has been that the withdrawal—a watershed event in the elimination of slavery in the West—was largely the result of the actions of a single British politician, William Wilberforce. Wilberforce, imbued by strong Christian convictions, began his antislave-trade crusade with a 1789 speech in Parliament; he continued his quest for 18 years before Great Britain bowed out of the trade. Wilberforce's story was the subject of the movie, *Amazing Grace*, earlier this year.

Curiously, a number of significant, concurrent American subplots have gone unnoted in this Wilberforce-centered tribute. For example, the U.S. government barred international slave imports in 1807, the same year Britain formally withdrew from the slave trade. Worthy of notice? One would think so. Moreover, President Thomas Jefferson signed the enabling legislation for this action on March 2, 1807 (to become effective January 1, 1808), while Britain's withdrawal received its Royal Assent on March 25, 1807. Worthy of notice? Again, one would think so.



William Wilberforce (1759–1833)

To be sure, the U.S. Constitution banned federal interference in the slave trade until 1808 (see Article 1, Section 9, Clause 1). An import tariff up to $10 per slave was allowed, but none was ever enacted. And the 20-year moratorium was engraved in constitutional stone, since Article V of the Constitution, which outlines amendment procedures, made the moratorium immune to amendment. Nevertheless, notable subplots lurk behind the moratorium!

The same clause mandating the moratorium also granted discretion to each state concerning how many slaves it admitted. This is noteworthy in itself because the Constitution generally bars states from imposing restrictions on interstate and international commerce. Nevertheless, as far as the Wilberforce-centered bicentennial is concerned, when Jefferson signed the 1807 legislation, only *one* state—South Carolina—allowed international slave imports. All other states had already outlawed such imports. Worthy of notice for discussion of the bicentennial? Why not?

It turns out that South Carolina had barred slave imports between 1787 and 1802. So the "openness" the 1807 federal legislation impinged on was relatively new. In fact, if one goes back to the 1787–1789 writing, ratification, and adoption—which corresponds to the beginning of Wilberforce's antislave-trade crusade—slave imports were already illegal or soon to be illegal in most states. New York, Massachusetts, and Pennsylvania, for example, prohibited slave imports in 1788. Virginia ended them in 1778. The list of states goes on. Worthy of notice for discussion of the bicentennial? Again, why not?

The American movement against slavery even predated the U.S. Constitution: to wit, Article VI in the Northwest Ordinance of 1787, adopted under the Articles of Confederation, said, "There shall be neither slavery nor involuntary servitude in the said territory [land west of the Appalachians]." Of course, the same article

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allowed for the return of any slave escaping into the territory, but why exclude the Ordinance in a taxonomy of events dealing with the western movement against slavery?

None of the above is meant to denigrate the courage and persistence of Wilberforce or the importance of the British to the slave trade. Rather, it adds a needed note of caution to the 1807 slave-trade bicentennial celebrations. A valuable resource when it comes to U.S. actions with respect to the slave trade is W. E. B. Du Bois's 1898 book, *The Suppression of the African Slave Trade to the United States of America, 1638–1870.* Du Bois, who is more likely to be known for being instrumental in the founding of the National Association for the Advancement of Colored People (NAACP), published the book while on the faculty at *Wilberforce* University, a private, African-American university founded before the end of slavery in 1856 in *Wilberforce*, Ohio.

Why have these American subplots escaped attention? One possibility is that some Americans who opposed slave imports did so for reasons of self-interest. In particular, American slaveholders who were selling their slaves to expanding slaveholding sections of the country opposed slave imports because they undermined the prices they could command for their slaves.

Needless to say, Mason's opposition to the slave trade doesn't pack the same inspirational punch as Wilberforce's.

For example, George Mason, one of the Founding Fathers from Virginia, was a vocal opponent of the slave trade. Indeed, Mason was one of the three delegates to the 1787 U.S. Constitutional Convention who refused to sign the Constitution, in part because it allowed the slave trade to continue for 20 years. Owning more slaves than any delegate to the convention, Mason also faulted the Constitution for not securing slaveholders' rights to their slaves. Needless to say, Mason's opposition to the slave trade doesn't pack the same inspirational punch as Wilberforce's. Wilberforce's motives were noble; Mason's ignoble. Nobility trumps ignobility.

A related explanation is that Americans' self-loathing about all things slavery is so intense that our cognoscenti can never admit that slaveholders' actions with respect to slavery could have beneficial social consequences. So when Wilberforce acted to reduce slave *exports* from Africa, that is good, something to be celebrated with a bicentennial. But when George Mason, or that other notorious Virginia slaveholder, Thomas Jefferson, acted to reduce slave *imports* from Africa, so what? Never mind the economists' insight that self-interested actions can have beneficial social consequences. Piety is what counts. Alas.

Capitalism and the Family

BY STEVEN HORWITZ

It is hard to think of a human social institution that has undergone more change in less time than has the family in the last several decades. Although the magnitude and rapidity of those changes are exaggerated by the unusual stability in the family from just after World War II until the mid-1960s, the 40 years since have seen a continuing evolution in a variety of ways. The changes in the form and functions of the family have provoked an assortment of responses from the political left and right, with the former largely tolerant or sympathetic to those changes and the latter critical of them.

What has been lost in the standard left-right debate is the crucial role played by the market economy in many of those changes. The result is that many on the right who offer at least lip service to the market order continue to resist the cultural changes that it has made possible (and that cannot be undone). Meanwhile, those on the left who embrace the dynamism of culture refuse to see or credit the dynamism of the market for making those changes possible and sustaining them. Those of us who value the dynamism of the free market and its power to expand the range of human freedom could do well to apply those ideas to the recent changes in the family and begin to see the ways in which those changes have resulted from the creative powers of the market and have thus expanded human freedom.

In making the dual claim that the market is a key reason why the family has changed the way it has in recent years and that such changes are good, I need to respond to one objection off the top. It is certainly true that various forms of government regulation, including, importantly, the welfare state, have influenced the direction in which families have evolved in the last 40 years. Any comprehensive analysis of the changes in the family would have to account thoroughly for those factors. My goal here, however, is to make the argument that the more fundamental and long-run changes have been the result of economic growth fueled by the market and that those changes have largely been good. The more recent changes of the last 40 years are simply accelerations of those longer-term trends.

Over history measured in centuries, the evolution of the family can be summarized as a movement of work from the household to the market, with the results being the liberation of human beings from unnecessary labor and a shift in the central functions of the family. Before capitalism, the family was both the central unit of economic production and the core political institution. In an economy based mostly on agriculture and secondarily on small crafts, economic production was largely for the family's own survival and performed with the limited capital possessed by the household. With limited physical capital, labor-intensive methods of production were required, especially in agriculture, making larger families preferable. In addition, with limited financial resources and opportunities to store material wealth over long periods, having a large family was a form of old-age insurance. The family of the Middle Ages was an all-encompassing social unit, bound together by the need to survive economically.

In such an environment both males and females had to contribute in multiple ways to the survival of the household. Both worked the fields when possible, and older children both worked the fields and took care of younger siblings. The gendered division of labor that

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would characterize later families was not nearly as present. In addition, the bonds that brought together married couples and sustained families were not romantic love as we now understand it, but the more practical questions of "productive compatibility" and the politics of family status. The love-based marriage had to await the capitalist revolution.

The key event in that revolution was the advent of wage labor. As some accumulated sufficient capital to open early factories, they began to hire workers from outside their families to work the machines. This change in the conditions of production moved "work" from the household to the factory. It is wage labor that created the distinction between "market production" (earning income on the market) and "household production" (the products generated in the household such as cooked meals, cleaned rooms, child care, and the like). Wage labor separated "work" and "home" for the first time in human history, and the consequences for families were enormous.

Early in this process it was not uncommon for both parents and older children to be working in factories. As market-inspired growth continued, the wages firms could offer increased and families slowly withdrew child and then female labor from the market. The wages men were earning were sufficient to support their families, especially now that the shift from agriculture to industry meant that fewer children were economically necessary. As part of this process, children's role in the family changed from being net economic producers to net consumers of resources. Thus the rising costs and declining (material) benefits of having children drove down the quantity demanded. A result, of course, was that parents could, with fewer kids and less need of their income, afford to invest in their education and training. It was growth fueled by the market that reduced the opportunity cost of educating children. And as children gained greater levels of education, their ability to earn income increased, creating even more such opportunities for the next generation.

As market production became increasingly separated from household production in the nineteenth century, the need to marry based on economic considerations declined.

Functions of Marriage Change

The market order also changed the fundamental functions of marriage and the family. As market production became increasingly separated from household production in the nineteenth century, the need to marry based on economic considerations declined. The progressive rise of democracy had also weakened the political basis of marriage. As a result, young people were more able to create marriages based on romantic love and other forms of emotional and psychological compatibility. The love-based marriage represented the progressive influence of individualism on the culture, having already conquered the economy through capitalism and the polity through constitutional democracies.

As many of the economic and political functions of the family moved out of the household and women and children moved back in, new functions arose to fill the vacuum. Increasingly families became concerned with psychological and emotional fulfillment, and childhood underwent perhaps the largest change. For centuries children had been seen as "mini-adults" who were expected to take on adult responsibilities as soon as they were able. The wealth that the market system brought changed that, ushering in what historians call the "sheltered childhood." Now that women were not needed in the workforce and children could stay home and be educated, childhood became a time for kids to be "sheltered" from the adult world so they could play and learn, innocent of adult concerns.

At the same time women acquired new roles within the family. While in pre-industrial times women and men shared many of the tasks in the familial production unit, industrialization brought a (short-lived as it turned out) gendered division of labor where men occupied the public sphere of work and politics and women the private sphere of the home. A great deal of energy was spent during the Victorian era arguing that this division of labor was really a form of equality as men and women were assigned to their "separate spheres" in which they each excelled. The genders were not unequal, just "different." By the turn of the twentieth century the male-breadwinner family was becoming the dominant form in the middle class and slowly spreading down the economic ladder.

Whatever the merits of this family form, two things were true: first, the wealth created by the market order had liberated women and children from the necessity of largely unpleasant work in industry; second, the form and functions of the family continued to evolve. This latter point is crucial because many today speak of the "traditional" family as if there had been one particular family form that had existed for centuries until the changes of the last 40 years. But even a cursory study of economic and social history indicates that the family's form and functions have been undergoing significant changes at least since the earliest days of industrialization if not before.

Two things began to happen in the twentieth century that would eventually undo what looked to be a fairly stable family form. First, technological innovation slowly began to produce labor-saving devices for household production. Second, continued market-driven economic growth increased the demand for labor (including female labor) and continued to raise the real purchasing power of wages across the economy. The declining necessity of human labor in household production opened up the possibility that women might find employment in the market. The upward trend in female labor-participation rates does not begin in the late 1960s as many critics of the modern family seem to assume. It was a fairly steady growth that began in the 1920s and '30s as modern home appliances and fewer children freed up women's time and the increasing demand and higher wages for service-oriented labor enticed them into the labor force. The "Rosie the Riveter" experience of many women during World War II accelerated this trend slightly, but the growth in the number of working women was already well underway.

Traditional 1950s Family

The 1950s are often revered as the height of the so-called "traditional family." There is some truth to this claim. Media portrayals of the male breadwinner/female homemaker family turned a common, though by no means exclusive, family form into an aspiration for millions by portraying it not only as common but as highly functional. The reality of the 1950s, as we now know, was that the women, and to a lesser extent the men, in such families were hardly as happy as their fictional counterparts made it seem. Plus, many more nonfictional wives were in the workforce than *Ozzie and Harriet* and *Leave It to Beaver* seemed to suggest—including, one might note, the actresses who played those stay-at-home moms! The data on female labor-force participation show the steady increase in working women throughout the decade.

The women's movement of the 1960s, then, was hardly the cause of the "decline" of the family, though it did accelerate the longer-term trends. For one thing, there has been no significant change in the growth in female labor-force participation. For another, the continuing changes in the family were much more the result of economic dynamism than anything else. As family historian Stephanie Coontz argues in *The Way We Never Were*, the women's movement was much more likely the *result* of more women having *already* entered the workforce than the *cause* of more doing so. With women entering the previously male public sphere of the market, the inequities between men and women became more apparent, thus leading to the bubbling up of a movement for change. Despite the way in which conservatives often portray the women's movement as

The reality of the 1950s, as we now know, was that the women, and to a lesser extent the men, in such families were hardly as happy as their fictional counterparts made it seem.
Credit: wikimedia.org/commons

rising in opposition to capitalism, it would be just as accurate to say that it arose *because* of the wealth and opportunities capitalism made possible. In this sense, the dynamism of the market order goes hand in hand with the dynamism of culture, and the women's movement is yet another example of the ways in which capitalism has both freed individuals from the coercive power of the state and promoted social equality.

In the decades since, these trends have simply continued apace, though several aspects are worth noting. Continued economic growth has had two important consequences. One is that the real costs of substitutes for household labor have fallen. The other is that real wages for men and women continue to rise. The combined result is that families need to engage in progressively fewer of the traditional forms of household production. Many of the historic products and services of household production can now either be made in the household much more easily (via microwaves, washers/dryers, and so on, all of which are notably cheaper than in years past) or can be purchased more cheaply on the market. Think of how even families of modest incomes eat out more frequently, pay for child care, have clothing dry cleaned, or even hire a housecleaner. Who, 30 years ago, would have imagined the growth in nail salons when such places were patronized by only the wealthiest women? The one notably distinct trend of the last 40 years is the large increase in women in the labor force who have pre-school-aged kids. The smaller size of families and increased real incomes of women, whether married or single, have made paying for child-care economically feasible in ways it was not previously, and the extension of formal education to ages 3 and 4 in some cases has accelerated this trend.

As families have become more about love and emotional fulfillment, the demand for easier ways to leave marriage should be unsurprising.

These developments in the economic realm have continued the shift in the major functions of the family from being largely economic to largely psychological. Marriage increasingly has become about being happy; having a family has become increasingly about the personal satisfaction from raising children; and the "sheltered childhood" of the Victorian era has become the "extended adolescence" of the 21st century.

Parents work the same or fewer hours in the market compared to years past but seem busier because they invest their "household labor" time in opportunities for their children, from the much-discussed "soccer moms" to dads taking kids to music lessons or academic-enrichment activities, and all other sorts of similar things. Purchasing and laboring for the combined investment-and-consumption good that is modern childhood has replaced many of the former activities of household production. Put differently, as the market has progressively taken up the tasks that were associated with the family-based household (from income-earning to substitutes for household production), the range of things the household produces has shrunk, leaving mostly the psychological. Modern families thus obsess about how they are doing psychologically, and they frequently exaggerate the psychological fragility of their children and overprotect them from failure, which often leads to problems when those children become more independent, for example, at college, and have to cope with disappointment and failure on their own.

Easier to Leave a Marriage

Of course as families have become more about love and emotional fulfillment, the demand for easier ways to leave marriage should be unsurprising. When marriage was a necessity for survival, especially for women, the expense and the rarity of divorce were perhaps understandable, even if it worked against women's best interests in some cases. As marriage came to be based on love, so grew the desire to leave marriages that were not emotionally fulfilling. The no-fault divorce revolution of the 1970s, while certainly problematic in some ways, was again more effect than cause of changes in the family. Marriage had increasingly become about emotional fulfillment in the 100 years preceding the advent of no-fault, and the divorce rate had begun to trend upward long before the 1970s. No-fault divorce was the law's way of recognizing what had been a cultural shift in the nature of marriage and an economic shift that provided women with enough financial independence and sufficient market opportunities to go it alone. The same factors explain the increasingly later age of first marriage and still-declining birth rate. For conservatives who celebrate romantic love and pay lip service to the importance of the market, but also complain about the divorce rate and working women, this poses some problems: it is capitalism that is responsible for romantic love being at the center of marriage, for higher incomes for women, and thus for the greater demand for and lower cost of divorce.

One final result of capitalism's effects on economic growth and the rise of the love-based marriage is perhaps the most controversial cultural issue of the early 21st century: the demand for the legalization of same-sex marriage. The slow acceptance of the idea of same-sex marriage is the culmination of two of the capitalism-driven trends we have already identified. First, economic growth made it possible for men and women to survive outside the institution of the family. As the historian of sexuality John D'Emilio argues, it was the wage labor created by capitalism that made the notion of "gay identity" possible. Separating the ability to earn income from the heterosexual family meant it was possible to live one's life as a homosexual in a way that had never been possible before. The gradual increase in social visibility of first gays then lesbians over the twentieth century reflects the shift in marriage and the family from an economic to a psychological institution, again made possible by capitalism.

Second, as emotional fulfillment became a central function of marriage, it should come as no surprise that gays and lesbians would want to participate. When romantic and sexual attraction become the reasons to get married and stay together, what, argue gays and lesbians, differentiates their relationships from heterosexual ones? When the number of childless couples continues to grow and when more heterosexual couples have children through adoption or artificial reproduction, what differentiates them from same-sex couples?

Although leftist historians like D'Emilio at least recognize the ways in which capitalism has made gay identity and thus the demand for same-sex marriage possible, they still go out of their way to note that this does not mean that capitalism is actually good. Conservatives, however, seem unaware of the connection. They continue to pay lip service to the great things capitalism provides and often understand correctly the ways in which its economic effects cannot be controlled, yet they complain about the cultural dynamism that is the direct result of the dynamism of the market. In fact, the only way to stop the cultural changes that conservatives object to would be to shut down the individual liberty, entrepreneurial market processes, and economic growth that are part and parcel of a market economy.

The economy and the culture are deeply interconnected. The historical evolution of the family is in many ways an offshoot of the enormous economic growth that capitalism has produced. Those changes in the family first liberated men, then women and children from the drudgery and physical exhaustion of pre-industrial labor. They have moved the functions of the family up Abraham Maslow's hierarchy of needs to where we now see our familial relationships as being about the self-actualization that occupies the top of that list. That is one of the most central goals of progressives across the world, yet they remain reluctant to give capitalism the proper credit for the very changes they applaud. Meanwhile, conservatives wring their hands about the expansion of freedom in the cultural realm while they continue to praise, for the most part, the freedom in the economic realm that made it possible and drives its continuing evolution.

Those of us who believe in the power of freedom in all realms of human interaction can see through the tensions and contradictions of both left and right because we understand the interconnectedness of those freedoms. We also understand that with freedom comes a future we can neither predict nor control. Sometimes those changes seem scary or daunting, and sometimes, in F. A. Hayek's terms, they run counter to our most deeply held moral instincts. However, we also know that freedom works. That knowledge should make us more open to seeing more positive elements in the changes that capitalism has brought to the family. We have an opportunity to be the voice of historically informed optimism if only we will seize it.

The Astronaut Libertarian?

BY RAYMOND J. KEATING

The Astronaut Farmer ranks as an unmistakably libertarian family film. The plot might have a few holes, but the movie raises some fascinating points and questions about individuals pursuing their dreams, limits on personal actions, and the role of government.

The movie hit theaters in February and was scheduled for DVD release in July. It stars Billy Bob Thornton as Charles Farmer, a former astronaut who is continuing to follow his dream of reaching outer space by building a rocket in his barn on a ranch in Texas. Farmer has the support of his wife and kids in this quixotic pursuit, even though it places the family on the brink of bankruptcy and subjects them to ridicule in their community.

For good measure, the government shows up when Farmer starts looking around for the 10,000 pounds of high-grade fuel needed to launch him into orbit.

The filmmakers have some fun at the expense of the FAA and FBI. Bureaucrats are portrayed as buffoons protecting their turf. In their view the only right, safe way to space is via the government. Besides, if civilians could do it, the government would look pretty dumb spending all those billions of taxpayer dollars. (Of course, it is interesting to point out that in real life we have recently seen the birth and expansion of private-sector efforts to journey into space.)

The government's actions turn particularly nefarious when a child protective services worker warns Farmer's wife that her husband is brainwashing her and the children. The government threatens to take their kids.

So, in this libertarian movie, we see, as one would expect, government ineptitude and abuse of power.

As for Farmer, he makes the case for his homegrown space effort before a government panel in amusing and stirring fashion befitting a Hollywood movie. He talks of the ills of having too many laws telling people what to do and says he was taught in his youth that we could do anything. Farmer still believes that.

At one point this astronaut wannabe-again notes: "If we don't have our dreams, we have nothing."

> The individual pursuing his dream triumphs in the face of adversity and government interference. And we can all stand up and cheer.

That's the message Farmer communicates to his family. It often will not be easy, but stay true to your beliefs and dreams.

One of the film's producers, Paula Weinstein, put it this way: "What's most important is that Farmer does everything he can to succeed. Then, even if he doesn't, he can still live with himself. That's something he feels is vitally important to show his children. It's what America is founded on, and it's the message of this movie: if you do your best, if you dream high enough and let nothing stop you from climbing all the way to the top of your particular mountain, then, even if it doesn't work out, you are still fulfilled as a human being for having done your absolute best."

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Another producer, Len Amato, added: "As a story about overcoming obstacles, it can apply to any accomplishment where there's always a certain amount of doubt and a chorus of naysayers—people who call you crazy because they don't understand—you have to push through with your own vision to make something where there was nothing before."

In *The Astronaut Farmer*, the government unmistakably is the major obstacle to such freedom and fulfillment.

With this kind of film, one expects a feel-good ending, and that's exactly what is delivered. The individual pursuing his dream triumphs in the face of adversity and government interference. And we can all stand up and cheer.

But it is worth pausing a moment as the credits roll. There is a scene that raises the possibility that government might have a legitimate, limited role to play here, even from a libertarian perspective.

Farmer experiences a failed launch. But this wasn't merely an abort of the mission. Instead, the engines fire and the rocket fails to get far off the ground, tips over and crashes. Part of the rocket, with Farmer inside, then streaks across the community, smashing through a billboard that says "Space Available."

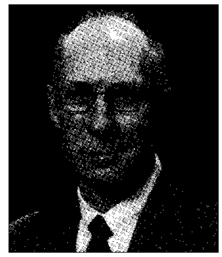
No one gets hurt except for Farmer himself. But the idea of an out-of-control rocket careening across the countryside does raise some issues about government's role in protecting people and property.

The Astronaut Farmer, while perhaps a bit cartoonish in some of its characters, is not so when it comes to raising an issue with which libertarians have to wrestle.

While the government in this film is portrayed as inept, intrusive, and abusive (and that usually is quite justified), doesn't government have some limited role to play regarding the safety of others, even if that means perhaps restraining the dreams of a guy with a rocket in his barn who wants to go to outer space?

In my view, the libertarian must answer this in the affirmative. Let's consider what David Boaz wrote in a Cato Institute essay excerpted from his book *Libertarianism: A Primer* about the rule of law: "Libertarianism is not libertinism or hedonism. It is not a claim that 'people can do anything they want to, and nobody else can say anything.' Rather, libertarianism proposes a society of liberty under law, in which individuals are free to pursue their own lives so long as they respect the equal rights of others. The rule of law means that individuals are governed by generally applicable and spontaneously developed legal rules, not by arbitrary commands; and that those rules should protect the freedom of individuals to pursue happiness in their own ways, not aim at any particular result or outcome."

The Astronaut Farmer, while perhaps a bit cartoonish in some of its characters, is not so when it comes to raising an issue with which libertarians have to wrestle. Where is the line drawn between one person's pursuit of happiness and where that pursuit might infringe another's rights?



The Great Duration, 1929–41

BY ROBERT HIGGS

Economists, following the usage of Milton Friedman and Anna Schwartz in their classic *Monetary History of the United States*, call the economic collapse between 1929 and 1933 the Great Contraction. In my own writings, I have added two similar terms to refer to other aspects of the Great Depression—the Great Duration and the Great Escape. The former denotes the depression's exceptional length, from 1929 to 1941 (when the economic adversity did not actually end, but merely changed its form).

The Great Duration is as puzzling as the Great Contraction and in some ways even more so. No previous depression had persisted nearly so long. The second-worst one, in the mid-1890s, lasted less than half as long. Except for France, where political conflicts stymied recovery, no other major industrial country took as long as the United States to escape from the Great Depression; all the others had recovered fully before World War II began. What accounts for the Great Duration?

In brief, the depression's extraordinary length is attributable to the same general cause that explains the Great Contraction's extraordinary severity: a series of ill-chosen government policies. These policies disrupted and distorted the operation of the competitive economy, created paralyzing fear in the minds of its most important investors and businessmen, and gummed the gears of the economy's normal recuperative processes. After some headway had been made toward recovery between 1933 and 1937, new government policies—collecting new taxes, encouraging aggressive labor unionization and, especially, abruptly doubling bank reserve requirements—knocked the economy into a serious "depression within a depression," setting full recovery back by at least another two years.

Nearly all the counterproductive policies adopted from 1933 to 1938 reflected the triumph of Progressive ideology and political self-serving. Regardless of the policy-makers' beliefs or assurances, their policies were not actually in the public interest. Unfortunately, as economic historian Peter Temin observes, the New Dealers "turned away from the market toward a managed economy and democratic socialism." In practice, their commitment to active government intervention in the market was equivalent to the conviction that a bull elephant must play an active role in the China shop.

When Franklin D. Roosevelt took office in March 1933, the economy was in the ditch. Roosevelt's first official act was to issue an executive order to close all the commercial banks in the country, thereby bringing economic activity almost to a complete standstill. By that time, after nearly four years of relentlessly deteriorating economic performance, almost everyone was clamoring for some kind of economic salvation from the federal government.

In this charged atmosphere, politicians found themselves in paradise because they could easily rationalize on grounds of "national emergency" the creation of a host of policies to please or calm down countless organized special-interest groups and then reap the return, whether it took the form of votes in the next election or cash in a plain brown wrapper. "The crisis," historian John Garraty wrote, "justified the casting aside of precedent, the nationalistic mobilization of society, and the removal of traditional restraints on the power of the state, as in war, and it required personal leadership more forceful than that necessary in normal times." In short, as Roosevelt and the Democrats in Congress perceived the situation, it required FDR's New Deal.

Which is what it promptly got—good and hard. No summary can do justice to the astonishing breadth of the legislative outpouring during Roosevelt's first term, especially during the congressional sessions of 1933 and

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1935. Jim Powell wrote an entire book recently to catalog the numerous studies that show, in the words of the book's subtitle, "how Roosevelt and his New Deal prolonged the Great Depression."

These measures included abandonment of the gold standard, confiscation of everyone's monetary gold, and abrogation of all gold clauses in contracts, including the government's own contracts; breakup of some of the nation's strongest banks by mandating the separation of commercial and investment banking; enactment of a series of soak-the-rich tax laws that discouraged entrepreneurship and capital accumulation and doubled federal taxes as a proportion of GNP between 1933 and 1940; operation of huge make-work programs that served as vote-buying schemes for Democrats and diverted millions of workers from productive private employment; supply reductions and price increases of farm products at a time when millions of poor families were struggling to afford food and clothing; federal government entry into competition with private entrepreneurs in the production and distribution of electricity; establishment of a Ponzi scheme known as Social Security that raised taxes and discouraged private saving; promotion of labor-union monopolies in the sale of labor services, pushing affected wages above competitive market levels and increasing costs for struggling businesses; suppression of competition in a wide range of industries, from petroleum production to coal mining to ordinary retailing, allowing sellers to charge increased prices for a great variety of products, notwithstanding consumers' diminished incomes; and general subversion of private property rights in ways too numerous to specify here.

In sum, the Roosevelt administration taxed, spent, borrowed, regulated, insured, subsidized, and confiscated on a scale never before seen in the United States in peacetime. No wonder the recovery was so slow: the government had placed itself, in effect, in a state of war against the people's productive efforts and arrangements, sanctifying its destructive actions with hot-air claims about the achievement of "relief, recovery, and reform."

First New Deal

During the first two years of Roosevelt's presidency, which historians call the First New Deal, the administration tried to work with nearly all politically organized special-interest groups, including important business groups such as the Chamber of Commerce and the National Association of Manufacturers. Indeed, the keystone of the First New Deal, the harebrained scheme to cartelize every industry in the country under the terms of the National Industrial Recovery Act, was the brainchild primarily of those business interests.

During the Second New Deal (1935–38), the President, cheered on by a coterie of enthusiastically anticapitalist advisers, frequently lashed out at businessmen and investors, demonizing them as "economic royalists" and blaming them for sabotaging the economy's recovery. "Roosevelt's opinions at this moment," wrote John T. Flynn, "were generally that big business was immoral, that the poor were not getting a fair break and that the depression was the result of the sins of business and that business must be punished for these sins." Pushing such collectivist measures as the Social Security Act and the National Labor Relations Act, the administration embraced what Flynn characterized as "that easy, comfortable potpourri of socialism and capitalism called the Planned Economy which provided its devotees with a wide area in which they might rattle around without being called Red."

Although this strategy proved successful politically—FDR was reelected by a landslide in 1936—it had a disastrous effect on the recovery: by creating heightened fears about the security of private property rights, it caused investors to refrain from making enough long-term investments to propel the economy back to full prosperity. For the 11-year period from 1930 through 1940, net private investment totaled *minus* $3.1 billion, and only in 1941 did annual net investment finally exceed the 1929 amount. No economy can prosper when it goes more than ten years without adding to its capital stock, and the failure of private investment to recover accounts in great part for the Great Duration.

Libertarian Paternalism: A Test

BY DWIGHT R. LEE

Behavioral economics is a growing subfield of economics based on the finding that people are not as rational as economic models have traditionally assumed. Numerous experiments have shown that people's choices are systematically altered in response to changes in how those choices are framed, even though the framing is irrelevant to the consequences of those choices.

Some behavioral economists now seem intent on bringing their own rationality into question by advocating what appears to be a loopy idea—giving government more power over our decisions to make us better off, and doing so in the name of libertarianism. This "libertarian paternalism" sounds like an oxymoron, but two of its leading advocates—Cass Sunstein and Richard Thaler—assure us it is not. (Their 2003 *University of Chicago Law Review* article is titled "Libertarian Paternalism Is Not an Oxymoron.")

This "libertarian paternalism" sounds like an oxymoron, but two of its leading advocates—Cass Sunstein and Richard Thaler—assure us it is not.

Their argument is superficially plausible. But on closer examination it becomes clear that a big leap of faith in the integrity of the political process is required to embrace libertarian paternalism as a reasonable proposal. Fortunately there is a test of the compatibility of the political process with libertarian paternalism. I shall argue that this test should be given, and must be passed, before taking libertarian paternalism seriously. But, first, let's consider what it means and the arguments for it.

The case for libertarian paternalism begins with a finding by behavioral economists of what can be described as the default bias. In many circumstances, most people will accept a default option rather than choose another even when the stakes are high and the other options seem far better. A commonly mentioned example is a matching, tax-deferred 401(k) plan at work. When employees have to explicitly decide to join, typically more than half accept the default of not participating even though signing up is easy and, with the employer's contributions, assures an attractive return. On the other hand, studies show that if employees are automatically signed up unless they opt out, most remain in the program.

The next step in the case for libertarian paternalism gets us to the paternalism. Since in every choice there is a default option, it is a good idea, say advocates of the principle, to make it the option that is best for most people. And fortunately it is often possible for impartial experts with training in behavioral economics to know what the best option is. Therefore, if government frames the choice by requiring that the "best" option be made the default option, then the default bias would result in most people accepting this choice. But the libertarian part of the argument acknowledges that what is best for most people is not best for all, so anyone may choose something other than the default.

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For example, an employee who is independently wealthy, or who isn't expected to live long enough to retire, or who just doesn't want to start a savings program can choose to have her name removed from the 401(k) plan. No one is forced to bend to the will of an authoritarian paternalist. The government experts, under the guidance of libertarian paternalists, will behave like libertarians by leaving the ultimate decision to the individual, but they will also be paternalists by exploiting the default bias and framing the decision in a way that makes people better off (in their view).

The obvious leaps of faith behind this proposal are in believing 1) that the political power required to implement libertarian paternalism would be limited to setting default options when the best default for most people is known and 2) that the choice of default will be guided only by the interest of the people whose choices are being affected. Without this faith in the political process the case for libertarian paternalism is wholly unconvincing. Can we actually expect that the political process will know what option is really best for most people in different situations and how a different default would affect decisions? Maybe behavioral economists are convinced that they know when they cannot pick a better default than already exists and what the best default is when they can. But even if this is true, behavioral economists will not be doing the picking. They may be brought in as advisers to the politicians and bureaucrats in charge of designing and implementing libertarian paternalism, but their advice will not always be taken. Others with more political influence and more narrowly focused interests than behavioral economists will also be giving advice—and will be doing so aggressively.

> Can we actually expect that the political process will know what option is really best for most people in different situations and how a different default would affect decisions?

For example, if the authority to set the default on 401(k) plans is transferred to government, the financial industry will quickly recognize the potential profits in influencing how that authority is exercised. Indeed, the legislation giving that authority to government will be drafted with help from the financial industry. And there are ways to put some devil in the details of such legislation. The legislation could cover workers who, because they are young, part-time, and receive low pay, would not normally be offered 401(k) plans. Opting out could be made to require more effort than the libertarian paternalists have in mind. The type of investment people are put in if they accept the default option would be subject to political influences that have little to do with what is best for the employee. And, assuming the behavioral economists are correct and most people stay with the default, the political clout of financial firms (likely with the help of political restrictions on competition) could result in higher financial fees. (Concern over high financial fees was one argument used by those who successfully opposed President Bush's attempts to partially privatize Social Security.)

Placement of Food

Libertarian paternalists use examples other than savings plans to illustrate what they have in mind. They often mention the placement of food in cafeterias, buffets, and grocery stores. Again they argue that the food items have to be placed somewhere, and behavioral economics has apparently shown that choices of what to eat are influenced by where food is placed. So food encountered sooner in cafeterias and most conveniently located in grocery stores can be thought of as default options—it is still possible, of course, for people to choose other options. As far as I know, no advocate of libertarian paternalism has yet recommended that government regulate the location of food in cafeterias and grocery stores. But if the principle achieves political traction, there are sure to be pressures in that direction—though maybe cautious and subtle at first. Who would have thought not long ago that governments would soon be imposing restrictions on where and how cigarettes are displayed in stores or what type of fat is permitted in fast food?

If government began moving toward using libertarian paternalism to encourage people to choose healthier diets, political competition among suppliers of grocery-store products would intensify. The fruit and vegetable suppliers, along with the organic-food farmers, would lobby regulators to have their products moved to the front of the store. The producers of soft drinks, candy, chips, bean dip, and a host of other processed foods would use their significant political influence to maintain their locations. Even the magazine publishers would join the fray. No one knows how this political competition would play out. But don't expect that fruit, vegetables, tofu bars, and maybe cigarettes made with organically grown tobacco would soon dominate the shelves at the checkouts, with the candy and gum there now being moved as close as possible to the loading dock. Or that you would find serious reading material such as *The Economist*, *Barron's*, *The Nation*, *National Review*, and *The Chronicle of Higher Education* in the checkout racks, with the magazines on dieting, fashion tips, and the latest activities of Hollywood celebrities relegated to where the tofu used to be.

Of course, a move in this direction cannot be ruled out. What we can be confident of is that more resources that could have been used to produce goods and services valued by consumers would be devoted to influencing political decisions. The financial well-being of government regulators and lobbyists would certainly be improved more than the dietary well-being of the public.

Some may think that this depiction of an overreaching political process powered more by organized interest than by the public interest is overstated. And perhaps even if the political process does possess the special-interest tendencies just discussed, an idea like libertarian paternalism has so much potential to serve the public interest that the ability of narrowly focused interests to sabotage it will be severely limited. If libertarian paternalists believe this, then they should not object to a test of the political process's affinity for implementing libertarian paternalism primarily to benefit the public. There is such a test, and libertarian paternalists should require the political process to pass it as a prerequisite for their continued advocacy.

The Test

The test requires considering the many paternalistic regulations that governments now enforce in unlibertarian ways and recognizing that they could be made consistent with libertarian paternalism. A political process compatible with new regulations in the spirit of libertarian paternalism should be able to pass the test by modifying existing regulations to make them consistent with that spirit. Several examples of existing regulations and policies that can be used in this test come to mind.

First, the Bush administration's plan to partially privatize Social Security would be a move in the direction of libertarian paternalism. The current Social Security system would remain the default option, but workers could reduce their payroll tax up to some specified amount that would increase over time by an amount equal to each dollar they put in a private savings program—with restrictions on accessing the savings before a certain age. There are obviously transitional issues involved in such a policy shift, but if libertarian paternalists and others cannot convince the federal government to establish even a limited private option to Social Security, it will not be an encouraging sign for the political feasibility of libertarian paternalism.

Second, taxpayers are now required to help the poor by having a certain percentage of their tax dollars transferred to them (a smaller percentage than most people believe) by various levels of government. Instead of requiring that those transfers be made through governments, we could make government transfers the default option, but with taxpayers allowed to reduce their tax payments by some significant percentage of the money they donate to private charities dedicated to helping the poor. This libertarian-paternalism approach has real potential for improving the way the poor are helped, since private charities are better than government agencies at assisting the poor without inducing dependency. But this potential depends on government's being willing to accept competition from private organizations by allowing people to reject the default option. If governments reject this shift to a libertarian-paternalism approach, it would have to be seen as a failure on the test of governments' willingness to properly implement libertarian-paternalism policies.

Third, smoking regulations suggest another way of testing governments' willingness to exercise the tolerance for alternative approaches required of libertarian paternalism. An increasing number of state and local governments have outlawed smoking in privately owned establishments that serve the public. The purpose is to protect people against being involuntarily subjected to secondhand smoke. Of course, many people who frequent restaurants, bars, pool halls, bowling alleys, and other establishments enjoy their experience more if they can smoke, with secondhand smoke being an unobjectionable and trivial supplement to firsthand smoke. The preferences of these people are largely, if not completely, ignored by existing antismoking regulations. This situation would be improved by the libertarian paternalism approach. No-smoking could be the default policy, but the owner of a restaurant, for example, could opt out of that policy by making it clear to potential patrons that smoking is allowed. Plenty of options would remain for people to dine out in nonsmoking restaurants, but there would also be options for those who enjoyed smoking while dining, drinking, shooting pool, or bowling. If governments are sufficiently libertarian to offer this alternative to the default policy of no-smoking, it would be an encouraging sign for libertarian-paternalist policy. If governments resist options that let people enjoy smoking while in the company of other smokers and those who don't mind secondhand smoke, it has to be considered a failure on the test.

If governments resist options that let people enjoy smoking while in the company of other smokers and those who don't mind secondhand smoke, it has to be considered a failure on the test.

Fourth, regulations against insider trading are another area where libertarian paternalists should be able to get government to liberalize its approach if their principle is in harmony with political incentives. The purpose of insider-trading prohibitions is to prevent outsider investors in corporate stock from being harmed by the trading of those with inside information. The objective is a good one, but prohibiting insider trading may not be the best way to achieve it in all cases. For example, regulation against half the perceived problem is unenforceable, since prohibitions against using insider information to decide *not* to trade cannot be enforced. Also, the price information created by insider trading can be useful to outsiders and can increase the general efficiency of financial markets. Instead of an outright prohibition, no trading on insider information could be the default policy for corporations, but they could opt out in favor of a policy allowing insider trading by making that policy clearly and widely known. This libertarian-paternalism approach would allow corporations and investors greater choice in how they operate and invest. In particular, outside investors could protect themselves against any harmful effects they perceived from insider trading by not investing in the firms that allowed it. And to the extent that investors did perceive harmful effects from insider trading, the relative price of stocks would compensate for those effects. How willing the Securities and Exchange Commission is to move to this approach would give useful information on how appropriately libertarian-paternalist policies in general would be implemented by government.

Organ Sales

A final example of a political libertarian-paternalism test (out of the many that could be considered) involves increasing the supply of organs for transplant. Currently in the United States people can choose to donate their organs on their death by indicating a willingness to do so, usually when they obtain or renew their driver's licenses. Not making the "donate" choice means that a person has automatically chosen the default option not to donate. As behavioral economists predict, most people choose the default option. Libertarian paternalists don't think this is the best choice for most Americans, and so they want to switch the default option to "donate." Being the libertarians they are, however, libertarian paternalists would allow people to opt out by explicitly choosing not to donate.

As evidence from other countries suggests, this would significantly increase the number of Americans who choose to donate their organs. But one would think that real libertarians would want to allow people to sell their organs as another nondefault choice. This is more libertarian (indeed a policy restricting our choices to either keeping our organs or giving them away is not even remotely libertarian) and would probably increase the number of organs available to those who need them. Another advantage libertarian paternalists should see in adding the selling choice is that it would provide another measure of how much the political process could be trusted not to sabotage the other applications of the principle they are recommending.

None of these libertarian-paternalist alterations would bring perfect policies. But how good would they have to be to be better than what they replaced? And certainly they would result in policies more in the spirit of libertarian paternalism. If anything, libertarian paternalists should want to change some of the defaults from what is required by existing policies to options that would be paternalistically superior. But this is a test, and leaving the defaults where existing policies have placed them surely makes it easier for government to pass.

If those recommending libertarian paternalism really want to improve public policy, they should be anxious to subject governments to this and other libertarian-paternalism tests. If the governments pass, existing policy will be improved by bringing them more in line with libertarian paternalism. On the other hand, if governments consistently fail, this will provide libertarian paternalists with important information. Governments unwilling to alter existing regulations and programs so they conform to libertarian paternalism are unlikely to create new ones that satisfy the principle's requirements. Far more likely is that the rhetoric of libertarian paternalism will be used to justify the expansion in government's authoritarian paternalism.

Of course those claiming to be libertarian paternalists may object to the test because they think the existing regulations are acceptable as they are. But this would suggest that they are really authoritarian paternalists trying to pass themselves off as libertarian paternalists. So my test is not only a test of the political process's compatibility with libertarian paternalism. It is also a test of the libertarian paternalists' commitment to libertarianism.

Capital Letters

Cost Overruns and Toilet Seats

The issue that Robert Murphy takes up in the April issue, welfare for the rich, is important.

However, he repeats the urban legend of the $600 toilet seat. This is false. The government never paid $600 for a toilet seat. Here's what actually happened.

The Navy had some anti-submarine patrol aircraft (50, as I recall). These aircraft go on long patrol missions. A toilet is essential. The Navy wanted, not toilet seats, but large molded plastic shrouds to cover the toilets to assure that during aircraft maneuvers the contents of the toilet would stay in the toilet. The manufacturer had to make a special mold for the shrouds. Setup costs, although high, were not out of line with the cost of similar-sized molds for other purposes. Amortizing the cost of the mold over a short production run was responsible for the apparent high cost per item. Labor and materials accounted for only a small share of the cost. The setup costs are real.

Mr. Murphy also repeats the "cost plus a percentage of cost" tale popular among anti-defense leftists. The facts are that "cost plus a percentage of cost" contracts have been illegal since the 1940s. The typical contract is "cost plus fixed fee," or "cost plus incentive fee."

In the former, the cost to carry out the contract is estimated at the outset, and a fixed fee added to the cost. If the contractor spends more money than the estimated cost, the "overrun" comes out of his fee. This provides an incentive to keep costs down. In the latter type of contract, the cost is estimated at the outset, and a sliding-scale fee is added. The greater the extent to which the contractor keeps costs below the estimate, the greater the fee. Again, an incentive to keep costs down. Information about these types of contracts is not hidden. If the overrun eats up the entire fee, the government usually bails out the contractor by paying those costs above the fee. However, the contractor usually loses the entire fee in such cases. He is reimbursed for costs, but gets no fee.

—JOSEPH P. MARTINO
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Robert Murphy replies:

Regarding Mr. Martino's two objections, I plead guilty on one count. I looked into his explanation of the alleged $600 toilet seats, and it appears he is perfectly correct. This classic "illustration" of Pentagon waste was apparently too good to be true, and I apologize to *The Freeman*'s readers for perpetuating this urban legend.

However, I still stand behind my comments on "cost-plus" pricing. For starters, the phrase "cost plus a percentage of cost" is Martino's; my article only discussed generic "cost-plus" contracts, and so was perfectly consistent with Martino's nuanced distinctions. A second clarification is that I never limited the cost-plus discussion to defense contracts. So even if Mr. Martino were correct, my point would still be applicable to cost-plus pricing in, say, local regulated utilities. (Indeed this is the textbook example that economics professors often use.) A third issue is that, even considering defense contracts, there are countless examples where the contractor overruns the initial cost estimate. (In about five minutes I found a news story citing a Northrop contract that grew by $14.8 million two years after the initial bid.) Martino argues that cost overruns eat into the "incentive" or other fees that a contractor pockets, but that safeguard is moot if the cost overruns can exceed the entire fee. Again, the claim is not that the books have been cooked, but rather that it is indeed a lucrative deal if vendors can receive far more for their services and products than they'd ever get in a private market.

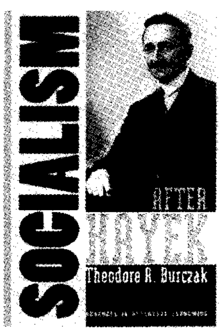
I have no doubt that the Pentagon (and other government agencies) constantly adapt their procurement procedures to avoid vulgar displays of corruption, but even so, I have no doubt that the hundreds of billions doled out annually nonetheless contain large amounts of "welfare for the rich," the subject matter of my original article.

Book Reviews

Socialism after Hayek

by Theodore A. Burczak
University of Michigan Press • 2006 • 171 pages
• $60.00 hardcover; $19.95 paperback

Reviewed by Richard M. Ebeling



There are very few socialists who have actually taken the time to carefully understand the critics of socialism. Beginning with Karl Marx, most socialists have either ignored the arguments of their opponents or constructed straw men to knock down.

This is what makes Theodore Burczak's *Socialism after Hayek* so refreshing and intriguing. He is a socialist who has mastered Hayek's critique of socialist central planning and concluded that Hayek was right: It is impossible to do away with private property, competition, and prices if economic rationality, efficiency, and coordination are to be maintained.

In the opening chapters Burczak explains with impressive clarity the Hayekian view of the social order. Prices are essential for a functioning economic system because they capture and convey multitudes of bits of knowledge that are dispersed among all the members of society. The price system enables each person to use his unique knowledge of his own time and place in the division of labor while coordinating his actions with those of all the other social participants.

As an extension of this, Burczak also accepts Hayek's argument that the social order that evolves out of the interactions of the multitudes over many years and generations contains more information and wisdom than any group of intelligent planners could ever know. Hence, the idea of socially engineering a society from top to bottom is both absurd and dangerous.

Burczak defends none of the twentieth-century experiments with "socialism in practice." He views the Soviet Union as an oppressive and exploitive system that plundered the very people in whose name the regime legitimized its power. So the reader at this point might ask, "Then what is left for a self-proclaimed socialist to defend against the Hayekian critique of political and economic collectivism?"

Burczak tries to salvage a reformulated socialism by justifying the welfare state and defending a system of worker-owned and -managed firms in place of the more traditional "capitalist" enterprise in which the businessman hires the services of workers for which they receive contracted wages.

Since Hayek emphasized that human knowledge is inherently imperfect and is decentralized among billions of individuals around the world, Burczak tries to then paint Hayek as an apostle of "postmodernist" philosophy. Since nothing can ever be known for sure and what is tentatively known is always open for revision, Burczak argues that Hayek's case for impartial rule of law and an equality of individual rights to life, liberty, and property is totally misplaced. The rule of law, he says, is really only the interpretive opinions and ideological biases of judges who serve "class interests."

Since law cannot be impartial and "objective" in its principles and applications, then we should rely on the greater or more inclusive diversity of democratic politics to construct a consensus about what are the "rights" and social "duties" of each member of society. Since there can be no final "truth" concerning what should be considered the content of human rights, we will merely have a floating and ever-changeable group opinion about these things.

Burczak posits a consensus that we all have obligations to each other to assure a meaningful life worth living, which means a mandatory redistribution of wealth to guarantee everyone a minimum standard. He never deals with how this will be enforced, though of course there is no way to establish this guaranteed standard of living other than through compulsory taxation. Because there are no final or ultimate moral standards, the recalcitrant who may have to be brutalized, imprisoned, or even killed to see that he "contributes" his "fair share" will not have been coerced or murdered but merely "conversed" with in the continuing postmodern dialogue over what is socially good or just.

Of course, even if we accept the premise that as human beings we have a certain ethical obligation to assist our less fortunate fellow human beings to have a fuller life, it does not follow that this requires the welfare state. Indeed, one can easily apply Hayek's arguments concerning the division of knowledge in society to argue that only individuals familiar with the particulars of the time and place in which they live will have sufficient usable knowledge to assure that those deserving of charity actually receive it in the most effective way. The welfare state has the same inherent organizational weaknesses as all other forms of government planning: it is imposed from the top down and must have some degree of a "one-size-fits-all" design. Private charity sets in motion what Hayek called the "discovery procedure" of competition. In the rivalry for voluntary support from the citizenry, private charities have to demonstrate their ability to better achieve the goals for which they have been established. Thus the likelihood of actually solving these "social problems" is increased.

The other element to Burczak's "post-Hayekian" reconstruction of socialism is his case for worker-owned enterprises. He merely takes for granted all the ancient Marxian theoretical baggage concerning necessary labor (that amount of work and output needed for the worker to sustain himself and his family) and surplus labor (the amount of work and output in excess of this minimum). Through the wage contract, Burczak states, the capitalist-owner of the enterprise "demands" a portion of the "surplus" output that the workers' own labor produces and therefore "exploits" them by that amount, with this being the "profit" the capitalist keeps for himself.

All of this was answered long ago, in the late nineteenth century by another Austrian economist, Eugen von Böhm-Bawerk. He showed that in the long run, in a competitive market, there are no profits. Entrepreneurial rivalry results in resource prices (including wages) being bid up as enterprisers attempt to expand output where profits exist; then when that greater output is offered on the market, consumer prices are bid down in the attempt to attract more customers until profits have been competed away.

Even in the long run, however, there is normally a discrepancy between what entrepreneurs pay for resources (including labor) and what the products sell for. But Böhm-Bawerk demonstrated that this is the implicit interest earned by businessmen-employers for advancing wages to their workers during the production process. Since all production takes time, if those employed in the enterprise are not to wait until the product is ready for sale in the future to receive their wages, then someone must pay them today for work that will not result in a completed product until tomorrow. To forgo other uses for which he could have applied his savings, the businessman-employer receives a "premium" over even the long-run costs of production as compensation for "waiting" until the product is in finished form and sold to the buying public.

The other element that Burczak completely misses is that production does not just happen. It almost always requires a guiding mind that envisions a demand for a product in the future, who imagines ways of combining the factors of production to transform them into a useful finished product, and who sees ways of effectively organizing the enterprise to achieve this end. In other words, the entrepreneur is the element missing from Burczak's analysis, and therefore he fails to fully understand why what most enterprises produce cannot be the result of some joint democratic decision-making process by the worker-owners.

Nothing prevents workers from pooling their savings and other resources and forming jointly owned firms among themselves. But we see few instances of this. This suggests that many people do not want to take on the time, risk, and uncertainties of being a boss. They want to have the greater certainty of a contracted wage for which they do a specified amount of work each day, while someone else bears the costs of planning, overseeing, and directing the enterprise.

If workers did see the benefits and advantages to more widely participating in worker-owned firms, it would not be necessary for Burczak to make the case for political prohibition of traditional employer-employee contractual relationships to force worker-ownership on "the masses."

While a worthy attempt to honestly confront the challenge that Hayek made against socialism, Burczak's analysis ends up simply demonstrating how hollow the socialist ideal remains, even in this reformulation.

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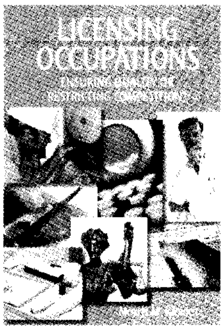
Licensing Occupations: Ensuring Quality or Restricting Competition?

by Morris M. Kleiner

W. E. Upjohn Institute for Employment Research • 2006 • 181 pages • $40.00 hardcover; $18.00 paperback

Reviewed by George C. Leef



Cases of ridiculous occupational licensing regulations are a dime a dozen. One that I came across recently is illustrative. Due to the fact that the diet of horses today contains much less abrasive material than in the past, their teeth need to be filed down periodically. Without that service, called "floating," it becomes painful for a horse to chew or hold a bit.

A veteran horse teeth "floater" in Minnesota has run into trouble with the State Board of Veterinarians, which informed him that he was doing work that fell within the legal purview of veterinarians and because he was not a licensed vet, he would have to stop. No customer of his had complained about his work, so what was the problem? The problem was that he charged only half as much as vets did for the same work. *That* was intolerable. The licensed vets of Minnesota saw an easy way to eliminate competition from this outsider by enforcing the law.

Is there any justification for occupational licensing statutes? The many professional organizations that promote such laws invariably claim that there are laudable public purposes behind them—primarily that they are needed to protect the public against incompetent practitioners. "All we care about is guaranteeing that those in the field have at least achieved the basic level of competence so consumers won't be cheated," they claim.

Should we accept that claim? Morris Kleiner, an economist who teaches at the University of Minnesota and is a visiting scholar in the economics department of the Minneapolis Federal Reserve Bank, takes a careful look at the issue in *Licensing Occupations* and comes to the conclusion that occupational licensing statutes do little or nothing to protect consumers, but do tend to raise the price of services. Kleiner writes, "[F]rom the evidence I was able to gather, there is no overall quality benefit (measured in a number of different ways) of licensing to consumers. Consequently, the cost of regulation to society is higher prices or longer waits for a service. An additional societal cost is the reallocation of income from consumers to practitioners of the licensed occupation as well as lost output."

So once again we find that coercive interference with market processes creates benefits for a few that are outweighed by costs to the many.

Kleiner's analysis involves comparing states that license certain occupations with others that don't. For example, while most states require that practical and vocational nurses be licensed, several do not. If licensing actually raises practitioner quality, Kleiner reasons, then insurance rates for those nurses in nonlicensing states should be higher than in states with licensing to reflect their supposedly higher likelihood of making mistakes. Too bad for licensing advocates—Kleiner finds that insurance rates are no higher in states that don't require licensure.

Kleiner also makes excellent analytical use of data from the neighboring states of Minnesota and Wisconsin. Wisconsin requires licensing for many occupations that Minnesota doesn't. Many of the licensed occupations in Wisconsin are only subject to certification in Minnesota. From the data on complaints filed by consumers, Kleiner concludes, "At a minimum, licensed occupations showed no greater ability to reduce constituents' complaints to licensing boards about the service provided compared to complaints filed in a regime where the same occupations were certified. . . ."

That is an important finding. Free-market advocates have long maintained that private certification—which allows practitioners to demonstrate competency by passing an examination, but does not prohibit noncertified individuals from offering their services (as long as they don't falsely claim to be certified)—is preferable to licensing because it allows consumers to choose. If they think a certified practitioner best suits their needs, that option is available; if they don't want to pay more for a certified professional or believe that a noncertified practitioner can do the work competently, they can make that choice. Certification is consistent with liberty whereas licensing statutes are authoritarian attacks on liberty.

Kleiner makes it clear that the impetus behind occupational licensing is overwhelmingly the desire by professionals to control entry into their field, not a dispassionate analysis by public officials that citizens would be best served if they were forced to choose between doing business with a licensed, state-approved practitioner and either getting no service at all or attempting a do-it-yourself job. *Licensing Occupations* pounds another nail into the coffin of the belief that labor-market regulations are wise policy choices.

Oh yes—the Minnesota "floating" case. It is currently before a state court, and the Institute for Justice attorney who represented the defendant says that the Veterinary Board is pulling out all the stops to show that the licensing statute is necessary and reasonable. I wish someone would send the judge a copy of Professor Kleiner's book.

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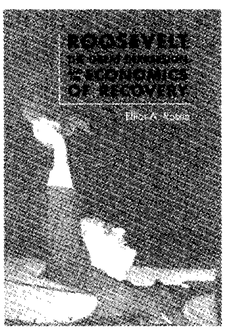
Roosevelt, the Great Depression, and the Economics of Recovery

by Elliot A. Rosen

University of Virginia Press • 2005 • 308 pages • $39.50 hardcover; $19.50 paperback

Reviewed by Burton Folsom, Jr.



As professor emeritus at Rutgers University, Elliot Rosen has written this book as the culmination of a life's study of Franklin Roosevelt and the New Deal. Rosen's special expertise is on Raymond Moley, who was an ardent member of FDR's "Brains Trust" for many years. Eventually, however, Moley broke with the President and, in his old age, ended up supporting Barry Goldwater for president. In the 1940s Moley befriended Rosen, who was then a college student, and eventually the two collaborated on various books on Roosevelt and the New Deal. As Moley told Rosen, "You are a bright young fellow; I'm sure you can figure out the depression as well as FDR and I could."

Perhaps Moley's evaluation was prophetic. Rosen has crafted a useful account of the New Deal that clearly rises above the usual flattery of FDR and his followers. Rosen is critical of much of the New Deal planning in general and the National Industrial Recovery Act and the Agricultural Adjustment Act in particular. The strong points of the book are Rosen's detailed research into the many factions that tried to influence policy in the 1930s. New Dealers, Rosen reminds us, though eager to use the power of government to do good, were usually divided by conflicting visions of the good society and weren't always above the temptation to send federal largess to groups they favored.

During Roosevelt's first term, those planners who wanted a corporate state had much influence on policy (mainly through the National Recovery Administration). They had, Rosen notes, "plans for control of investment and production, fair pricing, limits on entry, and increased employment and wage levels. . . ." Led by Moley himself for a while, the planners urged a restructuring of business under state direction. Stuart Chase suggested "National and regional planning boards to coordinate the whole [economy]." As Rexford Tugwell noted, "This amounts, practically, to the abolition of 'business.' This is what planning calls for." And it was exactly what they wanted. Rosen here gives us a useful reminder that when government officials plan, individual liberty necessarily shrinks.

At one level Harvard professor Felix Frankfurter opposed the planners; he and others wanted to have government break up business into small units, not consolidate it into large state-directed behemoths. At another level Lewis Douglas, FDR's budget director, was skeptical of the results planning might yield. He wanted balanced budgets and a resuscitation of private business.

Roosevelt became a master at picking and choosing among items on the interventionist menu offered by his advisers. Rosen makes it clear, however, that "whatever ideas Roosevelt accepted from others, it was he who untangled the threads and he alone who made the great decisions of the day." Rosen specifically describes the frustration of Douglas, who would argue, usually in futility, against the President's massive spending increases. Once FDR had his mind made up, no argument would shake him.

Rosen, although critical of Roosevelt, still gives him more credit for competence and consistency than he deserves. In the President's campaign speech in Pittsburgh in 1932, he promised the nation a balanced budget; he pronounced himself eager and willing to end Hoover's spending sprees and unbalanced budgets. When Douglas tried to hold FDR to those promises, he reneged.

More than that, as Turner Catledge of the *New York Times* points out in *My Life and The Times,* Roosevelt would deliberately lie to members of the various factions in his administration. Catledge describes one episode where he wrote an article for the *Times* based on a memo Douglas had from the President showing his willingness to constrain spending. The President then called Catledge in and told him he was disregarding his memo to Douglas.

Rosen might have been better served by paying more attention to what his mentor Ray Moley wrote in his private diary in May 1936 after a frustrating meeting with the President. "I was impressed as never before by the utter lack of logic of the man, the scantiness of his precise knowledge of things that he was talking about, by the gross inaccuracies in his statements, by the almost pathological lack of sequence in his discussion. . . . In other words, the political habits of his mind were working full steam with the added influence of a swollen ego."

Certainly there is more to Roosevelt than Moley suggests in that quotation, but Moley observed something very real about FDR, and few historians have captured the Roosevelt that Moley described.

Nevertheless, Rosen's book is a valuable addition to the growing literature that questions the conventional wisdom that the New Deal consisted of brilliant policy measures that saved the country from collapse during the Depression.

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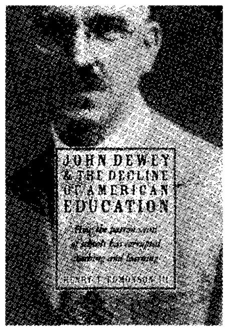
John Dewey and the Decline of American Education

by Henry T. Edmondson III
Intercollegiate Studies Institute • 2006 • 200 pages • $25.00

Reviewed by Terry Stoops



Henry Edmondson describes his book *John Dewey and the Decline of American Education* as "a simple exegesis of Dewey's writing, with commentary suggesting how his thought finds expression in contemporary American education." He reminds us that ideas have consequences, and Dewey's ideas have had disastrous consequences for American education over the past 50 years.

Anyone who attempts to write about John Dewey's ideas is immediately presented with two problems. The first is selecting works from the vast corpus of writing by and about Dewey. *The Collected Works of John Dewey* covers 71 years of Dewey's writing in a mere 37 volumes, while the Library of Congress lists 375 books written about Dewey alone. Edmondson, who teaches political science at Georgia College and State University, focuses on four of Dewey's major works, *Democracy and Education, Human Nature and Conduct: An Introduction to Social Psychology, Schools of Tomorrow,* and *Experience and Education.* He also draws from a number of Dewey's other major works in educational philosophy, political and social philosophy, and ethics, as well as a wide range of secondary source material. Overall, Edmondson's coverage of Dewey's thought is excellent.

The second problem is Dewey's awful prose and ambiguous ideas. Even William James and Oliver Wendell Holmes, both admiring colleagues in the famed Metaphysical Club, recognized that Dewey's writing was often vague and confusing. Although Edmondson agrees that Dewey was an abysmal communicator, he argues that readers can overcome Dewey's lack of clarity by recognizing that he "subordinates his philosophy to his [progressive] politics." Using that approach, Edmonson is able to provide a succinct overview of Dewey's ideas without being weighed down by his writing.

Throughout the book, Edmonson highlights Dewey's disdain for religion, tradition, and inherited values. Dewey claimed that such beliefs are at least signs of unintelligent thinking and, at worst, outright oppression by the wealthy and powerful. Philosophically, Dewey argued that, because human nature is always in flux, fixed values and beliefs are inimical to progress. Consequently, he declared that schools should no longer be a venue for teaching traditional religious and moral values. Instead, Dewey believed that schools should be places where the child's impulse and whim rule—insofar as those impulses and whims are consistent with the values of Progressivism.

Dewey did not, however, contend that schools should be places of uninhibited activity, as many unfamiliar with his work believe. Edmondson points out that Dewey was a man blinded by his desire to see schools as the means to implement a comprehensive program of progressive social change. As a "microcosm of social life," the school provided Dewey a convenient place to socialize students into adherents of progressive ideals, that is, collectivism and statism.

Dewey also rejected religion and traditional values in favor of encouraging perpetual experimentation via the scientific method. Edmondson sees this as a streak of nihilism in Dewey's thought, which might be the most worrisome consequence of adopting pedagogy based on his ideas. One needs to look no further than the legion of constructivist-based programs, such as "I Like Me" and "values clarification," to identify the kind of destructive influence Dewey's ideas have had on schooling in the United States.

Within the classroom Dewey insisted that teachers should not impose abstract aims or external standards on their students. Instead, he endorsed learning through play and hands-on activities, and defended an ad hoc curriculum that favored neither vocational nor academic subjects. Dewey maintained that socialization was just as important as teaching essential skills like reading. Edmondson concludes that our current confusion over standards and goals is a "natural consequence of Dewey's insistence on such fluid educational standards."

Edmondson includes chapters on the educational thought of Thomas Jefferson and Benjamin Franklin. What might appear to be an unusual detour is actually a very instructive discussion of alternatives to Dewey. At times, Dewey insisted that he was heir apparent to Jefferson, but Edmondson shows that Dewey departed from both Jefferson and Franklin by repudiating those Founders' shared belief that a vibrant republic requires an education designed to cultivate personal virtue. Dewey's radicalism is nowhere more apparent than in his rejection of the Founders' educational ideals.

Finally, Edmondson offers a number of ways that we can renounce our Deweyite inheritance. They fall into two broad categories: philosophical coherence and excellence in teaching. Philosophical coherence includes implementing reforms that restore clarity, traditional values, and the liberal arts to our schools. Edmondson also calls for the abolition of the middle-school, schools of education, and student-learning outcomes, all of which impede genuine educational innovation. He also wants to encourage excellence in teaching by maximizing teacher autonomy and improving teacher preparation.

Those aren't bad ideas, but what we really need is the one reform that cuts the Gordian Knot—separation of school and state. Dewey's philosophy would probably never have taken root and wouldn't last long in an environment where parents made their own choices and spent their own money for education.

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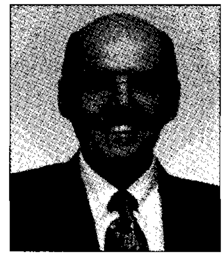
Closing a Malevolent Circle: The Employee Free Choice Act



BY CHARLES W. BAIRD

In 2006, 7.4 percent of American private-sector workers were unionized. That figure has fallen every year since 1955, when it was close to 35 percent. Despite the unjustifiable privileges granted to private-sector unions by the National Labor Relations Act (NLRA), they are almost economically irrelevant. But they are not politically irrelevant. Collectively unions spend at least $5 billion on direct and indirect political advocacy every year, even more in election years. Their support was a major factor enabling the Democrats to capture control of Congress last November.

On March 1, with the help of 13 Republicans, 183 Democrats in the House of Representatives voted to pay the unions back by making it much easier for them to capture union-free workers as dues and fee payers. In political exchange one capture may deserve another, but at least the capture of Congress was the result of secret-ballot voting across the country. The House bill would let unions capture union-free workers without those workers having access to any ballot box. It is cynically called the Employee Free Choice Act (EFCA).

Unions are not really concerned with employee free choice.

Under the NLRA unions gain the privilege of representing every nonmanagement worker in a firm, whether many of those workers like it or not, by securing 50 percent plus one of the votes cast by workers in a representation election supervised by the National Labor Relations Board (NLRB). The NLRB conducts such an election when union organizers present the signatures of 30 percent of the workers on "authorization cards." Employers may force their workers to submit to union representation on the same 30 percent showing of signatures, but very few do. Most employers insist on a secret-ballot representation election before impairing themselves and their workers with a union. The EFCA would require employers to force all their nonmanagement employees to submit to the representation services of a union on the showing of signatures of 50 percent plus one of those workers. Secret-ballot elections would be replaced by "card check."

Unions and their political allies argue that card check must replace elections in order, in the words of the AFL-CIO website, to "give workers greater freedom to make their own decisions about joining a union." They allege that workers cannot make their own decisions in the privacy of a voting booth because employers confuse and intimidate workers during election campaigns. They do so by making spurious arguments against unionization, and they intimidate workers by firing outspoken union supporters. Of course, to a unionist any argument against unionization must be spurious, and any person who makes such an argument must be morally impaired.

Unions apparently believe that workers are too dumb or naïve to accurately weigh the arguments of employers against those of union organizers. On that argument unions logically should advocate that workers must be protected against making their choices among political candidates by secret ballot. Union organizers should collect workers' political votes on signed cards and then turn them in to (presumably unionized) vote counters. Perhaps that will be EFCA II. As to intimidation of workers: Firing workers who are union supporters because of their union support is already illegal. According to NLRB records such firings occur in less than 2 percent of the cases in which they are alleged.

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There are many examples of duplicity and sophistry in this debate. Rep. George Miller is the lead sponsor of the EFCA in the House. On August 1, 2001, he and 15 other congressional signatories sent a message to the Mexican government regarding Mexican labor law. In it he wrote, "We feel that the secret ballot is absolutely necessary in order to ensure that workers are not intimidated into voting for a union they might not otherwise choose" and "the increased use of the secret ballot in union recognition will help to bring real democracy to the Mexican workplace." Apparently Mexican workers are more capable of handling secret ballot representation elections than their American counterparts.

Not to be outdone, last January former Senator John Edwards expressed his support of the EFCA in these words: "If you can join the Republican Party by just signing a card, you should be able to join a union by just signing a card." Edwards may not know it, but under present law any individual worker can join any willing union just by signing a card. The issue at stake in the EFCA is whether any signatures on any number of cards should be able to bind nonsigners to union representation. Should the signatures of any number of Republicans force even one Democrat to become a Republican?

I have often argued that the whole idea of a majority of workers forcing a minority of workers into accepting union representation is a violation of freedom of association. Whether or not a worker is represented by a union should be a matter of their mutual consent not majority vote. The Constitution puts many decisions outside the realm of majority rule; and, notwithstanding the political exchange between President Roosevelt and the New Deal Supreme Court, freedom of association is one of them.

Nevertheless, a secret-ballot representation election allows workers to express their union preferences anonymously, without fear of union or employer reprisal. Card check does not. Signatures on authorization cards are collected by union organizers face to face with individual workers, and union organizers are rarely gracious about accepting no for an answer. A worker who refuses to sign at work can expect home visits by two or more unionists designed to harass and intimidate him and his family. Threats sometimes metastasize into physical violence. Under present law a dissenting worker can choose to escape union intimidation by signing an authorization card and then voting no in a representation election. Card check eliminates that choice. Secret-ballot elections also allow individual workers to hide their union preferences from employers who may want to retaliate against union supporters in future human-resource management decisions. Card check eliminates that protection.

Expanding Power

Unions are not really concerned with employee free choice. They are interested in expanding their political power. A major source of that power is the money and in-kind electoral support unions give to allied politicians. To provide such support unions have to have sufficient workers from whom they can collect money. For that to happen politicians have to make sufficient workers vulnerable to unions. On average, unions increase their annual revenue by $3.5 million per 10,000 workers they capture. This is the malevolent circle behind the EFCA.

Representation elections cannot close the circle. Although unions can pick and choose which elections to enter, they withdraw from 50 percent of those they launch before a vote is taken, and they win only 58 percent of the others. In desperation the union-politician axis is resorting to card check.

The general public is not buying this duplicity. In a recent Zogby poll, 84 percent of respondents supported secret-ballot elections over card check. Other polls put support for elections as high as 90 percent. Workers themselves express support of the current election system by 71 percent to 13 percent. But such polls are of no concern to politicians. They serve only organized interests. Such is the politics of plunder.