

# THE FREEMAN

IDEAS ON LIBERTY

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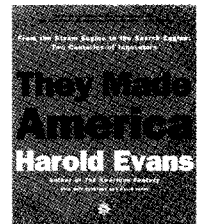
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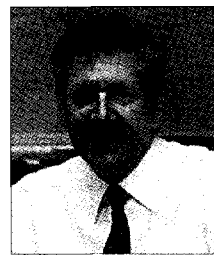
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# FEE at 60: Self-Improvement and First Principles

BY RICHARD M. EBELING



March 7 marks the 60th anniversary of the establishment of the Foundation for Economic Education (FEE) by the late Leonard E. Read, with the assistance of a handful of businessmen, economists, and journalists who were all dedicated to the ideas of individual liberty and the free market. From its beginning FEE has been more than what nowadays is called a policy-oriented think tank. Its work is based on the understanding that right thinking on policy issues is impossible unless people have a clear appreciation of the principles of freedom, private property, free enterprise, the rule of law, and constitutionally limited government.

Without these principles any discussion about public policy is like a ship adrift without a means of navigation. As a result, FEE's work on behalf of liberty always tries to analyze contemporary political and economic debates in the context of first principles. This can perhaps best be understood by briefly looking back at how FEE came into existence.

Leonard Read (1898–1983) was a Michigander who moved to the west coast in the mid-1920s and soon landed a job with the Western Division of the U.S. Chamber of Commerce. After the election of Franklin Roosevelt in 1932 and the start of the New Deal, William C. Mullendore, president of Southern California Edison Company, declared that he disapproved of FDR's policies and the attempt by the U.S. Chamber of Commerce to foster government-business partnerships as a means to end the Great Depression.

Read went to see Mullendore to persuade him to get on board with New Deal policies. After making his case for about half an hour, Read spent the next hour listening to Mullendore persuasively explain the virtues of

freedom and the free market, and the dangers from paternalistic government. By the time Mullendore was finished, Read had experienced an intellectual transformation. As he explained it years later, "That was the moment of my liberation; that talk of his back in 1933 turned me on" to the importance and power of liberty for human betterment.

Read began a process of self-education and self-improvement to master the case for liberty and the nature of the threat from all forms of collectivism. In 1941, when he was then the managing director of the

Los Angeles Chamber, Read met Thomas Nixon Carver, a retired Harvard University professor of economics and one of the outstanding American defenders of economic freedom in the first half of the twentieth century. Carver said to him, "Mr. Read, you sound just like Frédéric Bastiat," the nineteenth-century French classical liberal. Read asked Carver to spell this Frenchman's name, and soon devoured Bastiat's works.

Bastiat clarified for Read the crucial idea of the proper role of government and the distinction between legal and illegal plunder. If our individual rights to life, liberty, and property do not come from government, but belong to us by our very nature as human beings (and, as both Bastiat and Read believed, as a blessing from God), then neither private individuals nor political authorities have the moral right to plunder any of us through violence or fraud. If government goes beyond securing liberty and instead violates it through regulation, redistribution, and planning, then citizens are victims of legal plunder.

In 1945 Read left the Chamber and moved to New

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Leonard Read's philosophy of advancing freedom is grounded in the idea that changing the world begins with changing ourselves.

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*Richard Ebeling (rebeling@fec.org) is the president of FEE.*

York to head a free-enterprise educational project for the National Industrial Conference Board. But differences over the content of this project led him to resign a few months later. Soon afterward Read was asked by B.F. Goodrich Company chairman David Goodrich how he would design an educational project. After working all night, Read returned to Goodrich's office with what became the prospectus for FEE. Goodrich read it and asked, "When can we start?"

On March 7, 1946, at a meeting in the Goodrich Manhattan offices, FEE was established. The founding board included Read as president; Henry Hazlitt, America's foremost free-market journalist, as vice president; and Goodrich as board chairman, along with Fred Fairchild and Leo Wolman, respectively professors of economics at Yale University and Columbia University; Claude Robinson of Opinion Research Institute; Donaldson Brown, vice president of General Motors; E.P. Halliburton, president of the Halliburton Corp.; Charles White, president Republic Steel Corp.; H. W. Luhn, president of the William Volker Co.; and Mullendore.

In the summer of 1946, Read set up FEE's headquarters at its present location in a three-story nineteenth-century mansion on a seven-acre property in Irvington-on-Hudson, about 20 miles north of New York City. Read soon had a growing staff of able advocates of liberty working with him at the Foundation. In the early 1950s the free-market journalist John Chamberlain described Leonard Read as "a curious mixture of American go-getter, Tolstoyan Christian, Herbert Spencer libertarian and dedicated medieval monk. Mr. Read holds to the Emersonian belief that a good mouse trap advertises itself by its own goodness." As a result of FEE's good work, friends of freedom were beating a path to his door.

Leonard Read's philosophy of advancing freedom is grounded in the idea that changing the world begins with changing ourselves. In June 1974, when I was in my 20s, I attended a FEE summer seminar. It was a wondrous experience, with outstanding lectures and fascinating informal discussions. But I really only remember one lecture from that week, delivered by Leonard

Read. At one point in his talk he asked that the lights be turned off in the classroom. In the darkness he slowly turned up the light of an electric candle, asking us to notice how all eyes were drawn to it, however dim. As the candle brightened he pointed out that more and more of the darkness was pushed away, enabling us to see the room more clearly.

### The Light of Liberty

If each of us learned more about liberty, we would become ever brighter lights in the surrounding collectivist darkness. Our individually growing enlightenment through self-education and self-improvement would slowly but surely draw others to us who might also learn the importance of freedom. Through this process more and more human lights of freedom would sparkle in the dark until finally there would be enough of us to guide the way for others so that liberty would once again triumph.

Central to Read's philosophy and FEE's mission is this commitment to first principles as the Archimedean point from which the logic of liberty flows. As Read explained in his book *Anything That's Peaceful* (1964): "I mean let anyone do anything that he pleases that's peaceful and creative; let there be no organized restraint against anything but fraud, violence, misrepresentation, predation; let anyone deliver the mail, or educate, or preach his religion or whatever, so long as it's peaceful. Limit society's agency of organized force—government—to juridical and policing functions. . . . Let the government do this, and leave all else to the free, unfettered market!"

At FEE we work to show the harm government does when it goes beyond this task and to suggest the innovative ways free men can solve the social problems that are exploited to rationalize government control.

FEE's role for six decades, in other words, has been to present the vision of and the arguments for the truly free society. And with your help it will remain our dedicated task to do so in the years ahead so we may finally bring about a world of liberty and prosperity for all.



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IDEAS ON LIBERTY

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## Perspective

# “Parent of the Country”

In November a federal appeals court rejected a challenge to a school-district survey of elementary-school students that contained privacy-invading, sexually explicit questions. The Palmdale School District in Los Angeles County had conducted the survey of children 7 to 10 years old. Their parents were told they could opt out, but they were left in the dark about the content. According to the notice parents received, the survey aimed to “establish a community baseline measure of children’s exposure to early trauma (for example, violence)” and to “identify internal behaviors such as anxiety and depression and external behaviors such as aggression and verbal abuse.” It turned out that of the 79 questions asked, ten related to the children’s thoughts about sexual matters.

Several parents were outraged, and when their complaint to the school district was dismissed, they went into federal court, claiming the school had violated their right “to control the upbringing of their children by introducing them to matters of and relating to sex” (*Fields v. Palmdale School District*). The district and appeals courts sided with the school district. It was not known if the parents would appeal to the Supreme Court. (The school district has stopped doing the survey.)

The Ninth Circuit Court of Appeals opinion is instructive for gauging the relationship between individual and state in modern America. Unfortunately, the ruling leaves little room for optimism.

Judge Stephen Reinhardt rejected the parents’ plea on essentially two grounds: that once parents choose a school for their children, they have no right to micro-manage it, and that under the *parens patriae* doctrine (“parent of the country”), the government may look after the mental health of children. Both arguments are pernicious.

The first is deceptively so. On first glance it is reasonable to hold that once parents choose a school, they have no right to dictate what goes on in the classroom. They have no such right with a private school. Why should they have it with a government school? The judge’s sleight-of-hand consists in ignoring that parents do not

freely choose their children's schools. Yes, they may opt for private schools or homeschooling over the government alternative, *but they must pay taxes no matter what they choose*. Moreover, in the 1920s the U.S. Supreme Court affirmed the states' power to regulate private schools comprehensively.

If a private school conducted a sex survey without fully informing parents, the matter could be handled contractually. As a last resort, parents could pull their children out and cut the school off financially. They can't do that with the government schools. Thus the system is rigged in favor of the state.

Judge Reinhardt further defended the school district by holding, "[T]he questioning can also be justified on the basis of an alternative state interest—namely, *parens patriae*. . . . [T]he School District's interest in the mental health of its students falls well within the state's authority as *parens patriae*. As such, the School District may legitimately play a role in the care and nurture of children entrusted to them for schooling."

The *parens patriae* doctrine is left over from the age of absolute monarchy, when the king, believed to be a descendant of Adam, was regarded as the father of his subjects. The famous exponent of that idea, Sir Robert Filmer, wrote in *Patriarcha or the Natural Power of Kings* (1680), "It may seem absurd to maintain that kings now are the fathers of their people, since experience shows the contrary. It is true, all kings be not the natural parents of their subjects, yet they all either are, or are to be reputed, the next heirs to those first progenitors who were at first the natural parents of the whole people, and in their right succeed to the exercise of supreme jurisdiction; and such heirs are not only lords of their own children, but also of their brethren, and all others that were subject to their fathers."

*Parens patriae* is one of those assertions by the state that is assumed to be binding, but that no one consented to. Considering that the government regards itself as the ultimate landlord, we shouldn't be surprised that it also sees itself as the ultimate parent. The American Revolution was indeed incomplete.

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The "housing bubble" is much in the financial news. But does this storyline distract us from all the ways government increases the price of homes? Raymond Keating investigates.

The role of entrepreneurship is familiar in the world of business. Far less appreciated is its role in the development of moral virtue. Douglas Rasmussen elaborates.

City planners around the country are increasingly coming to believe that one of their functions is to provide "free" Internet access to their residents. Max Borders sounds a warning against this trend.

The high cost of medical care is a fact of life that everyone must contend with. Those who would socialize medicine blame the private sector. But as Kirby Cundiff shows, the fault lies with interventionist government.

Innovation raises living standards, even in mundane products and services. To illustrate the point, Daniel Hager describes the evolution of the hotel.

Frédéric Bastiat described the modern state as an imagined device by which "everyone seeks to live at the expense of everyone else." Harold Jones revisits a philosopher who saw Bastiat's point a century earlier.

Labor law is unique because it is the only law under which someone can be forced to bargain and contract with someone else. George Leef looks at this law in the context of universities and professors.

Our FEE Timely Classic from 50 years ago is a reflection on the American Revolution by former FEE staff member Ivan Bierly.

Here's what our columnists have whipped up: Richard Ebeling recounts the history of FEE on the occasion of its 60th birthday. Lawrence Reed celebrates a past Supreme Court. Thomas Szasz considers inflation from another angle. Stephen Davies corrects misperceptions about trade. Russell Roberts wonders why the economy is always being threatened. And David Henderson, reading one writer's case for higher gasoline taxes, parries, "It Just Ain't So!"

The issue's book reviewers meditate on "fair" trade, America's inventors, government's bankrupt schools, and Civil War economics.

—Sheldon Richman  
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# We Need a Stiff Oil Tax? It Just Ain't So!

BY DAVID R. HENDERSON

In an article last fall in the *Washington Post*, one of my favorite economic journalists, Robert J. Samuelson, argued for “a stiff oil tax” and “stricter fuel economy standards” (September 14, 2005). His rationale for this increased government intervention is that “we are vulnerable to any major cutoff of oil.” We can reduce our vulnerability, he argues, if we tax oil heavily and require auto companies to increase fuel “efficiency” by roughly 50 percent. (The reason “efficiency” is in quotation marks will be clear shortly.) What this country needs, writes Samuelson, “is \$4-a-gallon gasoline or, maybe, \$5.”

It just ain't so. To see why, we need to look at three issues in turn. First, does vulnerability to higher world oil prices justify some special role for government? Second, is it always efficient to use vehicles that get high fuel economy? Third, is there a good case for government regulations that require higher fuel economy? The answers: no, no, and no.

First, consider our vulnerability to world oil prices. Samuelson is right that we are vulnerable, but any time you buy a good, you're vulnerable to higher prices. If suppliers decide to supply less or buyers decide to buy more, the price will typically rise. How does Samuelson get from that simple fact to his conclusion that stiff taxes on oil are a good idea? His reasoning seems to be that when the price suddenly rises, we consumers lose wealth, and we could avoid some of these wealth losses if we drove cars that use less gasoline per mile. This is true. But we still haven't arrived at a case for government intervention. If Samuelson gets the higher taxes he wants, and if, as he seems to wish, these taxes last forever, then we know we will pay those higher prices forever and not just occasionally. How am I less vulnerable by

paying \$5 a gallon forever instead of \$2 a gallon usually and \$3 a gallon occasionally? High gas taxes would turn the possibility of an occasional consumer loss from increased gasoline prices into the certainty of a permanent loss.

Samuelson would probably argue that we'd be less vulnerable because, in response to the tax, we would buy cars that use less gasoline. It's true that we would respond that way to a stiff tax: Exhibit A is the many European countries whose governments impose the stiff taxes that Samuelson wants and most of whose people, if they have a car at all, have small, high-fuel-economy cars. But why use a tax to force us to that point rather than letting us make a choice?

Maybe Samuelson would argue that we don't take account of future gasoline prices when we buy a car. But the nice thing about freedom is that if we want to take future prices into account, we can. How? Here's where the market comes in. Every day, experts enter the futures market for oil and bet millions of dollars of their own money on their best guesses about what will happen to the price of oil in the future. And thanks to another market—the market in information—information suppliers provide the latest futures-market data at low cost. In fact, the website [www.wsj.com/free](http://www.wsj.com/free) provides that information free. And this information can help you decide whether buying a high-fuel-economy hybrid is worth it.

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That brings us to the second question: is it efficient to buy a high-fuel-economy car? Samuelson himself admits that hybrids are priced \$3,000–\$4,000 more than conventional cars. This means that when you buy a hybrid, you're trading off a higher up-front price against a stream of savings on fuel. If you use your car a lot, especially for in-town driving, where hybrids' advantage is greatest, it may pay. If you use your car a little and much of that little is for long-distance driving, it won't pay. Say, for example, that you expect gasoline prices to remain at \$3 for the ten-year lifetime of a car. Imagine you're comparing a conventional car that averages 25 mpg with a hybrid that gets 40 mpg and that you drive 12,000 miles a year. With a conventional car, you would buy 480 gallons a year, for an annual expenditure of \$1,440. With a hybrid, you would buy 300 gallons a year, for an annual expenditure of \$900. So you would save \$540 a year. Using a real interest rate of 4 percent, the present value of this saving would be \$4,379, which outweighs the extra \$3,000–\$4,000 up front. But note that it barely outweighs a \$4,000 increment in price. Buying a hybrid is, therefore, a good deal, not a great deal, for this hypothetical driver. If this person drove only 8,000 miles a year, and if gasoline prices averaged \$2.50 a gallon, he would save only 120 gallons a year, or \$300. At an interest rate of 4 percent, this person, or the person he resold it to, would have to get 12 years of service out of the car to offset even an extra \$3,000 up front. In short, whether it's efficient to buy such a car depends on future gasoline prices, the person's driving pattern, and miles driven. No general statement can be made that a high-fuel-economy car is necessarily efficient. It's efficient only if the incremental cost is less than the saving in fuel expenditures, and, in many cases it won't be.

### Government Standards

Third, there's no good case for government imposition of fuel-economy standards. Let's take a trip

down memory lane. Fuel-economy standards were imposed during President Ford's administration and tightened during President Carter's because price controls on oil and gasoline, which President Nixon had initiated, kept prices from rising to world levels. The results of price controls were predictable: shortages, lines, and wasteful uses of gasoline by those lucky enough to get it. Although Carter finally pushed successfully for a bill to phase out the price controls, the damage was done. The government kept gasoline artificially cheap and then had the gall to accuse us of being "energy pigs." Thus the plethora of government controls to restrain our usage. While President Reagan eliminated many of these controls, one that remains is the fuel-economy standards. This is the story of most government regulation, as I lay out in my book *The Joy of Freedom: An Economist's Odyssey*. The government imposes a regulation that creates a crisis, and then responds to this crisis by creating more regulation. Then, even if it eliminates the first regulation, it often keeps the second.

Finally, even if we grant, which I don't, that there's a case for a higher tax on gasoline, it doesn't follow that there's a case for compulsory fuel-economy standards. Instead, people can respond to the tax by choosing the level of fuel economy appropriate for their circumstances. As Brookings Institution economist Robert W. Crandall points out, the mandated fuel-economy regime comes down like a hammer on the newest vehicles, which, ironically, have the highest fuel economy, and does nothing to increase fuel economy for the used vehicles already out there.

Samuelson writes: "At times, individual freedom must be compromised to improve collective security." Even if you believe that, it doesn't apply in this case. Higher taxes on gasoline and oil and compulsory fuel-economy standards "compromise" individual freedom with no improvement in security. Rather, they reduce our freedom and destroy our wealth. That's a bad tradeoff. 

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# The Neglected Factor in the Housing “Bubble”

BY RAYMOND J. KEATING

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Is there a housing “bubble”?

Debate has swirled recently around this question. But one factor behind increased prices in the housing market seems to be frequently left out of the debate or only mentioned in passing—government.

Then-Federal Reserve Chairman Alan Greenspan proclaimed last May 20 that the nation’s housing market was “frothy.” He also said that “it’s hard not to see that there are a lot of local bubbles.” However, he declared that “we don’t perceive that there is a national bubble.”

I’ve never put much stock in “bubble” talk. After all, one of the great benefits of private markets over government is that markets are self-correcting. When mistakes are made in the private sector, prices and profits adjust and resources are reallocated accordingly. This, of course, stands in stark contrast to government, which usually subsidizes failure. Sometimes market correction happens gradually, other times a bit more suddenly when new information becomes available. Often, though, when a substantial change occurs in the market, particularly a negative one, the potential role of government must be explored.

In fact, government is playing a part in driving up housing prices in many local markets. And the nature of this government action raises questions about the effect being a “bubble” or something far more sustainable.

What are the reasons being discussed and debated about recent increases in housing prices? One is monetary policy. Some wonder if the policy is too loose and spilling over into a housing “bubble.” Others simply note that interest rates have generally been falling for some time, including a rather dramatic slide starting from late 2000 to the middle of 2003. Even after recent increases, interest rates are still at dramatic lows when viewed over

the past four decades. This obviously has been a positive development for the housing market.

Other factors were correctly identified by Brian Wesbury in his May 31 op-ed in the *Wall Street Journal* (“Mr. Greenspan’s Cappuccino”). They included an increase in the older population that has higher rates of homeownership, and federal tax treatment of housing (including the deductibility of mortgage interest and property taxes, and favorable capital gains tax treatment).

However, a negative factor on the supply side is driving up home prices in many markets, namely, government creation of scarcity. That is, governments often aggressively pursue policies that limit the supply of housing. Such policies, whether intended to do so or not, result in much higher prices.

In the *Wall Street Journal* on May 26, economist Thomas Sowell warned about the potential ills of interest-only mortgages. That’s worth contemplating. But even more telling was one paragraph about why housing was so expensive in the San Francisco Bay area. He wrote: “It is the land—and the high price of the land is due to severe restrictions on building anything on it. Before those land use restrictions—‘open space’ laws, planning commission requirements and environmental regulations—became severe during the 1970s, California housing prices were very much like those elsewhere in the country. Since then, California housing prices have been some multiple of the national average. Nowhere is this more true than in the San Francisco Bay area.” Indeed, the area ranked as the most expensive for homes,

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at \$698,200, according to a Bloomberg report on May 20. But it is not alone in having government restrictions pushing prices higher.

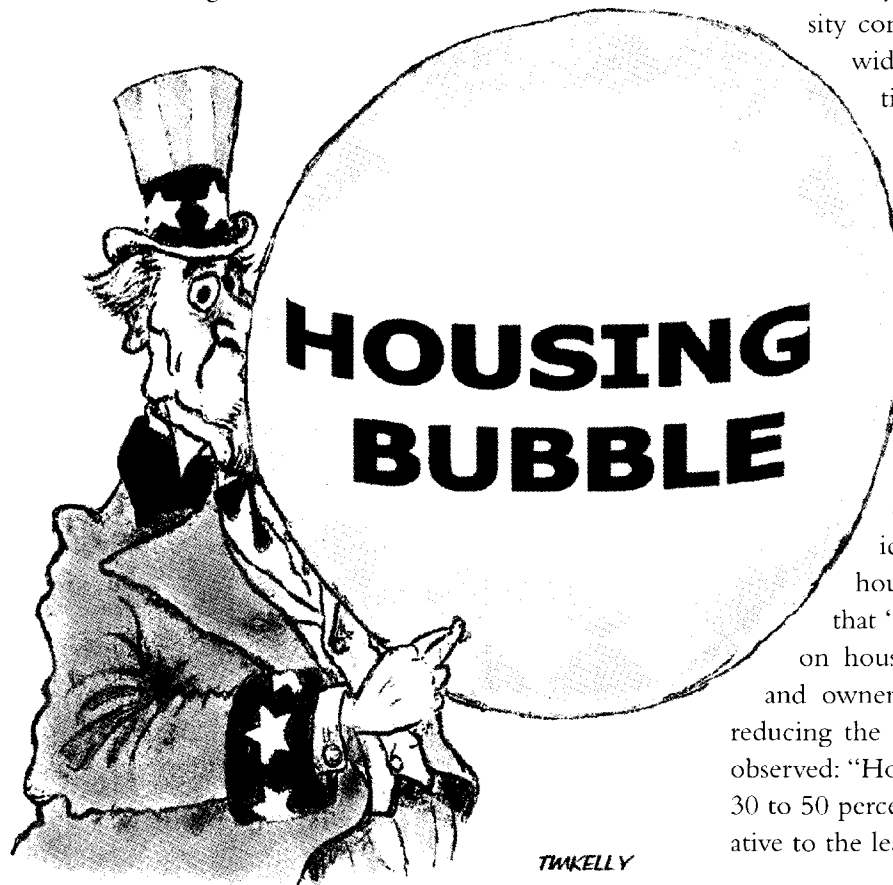
In fact, government regulation, restrictions, fees, and other barriers driving housing costs higher even have been recognized by the U.S. Department of Housing and Urban Development (HUD). HUD has done two studies making this point. In 1991 its publication "Not In My Back Yard": Removing Barriers to Affordable Housing" explained: "Millions of Americans are being priced out of buying or renting the kind of housing they otherwise could afford were it not for a web of government regulations," including "a maze of Federal, State, and local codes, processes, and controls." Among the many controls noted were upzoning, exclusion of multifamily housing, requiring developers to add amenities and pay larger fees, slow and burdensome permitting, prohibitions on accessory apartments, building codes that prohibit rehabilitation of existing buildings, rent control, restrictions on manufactured housing, and environmental regulations.

The story hasn't changed, as reflected in the February 2005 HUD report, "Why Not in Our Community? Removing Housing Barriers to Affordable Housing." That report noted: "While regulatory barriers are not the only factors responsible for increasing housing costs, they are major factors." It highlighted increased complexity of environmental regulation, using "smart growth" rhetoric to restrict growth and development, continued rampant NIMBYism (Not In My Back Yard), impact-fee expansion, building-code barriers, and obstacles to rehabilitation and development in urban areas.

The February report concluded: "Removing affordable housing barriers could reduce development costs by up to 35 percent." That number is not pulled out of thin air, with 13 different econometric studies cited that point to the substantial costs inflicted on housing due to government regulation. And that list was not exhaustive. Note the following findings, for example:

- An April 2004 study—"Regulations and Housing Development: What We Know and What We Need to Know"—by Michael H. Scholl at New York University concluded: "Existing research suggests that a wide range of federal, state and local regulations, including building codes, environmental laws, land use regulations, impact fees, as well as the government procedures to administer these regulations, reduce the supply of housing and generate substantial costs."

- A December 2004 study—"Regulation and the High Cost of Housing in California"—by John M. Quigley and Steven Raphael at the University of California-Berkeley, analyzed "the effect of regulations governing land use and residential construction upon the course of housing prices in California." They found that "current regulations have powerful effects on housing outcomes," including making rental and owner-occupied housing more expensive and reducing the housing stock. At one point, the authors observed: "Housing prices and rental rates are roughly 30 to 50 percent higher in the most regulated cities relative to the least regulated cities."



• In a December 2004 study—“Why Have Housing Prices Gone Up?”—Edward L. Glaeser of Harvard University and the National Bureau Economic Research, Joseph Gyourko of the University of Pennsylvania, and Raven E. Saks, also of Harvard, hit on the crucial point: “In sum, the evidence points toward a man-made scarcity of housing in the sense that the housing supply has been constrained by government regulation as opposed to fundamental geographic limitations. The growing dispersion of housing prices relative to construction costs suggests that these regulations have spread into a larger number of local markets over time.”

### Things Are Worse

Between the 1991 and 2005 HUD reports the situation got much worse. The bad policies noted in 1991 have only been expanded in scope, strategy, and geography. Ponder that, as Ronald Utt noted in a November 8, 2002, report (“Review of HUD’s 1991 Report: Not In My Back Yard: Removing Barriers to Affordable Housing”), most regulatory barriers to housing are promulgated by roughly 39,000 local governments across the nation. Getting an exact handle on these regulatory costs is not easy, but the general direction and effects are unmistakable.

Utt argued, “based on overwhelming anecdotal evidence from around the country, that such barriers are being erected at an accelerating pace, that multiple barriers exist in many communities, and that over time many of the existing barriers are made more severe when the initial implementation fails to slow growth to the degree hoped, or as community preferences against growth change.”

Utt also highlighted that citizen efforts to impose land-use restrictions have expanded “without recent precedent,” adding that this is “not easy to explain.” But actually, it is. In a speech at MIT in October 2002, Anthony Downs of the Brookings Institution cogently

argued: “I believe a majority of suburban governments deliberately pass regulations aimed at maintaining or raising housing prices within their jurisdictions because they are politically dominated by homeowners, who want to maximize the market values of their homes. . . . Since their homes are their major financial assets, they pressure their governments to oppose cost-reducing changes in regulations. . . . Therefore, as long as we leave full regulatory power over housing planning and construction in the hands of local governments, there is no realistic chance that housing costs can be reduced by changing regulations that increase those costs.”

The 1991 HUD report also noted this local-incentive factor and urged states to become more involved. Since then, various states have done so, and their policies, for the most part, have only reinforced local efforts to limit growth and building. Government turns out to be a problem at all levels.

All of this points not so much to a looming “bubble” in housing, but a perverse regulatory push, or at least floor, on prices. Housing will continue to react according to economic conditions, including economic growth, income levels and growth, and interest rates, for example. But this aggressive and expanding effort led by government to restrict the amount of housing cannot be ignored. Those regulatory restrictions push costs higher and restrict the market’s ability to respond to price signals.

It’s difficult to imagine this regulatory floor being removed completely because it would require a fundamental shift in philosophy. In recent decades, a dramatic increase in an entitlement/activist view of government has combined with an erosion of property rights. That has led to these vastly enhanced barriers imposed by state and local government to slow or stop the expansion of housing in various parts of the nation. And I’m sad to say, it seems that this phenomenon only promises to spread.



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# The Moral and Cultural Climate of Entrepreneurship

BY DOUGLAS B. RASMUSSEN

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About 40 years ago I learned the following poem. It exemplifies a moral and cultural attitude about not only entrepreneurship, but also the moral purpose of human life itself. Written by Dean Alfange, it is known simply as “My Creed”:

I do not choose to be a common man.  
It is my right to be uncommon—if I can.  
I seek opportunity—not security.  
I do not wish to be a kept citizen,  
Humbled and dulled by having the state look after me.  
I want to take the calculated risk,  
To dream and to build, to fail and to succeed.  
I refuse to barter incentive for a dole.  
I prefer the challenges of life to the guaranteed  
existence,  
The thrill of fulfillment to the stale calm of utopia.  
I will not trade freedom for beneficence  
Or my dignity for a handout.  
I will never cower before any master  
nor bend to any threat.  
It is my heritage to stand erect, proud,  
And unafraid, to think and act for myself,  
Enjoy the benefits of my creations  
And to face the world boldly and say, this I have done.  
All this is what it means to be an American.

I seriously doubt that this moral and cultural attitude is prevalent in the United States today. Possibly, it was not even so prevalent when I first learned these lines. But I certainly think it was prevalent at some time in the past in the United States. However, putting aside whether and to what extent such a moral and cultural attitude is or was ever truly present in the United States,

and also putting aside, at least for the moment, what if anything this poem has to do with the United States, I would like to focus on some basic truths that seem to be expressed in, implied by, or at least suggested by this creed.

1. The ultimate source of wealth—both economically and morally—is found in the human intellect. Neither the economic capital for material prosperity nor the moral capital for human flourishing can exist without the human mind discovering and making actual the potentialities that nature in general and human nature in particular provide. Without the exercise of the human intellect, no wealth of any form can actually exist.

2. The intellectual insight that is necessary for an entrepreneur to see an opportunity for profit and create wealth is the same insight that is needed for an individual to put together a life in which final goods and virtues are discovered, achieved, maintained, and appropriately enjoyed.

3. This intellectual insight is an exercise of practical reason, which does not occur automatically or without effort. It is something that only the individual human being can initiate and maintain. It cannot be provided by others. It is a self-directed act.

4. When this intellectual insight is appropriately exercised, it is an exercise of the intellectual virtue of *practical wisdom*, and it involves such moral virtues as temperance, integrity, and honesty. It calls forth the ideal of human excellence, of human flourishing, of self-perfection.

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5. The creation of material wealth is one of the necessary final goods of human perfection or flourishing. So, not only is it not wrong to create wealth or profit, it is in fact something that any and every human being needs to pursue. It is something that is good for human beings and ought to be done.

6. The creation of wealth, just like any of other basic goods that constitute human flourishing, must be achieved in an appropriate manner. Here is the wisdom of Aristotle's "doctrine of the mean."

7. Yet what is often forgotten when it comes to the doctrine of the mean is Aristotle's phrase "the mean relative to us." Thus finding what is appropriate amounts to finding what the appropriate balance or weighting of basic goods is *for one as an individual human being*. Each of us has his or her own unique potentialities that need to be made actual. There is no abstract rationalistic recipe or standard or plan here. (Such rationalistic procedures work, by the way, for neither persons nor economies.) So we truly need to fashion our own unique forms of flourishing, and this comes with respect to how to balance and integrate all the goods and virtues of life, including wealth. Each of us needs to, in the words of the poem, *be uncommon, if we can*.

8. None of these activities is done in isolation but always with and among others. We are social animals from the very beginning to the very end; and since we are not limited to any one form of social life, our sociality is ultimately cosmopolitan in nature. We are open to relationships with all of humankind. We are part of what Hayek called "the Great Society."

9. For each of us to pursue his or her own form of flourishing in the great society, we need to create a social and political context whose basic structure is not, as a matter of principle, prejudiced more toward one form of flourishing over any other. We need a context that respects our potential for individuality and our uncommon forms of excellence.

10. As a result, we need a political/legal order whose

structural principles protect that which is both common and peculiar to every person's form of human flourishing—that is, self-direction.

11. Each of us needs to have the possibility of self-direction protected, and the protection of this possibility allows for a political/legal order that is not structurally prejudiced.

12. Such a political/legal order is one whose foundational principles are the basic negative rights to life, liberty, and property.

13. Such a political/legal order does not make virtue or human flourishing its aim. It aspires only to protect liberty and thereby the condition by which it is possible for human beings to be moral agents—namely, self-direction.

14. Given that human flourishing is unique, social, and self-directed, protecting liberty is all to which the political/legal order either ought or can aspire. This is the proper aim of the political/legal order. To aspire for more is both moral folly and rationalistic hubris.

15. Yet reality is knowable, and though it does not guarantee success in life, it allows, for the most part, ample opportunity for people to find fulfillment, if they will but exercise the effort to use their minds and develop the appropriate virtues, *and if we make sure not to create a political/legal order whose structural conditions fail to protect liberty*.

We need to hold liberty paramount, for that protects the possibility of self-direction. This is all that is necessary to justify liberty, but in most cases upholding liberty also opens the door for the economic and moral entrepreneurship required for material prosperity, human flourishing, and civil society.

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### Liberty Is Paramount


Overall, a world in which entrepreneurs are praised for their virtues and creativity is a world of greater material and moral prosperity. It is a world in which moral virtues are present, but it is also a world which requires that liberty be seen as the paramount value of the political/legal order. Yet the basis for this is

a certain moral and cultural climate—namely, one that recognizes the moral imperative of each of us discovering and achieving his or her own unique form of human excellence, or flourishing.

This returns me to the poem with which I began. I received it from a man who was working at my grandfather's motel in the midwest community of Council Bluffs, Iowa. I remember that the man was a hard worker and had aspirations for becoming rich and fashioning a life that was his own. I also remember that his name was Steve and that he was not born in the United States. He had emigrated from Lithuania.

As far as Steve was concerned, the United States of America was the greatest country on earth because it was based not on virtue, not on religion, not on ethnicity, nor on a history or national character. No, it was

based on what the lady in the New York harbor represented to him and the world. It was based on liberty; and this was all that any person should want, need, or expect.

As I consider the decline of liberty in the United States and what appears to be its moral and economic deterioration as well, I like to remember that a man from Lithuania gave me the poem called "My Creed." This reminds me that the ideals expressed in this poem are not the property of some people who inhabit a particular location, but are ideals for any and every human being. Finally, this reminds me further of one of my favorite statements. It is from Benjamin Franklin—an entrepreneur, a Founding Father of the United States, and a man who lived a great part of his life outside of the American continent. He said: "Where liberty dwells, there is my country." 

## ***The Invisible Hand and the Entrepreneur***

The aim for which the successful entrepreneur wants to use his profits may well be to provide a hospital or an art gallery for his home town. But quite apart from the question of what he wants to do with his profits after he has earned them, he is led to benefit more people by aiming at the largest gain than he could if he concentrated on the satisfaction of the needs of known persons. He is led by the invisible hand of the market to bring the succour of modern conveniences to the poorest homes he does not even know.

—F. A. HAYEK  
*Law, Legislation and Liberty, Vol. 2*

## A Supreme Court to Be Proud Of

BY LAWRENCE W. REED



In the closing months of the current U.S. Supreme Court session, pundits of every stripe will be assessing the impact of recent changes in the Court's composition. If the justices themselves are interested in how they measure up, there may be no better standard than the Court's record under Chief Justice Melville W. Fuller.

It's a sad commentary that in the mainstream media, courts are tagged with such confusing and superficial labels as "conservative" or "liberal"—terms loaded with political baggage and often manipulated by those with an ax to grind. I prefer more clarifying questions: Does a court interpret law or manufacture it? Does it apply the Constitution according to what its text says or is it willing to abandon it to accommodate current whims, trendy ideologies, or alleged "needs" of the moment? Were our liberties more or less secure after it did its work?

The Fuller Court, encompassing a parade of justices who came and went during Fuller's 22 years as chief, was not consistent on all counts. But unlike any subsequent Court, it stretched neither the law nor the Constitution beyond what the words say. When it found law to be in conflict with the Constitution, it usually sided with the latter because liberty under the rule of law was its highest priority. It upheld the importance of a limited federal role, strengthened the role of the states in our federal system, and defended contract and property rights against a rising tide of egalitarian agitation.

Melville Weston Fuller was born in Augusta, Maine, in 1833. Both sides of his family were staunch Jacksonian Democrats—hard money and a small federal government being foremost among the principles they embraced. After graduation from Bowdoin College in 1853, Fuller was admitted to the bar in 1855. A year later

he started a successful law practice in Illinois, where he would reside until his elevation to the Supreme Court by President Grover Cleveland in 1888.

As a one-term Democratic legislator in Illinois's lower house in 1862, Fuller condemned the Lincoln administration's arbitrary arrests, suspension of habeas corpus, and other wartime indiscretions as assaults on liberties guaranteed by the Constitution. He opposed both secession and slavery, but didn't believe in quashing dissent and due process to vanquish them. As a Democratic activist and adviser to candidates for national office, he opposed protectionism as special-interest legislation that hurt consumers. He decried irredeemable paper money as a form of theft and fraud, even voting to forbid the Illinois treasury from receiving greenbacks as payment for state taxes. He scrutinized public spending for waste and favoritism, once earning the wrath of his colleagues by publicly opposing (unsuccessfully) a bill to give gold pens to each member of the Illinois House.

In what biographer Willard L. King terms "the greatest public speech of his career," Fuller seconded the 1876 nomination of Indiana's Thomas Hendricks for president in unmistakably Jeffersonian terms: "[T]he country demands a return to the principles and practices of the fathers of the Republic in this the hundredth year of its existence, and the restoration of a wise and frugal government, that shall leave to every man the freest pursuit of his avocation or his pleasures, consistent with the rights of his neighbors, and shall not take from the mouth of labor the bread it has earned."



Melville Fuller (1833–1910)

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The 1876 Democratic Convention nominated Samuel Tilden instead of Hendricks, but many Democrats around the country remembered Melville Fuller. One of them was Grover Cleveland. The last Jacksonian Democrat to hold the highest office, Cleveland wanted a chief justice with an unblemished record of integrity who not only shared his limited-government philosophy but was also a good business manager who could fix the three-year backlog of cases at the high court.

Fuller, 55, who had argued many cases before the Supreme Court over a 16-year period, was precisely what Cleveland was looking for. The President admired the fact that in his visits and meetings with Fuller, the Illinois lawyer had never asked him for anything, even turning down three high posts within the administration. And he had taken considerable public heat in defending the President's hard-money stance and his numerous vetoes of spending bills. To thwart a possible decline by Fuller, Cleveland announced his nomination before Fuller even gave his consent. He was literally dragged into an office for which he didn't lust but in which he quickly distinguished himself as one of its most able and important holders.

Fuller charmed his colleagues on the Court with his good humor, thoughtful scholarship, and remarkable capacity for friendly persuasion and mediation. He began a custom still in use today of requiring each justice at the start of a working day to shake the hand of every other justice. He resolved the Court's crowded docket.

The Fuller Court should be most admired, however, for its jurisprudence. Certainly Americans who share the Founders' vision can find much about it to applaud. Fuller himself was at the center of it, often arguing for the majority.

When freedom of commerce was at issue, the Fuller Court did not carelessly allow governmental interference. For example: Prohibitionists in Iowa secured passage of a law forbidding the sale of an interstate shipment of liquor, but the Court, with Fuller himself writing the majority opinion, declared it an unconstitutional violation of the Commerce Clause.

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## Restricted Sherman Act

In other commerce-related rulings, the Fuller Court restricted the application of the almost incoherently broad language of the Sherman Anti-Trust Act. Regulating the terms of interstate commerce and transportation, as the Constitution provided for, was one thing, but federal meddling in manufacturing and production was quite anathema to Fuller and most of his colleagues. It was left to later Courts to distort the Commerce Clause and justify federal regulation of virtually every corner of the economy.

The Fuller Court staunchly defended the sanctity of contract by treating it, in the words of James W. Ely, Jr., a Vanderbilt University law professor and biographer of the Court, "as the controlling constitutional norm." It resisted

attempts at congressional price- and rate-fixing. It once unanimously threw out a Louisiana law that prohibited a person from obtaining insurance from a company that was not qualified to do business in that state. Its feelings in this regard were summed up in another ruling in which the majority declared that "The legislature may not, under the guise of protecting the public interest, arbitrarily interfere with private business, or impose unusual and unnecessary restrictions upon lawful occupations." Likewise, the Court was far

friendlier to property rights in eminent-domain cases than the recent Supreme Courts.

One of the finest moments of the Fuller Court was its rejection in 1895 of a federal income tax passed the previous year. Pleas that Congress needed the money, class warfare, and egalitarian claims against other people's wealth carried little weight with this Court. The Constitution forbade direct taxation of that kind, and that was enough to ditch it.

Melville Weston Fuller never succumbed to the temptations of power and ego or discovered vast new constitutional duties for the Washington establishment to inflict on the people. He and most of his colleagues actually took seriously their oath to defend the supreme law of the land, a notion that seems sadly quaint in an age where sweeping judicial activism is a mainstream law-school principle.



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# Broadband: A Basic Right?

BY MAX BORDERS

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It's 2006. You really want broadband high-speed Internet connection, but you live in a small American city with a population of 100,000. So the broadband providers have decided it would not be profitable to come to your town at this time. What do you do? First, get mad. Then, form an interest group. Finally, lobby your municipal government until it provides the service for you.

Such is basically the tale of Lafayette, Louisiana, and it reflects what to many is a disturbing trend of municipalities offering broadband as if it were a public utility like water or sewerage. The story, now known as "The Battle of Lafayette," also reveals the symptoms of "demosclerosis"—Jonathan Rauch's term for government failure due to rapacious special interest.

We tend to associate what economists call "rent-seeking" with Washington, D.C., where parasites stand to gain by lobbying for either anti-competitive regulation or subsidies. Benefits accrue to only a few groups: those on whose behalf the lobbyists are working, the politicians (in the form of perquisites and happy district constituents), and the lobbyists and lawyers themselves. The costs are spread thinly over the rest of us in the form of higher taxes and/or a dead-weight loss to the economy.

But Washington has no monopoly on rent-seeking. At the municipal level its consequences can be dire. The concentrated benefits and dispersed costs are more difficult to mask when you're talking about a hundred thousand people versus three hundred million.

Parasites? Isn't that a little unfair? After all, the people of Lafayette have legitimate concerns. They want to develop—that is, to keep up with the rest of the country technologically lest they be left behind. As they see it (and by "they" I mean the town council, the folks demanding broadband, and the government-controlled public utility), a \$135 million investment is an investment in *infrastructure*—something that should be considered a public good for the people of Lafayette. They had been perfectly willing to let so-called "incumbents" (BellSouth and Cox Communications) come in and provide this good at a reasonable price. But Big Telecom didn't. Therefore, shouldn't the people of Lafayette have a right to connect more quickly? Shouldn't they have broadband too?

The unfortunate aspects of this view are manifold. First, it fails to take into account the wider implications of municipalizing broadband (to which we'll turn in a moment). Also, some of the best and brightest technologists on earth are behind these efforts, giving folks the impression that brilliant coders know what's best for the economy simply because they might have worked on protocols for the Internet. But more unfortunate still is that the Lafayette scenario could set a precedent for other municipalities to work under the mistaken notion that government-owned and government-operated broadband is a good idea.

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Intellectual honesty check: shouldn't we wonder why Big Telecom didn't come to Lafayette? Some say these companies are driven only by their lust for profit. Yes. But the better answer is that it was cost-prohibitive. In other words, no one thought he could do it without operating at a loss. If anyone in Lafayette really thought he could make money providing broadband, why didn't he seize the entrepreneurial opportunity rather than see broadband as a good that should fall like manna from heaven or from the Lafayette Utility Service?

The Citizen's Action Committee for Fiber-Optic Broadband (or whatever) knew exactly what Cox and BellSouth knew—that broadband in Lafayette was a losing proposition. Despite however many "market studies" the government and Chamber of Commerce can trump up, the proof is ultimately in the unwillingness of Cox and Bell South to move into the Lafayette market. Thus the only way for the interest group to get what it wanted was simply to take it from other citizens.

Lafayette isn't walking this road alone. Other towns are doing it. And they've got the beginnings of a D.C.-sized interest group forming behind them as I write. In fact, the demand for immediate universal broadband was the dominant theme at the recent Freedom to Connect (F2C) conference in Washington. (Don't be confused by the name. "Freedom to Connect" is a freedom in the same way that a "right to health care" is a right.) The "monopolists and duopolists"—goes the story—have priced most people out of the market. And the gross disparity between the broadband haves and have-nots is due to the profit-seeking behavior of the usual suspect—Big Telecom. So for adherents of the open-access movement to be "free to connect" amounts to varying degrees and means of broadband socialization. Here are a few of those proposed means:

- Encourage municipalization of broadband, exemplified by the Lafayette case. (In other words, allow local governments to begin entering the market.)
- Change the FCC's framework from regulating the entire telecom service to focusing on companies' hori-

zontal layers, for example, content, application, network, or physical infrastructure.

- Use tried-and-true trust-busting in court.
- Appeal to legal precedents like "nondiscriminatory" rules, such those used against railroads and seaports over a century ago, which forced property owners to lease their services to all comers. (The recent Brand X decision by the Supreme Court protected cable companies from being forced to open their lines to broadband competitors.)

Curiously, all these nostrums are suggested in the name of greater competition.

But we should step back and ask: what creates big broadband duopolies? Sometimes it's simple economies of scale. If you want a big, expensive project done, you need a big, expensive company to do it—of which there are not many. Barriers to market entry for smaller com-

panies often come simply in the fact that the initial capital investment is too big. Even if we overlook other barriers to entry created by the current regulatory regime and costs such as city fees, we still have an expensive venture in building a broadband infrastructure. Entrepreneurs in Lafayette know this. But since the municipality will act with taxpayer money and spread both the risk and the costs over its citizenry, it won't have to behave according to pesky market laws.

As in many other efforts to save the world by distorting the laws of supply and demand, advocates of "open access" say that within the United States there are a number of "digital divides," between rich and poor, between urban and rural, and between white people and certain minorities. To bridge this divide, government must take action. To illustrate this, they go on to cite broadband-access rates in other countries to show that U.S. per capita broadband access is lagging. (My own statistics come from the Congressional Budget Office.)

So why aren't the rates greater in the world's richest nation? The reasons are numerous, but require only a modicum of common sense. Consider the size and population density of the United States. Now consider the

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The demand for immediate universal broadband was the dominant theme at the recent Freedom to Connect (F2C) conference in Washington.

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size and population density of the world's broadband leader, South Korea. The economies of scale for offering broadband to every person in South Korea are considerably different from those in most of the United States.

According to CountryStudies.us, "South Korea was one of the world's most densely populated countries, with an estimated 425 people per square kilometer in 1989—over sixteen times the average population density of the United States in the late 1980s." One will find that other, more-densely populated and culturally homogenous countries are "ahead" of the United States in Internet access, since (naturally) it's cheaper and less risky to invest in broadband infrastructure in densely populated areas.

Even in a large country like Canada (said to rank number 2 in the world behind Korea in broadband adoption), 90 percent of the Canadian population lives within 100 miles of the U.S. border, government broadband subsidies notwithstanding. Again, common sense says that as the technology matures and as the price goes down, access rates will increase—even into the thickets of rural America and the public-housing blocks of Detroit.

## Why the Divide?

Great. But why is there a broadband divide between ethnic groups in the United States? Aren't poorer people priced out of the market by monopolists? Or is it creeping racism? Maybe. But if such were true, wouldn't people similarly be crying foul about other divides?

With other technologies, divides hardly exist, if they exist at all. Consider mobile phones, which are comparably priced to broadband connections on a monthly basis. What about videogame consoles? Aren't Xbox and Playstation the products of a duopoly? Television sets, cable, and DVD players? Again, divides here are virtually nonexistent. Why the difference?

The reason may be that people place different values on these things, and those values can be an ethnic and cultural phenomenon. As unfortunate as it may be to middle- and upper-class America, a family in the inner city may place greater value on a Playstation or a cell phone than on broadband. Someone living in a rural area may be more likely to invest in a satellite dish than

an Internet connection. We all face opportunity costs.

We can't assume that a bar graph about broadband access can tell us anything other than what groups of people are more or less likely to value. "Well," one might say, "they *ought* to value broadband because it can provide so many more opportunities for them." Fortunately, markets don't work by what intellectual elites think people should have.

And what about the satellite dish? Isn't this another example of a competitive technology that filled the void in the lives of rural people that cable was unable to fill? Given another year or so, analogous technologies will begin to fill any broadband void that might be out there—*especially* if the U.S. government will let go of more of the spectrum.

The speed of innovation is blinding. Before World War II, Stalin built state-of-the-art factories in Russia. By the time the Soviet Union collapsed in the 1990s, the people of Russia were still using post-World War II factories. The point is that government projects are notoriously bad at keeping up with the pace of technological change.

Have you ever heard of Minitel? If so, probably only as the butt of a techno-geek's joke. Minitel was the French government's proto-Internet—a communication device designed for use by every French citizen. Of course, Minitel was soon forced into virtual obsolescence by the Internet and arguably never paid itself off (even by the standards of state utilities). The mantra of the tech market is: Better. Faster. Cheaper. Now say it again fast.

The irony in all this is that for the Louisiana case, poor, hard-working taxpayers will have to shoulder much of the burden to subsidize the more well-to-do people of Lafayette who want broadband. There are some vital questions the city leaders should be asking: Are we making the best possible use of other people's money? Given a finite set of tax revenues, are there more important things that we could be investing in? Is the water clean? Are the police and firemen adequately equipped? Are we going to hang the town on too risky a venture? If the city is wrong about this broadband bet, Lafayette can kiss sewage treatment and police cruisers goodbye.



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# Economics and American Health Care

BY KIRBY R. CUNDIFF

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Americans spend more money on health care than any other country in the world, and despite most having health insurance, many are pushed into bankruptcy because of their health-care bills.<sup>1</sup> Americans are told they have the best medical system in the world, but they have fewer medical resources than most of the 30 member countries of the Organization for Economic Co-operation and Development (OECD). For example, in number of nurses per thousand of population, the United States ranks 18th and in number of acute-care beds it ranks 23rd. It is clear that Americans are not getting their money's worth.<sup>2</sup>

The modern American health-care system has its roots in World War II. As part of the war effort the U.S. government imposed wage and price controls on its citizens. It was illegal for American employers to compete for scarce employees by offering them better salaries, so employers came up with a new concept—we now call it the “benefit.” One such benefit was health insurance. When the IRS realized what was being done, it ordered that this benefit be taxed. But that regulation was countermanded after a backlash from voters resulted in congressional legislation. The pre-tax benefit was born.<sup>3</sup>

As the system is structured, if employers pay for their employees' insurance, they make the payments with pre-tax dollars. If employees pay for their own health insurance, they do so with post-tax dollars—an extra 30 percent expense for the typical American taxpayer. As a result, most employers buy for their employees insurance

that covers not only catastrophic illness, but also lesser medical expenses. This is the equivalent of people buying auto insurance for oil changes. Since employers pay for most of their employees' medical expenses (or appear to be doing so), employees have little incentive to shop around and control health-care costs; demand for health care is not very price sensitive. Sometimes employees pay into a pool that is then used to cover the company's

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Americans spend more money on health care than any other country in the world. It is clear that they are not getting their money's worth.

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medical bills, but the result is the same. A third party is responsible for most patients' medical bills. This is one of the reasons health-care costs have increased so drastically in the United States since World War II.

Another reason for increases in health-care costs is the creation of Medicare and Medicaid in the 1960s. Again due to third-party payments, eligible Americans could demand health care at someone else's expense.

There is little incentive for patients to be sensitive to cost in their health-care demands.

The percentage of health-care expenditures covered out of pocket has decreased from about 65 percent in 1950 to 55 percent in 1960 to 40 percent in 1970 to only 15 percent in 2002.<sup>4</sup> During the same period, health care has gone from absorbing only about 4.5 percent of GNP in 1950 to 5 percent of GNP in 1960 to 7 percent of GNP in 1970 to about 15 percent of GDP in 2002.<sup>5</sup>

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This expense increase can be seen explicitly by looking at physicians' salaries. In 1940, in inflation-adjusted 2004 dollars, the mean income for American physicians was about \$50,000, or a little over 6 times U.S. per capita GNP. By 1950 this had increased to about \$100,000, or 6.5 times U.S. per capita GNP. By 1960, physicians' mean net income had increased to \$150,000, or 8 times U.S. per capita GNP, and by 1970 to \$200,000, or somewhat over 8.5 times U.S. per capita GNP.<sup>6</sup> In the 1960s there was much more demand for physician services thanks to Medicare and Medicaid, but little change in the number of physicians, and doctors no longer needed to worry as much about charity cases—the government would pick up the tab.

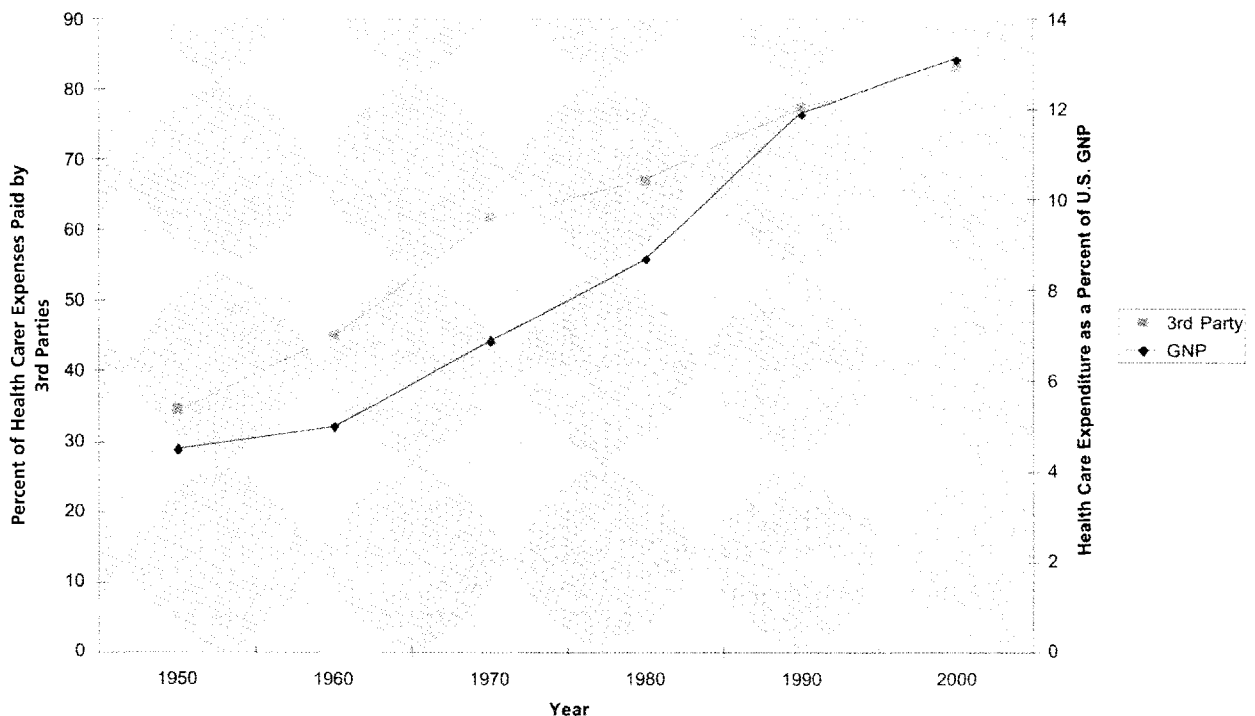
With this massive increase in physician incomes, many more Americans chose to attend medical school. The number of physicians in the United States increased from about 1.5 per 1,000 in both 1950 and 1960 to 1.7 in 1970 to about 2.5 in 1995.<sup>7</sup> Physicians' salaries continued to increase in the '70s, '80s, and '90s, but not nearly at the same rate as in the 1960s. Today physicians'

salaries are around \$205,700 which is only about 6.0 times the U.S. per capita GNP.<sup>8</sup> The American Medical Association (AMA) responded by trying to control the supply of doctors, claiming there was a "doctor glut."<sup>9</sup> In 1997 the U.S. government's Federal Health Care Financing Administration responded by paying some medical schools not to produce doctors.<sup>10</sup>

A common justification for high physicians' salaries is the financial investment and the number of years of medical school, but doctoral degrees in the liberal arts take as much labor as medical degrees and many Ph.D.s in the liberal arts cannot even find employment. What determines salaries is supply and demand, not the labor that goes into developing a skill or product.

While the United States has more lawyers per 1,000 population than any other country, it has fewer doctors than many other countries. As of 2001 the United States had about 2.4 physicians per 1,000 population. France and Germany had 3.3, and Switzerland had 3.5. Most of the major western European countries have more doctors than the United States, but the United

**Health Care Expenses Paid by 3rd Parties and Health Care Expenditures as a Percent of U.S. GNP vs. Year**



States has more than Canada, which only has 2.1 doctors per 1000 population.<sup>11</sup> Physicians' salaries in Europe are generally significantly lower than those in the United States, but it cannot be said that countries with more doctors generally have lower physicians' salaries.<sup>12</sup> Medical services are heavily regulated, and the normal laws of supply and demand do not seem to completely apply.

Another common method for limiting competition in health care is the Certificate of Need program. "The Certificate of Need (CON) program is a regulatory process that requires health-care providers to obtain state approval before offering new or expanded services or making major capital expenditures. . . . The program prevents unnecessary duplication of services by selecting the best proposal among competing applicants who wish to provide a particular health service."<sup>13</sup> The claim is that multiple businesses offering the same service in the same area, also known as competition, drives up costs.<sup>14</sup> The pharmaceutical industry uses tactics similar to the AMA's to limit competition and keep profits high. For example, it lobbies to prevent the importation of less-costly drugs from Europe and Canada under the claim that "Canadian drugs are unsafe."<sup>15</sup> Many of the "unsafe" Canadian drugs are the same drugs that are produced in the United States.

### Not Malpractice Insurance

Despite what many people think, the primary cause of high health-care costs in the United States is not medical malpractice insurance, though it may be a problem in some states and some specialties. As of 2000 the mean liability premium for all physicians was \$18,400 per year. This is a large amount, but only about 9 percent of the mean physician net income of \$205,700 per year. That is significantly higher than the liability premium in the early 1970s, which was only about 2 percent of

mean physician net income.<sup>16</sup> The highest liability insurance premium is in obstetrics/gynecology, at \$39,200, but this is still only 17 percent of the mean net income of \$227,000. The growth rate in malpractice insurance premiums for the last ten years has been about the same as the growth rate in physicians' salaries. Malpractice liability insurance premiums have increased by only about 1 percent per year for Ob/Gyn and at about a 2 percent annual rate for all physicians. The annual increase in physicians' salaries has been about 2 percent per year for the same period.<sup>17</sup> Since someone making \$200,000 a

year generally pays over \$60,000 a year in taxes, it would be far more appropriate to say that taxation is responsible for high health-care costs.

A common solution that is proposed for America's health-care problems is socialized medicine, but wherever national health insurance has been tried, rationing and long lines have followed.<sup>18</sup> Single-payer systems are now being abandoned by many of the countries that have tried them. Recently Germany and Spain began selling state-owned hospitals to for-profit companies to raise money and increase efficiency,<sup>19</sup> and last June the Canadian Supreme Court struck down two provincial laws in Quebec banning private health care and private insurance. According to Chief Justice Beverley McLachlin and Justice John Major, "The evidence in this case shows that delays in the public health-

care system are widespread, and that, in some serious cases, patients die as a result of waiting lists for public health care."<sup>20</sup>


What will cure America's health-care problems is the free market. A patient can easily walk into a store and buy a bottle of aspirin, an over-the-counter drug, for less than \$10. To get a prescription drug, the patient must get a doctor's appointment, wait an hour at the doctor's office, and then wait in line at a pharmacy to get the drug. This process will probably cost the insurance company about \$100 and the patient about \$30 in co-pay-

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If employers pay for their employees' insurance, they make the payments with pre-tax dollars. If employees pay for their own health insurance, they do so with post-tax dollars—an extra 30 percent expense for the typical American taxpayer.

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ments. In some circumstances, the patient may then get bills from the doctor's office and the insurance company for the next six months, as the parties argue over who pays what fraction of the expense. This is true even if the patient gets regular sinus infections and takes the same drugs every year. If the patient could buy drugs over the counter, the change would save money and time for both the patient and his employer.

Moreover, if people could buy their own health care and insurance pre-tax, they would have an incentive to shop around for the cheapest services. They would most likely be more interested than their employers are in the quality of their insurance. If patients could buy pharmaceuticals from whatever source they, not the government, deemed safe, competition would drive down drug costs. If patients could seek, and pay for, the advice of biology researchers, nurses, or whomever they trusted, rather than being forced to go to government-licensed physicians, they would save money and time. Were America's health-care system fully deregulated, the supply of doctors, as well as pharmaceuticals would increase, demand for health-care services would decrease, and that demand would be more price-sensitive. Health-care costs would go down, and the quality of health-care service would go up. 

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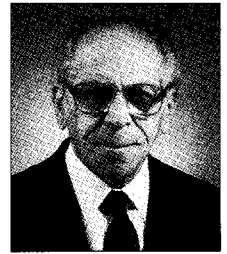
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## Psychiatry: Disease Inflation

BY THOMAS SZASZ



In his classic, *The Economic Consequences of the Peace* (1920), John Maynard Keynes observed: "Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

Debauching disease, the currency of medicine, is an even more insidious and more powerful means of overturning the moral and legal basis of modern society. This is a consequence of the fact that, in modern societies, the definition of disease is a state monopoly, the dispensing of medical care a state responsibility, and the receipt of medical services an "entitlement" of the citizen-patient. Willard Gaylin, cofounder and president of the prestigious bioethics center, the Hastings Institute, and professor of psychiatry at Columbia University College of Physicians and Surgeons, explains: "Hatred is not an entitlement like health care. It is a disease like tuberculosis. It may infect others, but it inevitably destroys the hater, diminishing his humanity."

Gaylin, one of America's pre-eminent "medical ethicists," takes for granted that health care is an entitlement and asserts that hatred is a disease that diminishes the hater's "humanity." The assertion is plainly false. Hatred, like love, increases rather than diminishes the subject's humanity, making him more wicked or more virtuous, as the case may be. It is the absence of these emotions under appropriate circumstances that we regard as inhuman.

Science is synonymous with materialism and with objective standards of measurement. The term objective here means fixed in terms of some fact of nature, not

alterable by personal caprice or political power. Familiar examples are the speed of light in natural science, the gold standard in economics, and the pathological standard in medicine. It is axiomatic that there can be no scientific investigation or scientific theory of nonmaterial "entities," such as hate, racism, and anti-Semitism, now often said to be diseases. Yet, addressing the concept of disease, prominent medical scientists and prestigious publications regularly ignore, overlook, and obscure that we use the concept of disease both as a value-neutral sci-

entific term to describe and explain aspects of the material world, and as a value-laden ethical term to identify, excuse, condemn, and justify (non-material) human aspirations, laws, and customs.

Prior to the nineteenth century, the "scientific" concept of disease was an imbalance among the four "humors," and blood-letting, emetics, and purgatives were the most important forms of medical treatment. So-called humoral imbalance was a (pseudo)explanatory fiction. It could not be observed, much less measured. The same is true for

today's "chemical imbalance," said to explain the nature (cause) of mental illnesses.

Only after considerable struggle did the unobservable humoral standard of disease yield to the observable pathological standard. Following the publication in 1858 of *Cellular Pathology as Based upon Physiological and Pathological Histology*, by Rudolf Virchow (1821–1902), the standard scientific measure, or "gold standard," of disease became bodily lesion, objectively identifiable by anatomical, histological, or other physico-chemical observation or measurement.

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A related watershed event occurred in 1869, when the Russian chemist Dimitri Mendeleev (1834–1907) published his paper “The Relation between the Properties and Atomic Weights of the Elements,” the first formulation of the Periodic Table of Elements. This scheme provided not only a precise identification of all the then-known elements, but also identified elements not yet known but the existence of which could be predicted by Mendeleev’s epochal insight.

Gold as a monetary standard, the Periodic Table as a classification of elements, and disease as pathological lesion are examples of ordering an aspect of our world, natural as well as social, by objective criteria, *independent of human desire, moral judgment, or political power*. The items so ordered are among the most important things in our everyday lives, touching on religion, medicine, drugs, law, economics, and politics. Organizations and persons aspiring to exercise control over our personal lives—church and state, politicians and physicians—have always experienced, and continue to experience, independence from them as an impertinence, an interference with their “sacred duty” to govern, rule, and “do good.”

From the early days of modern scientific medicine in the mid-nineteenth century until World War I, medical theory and practice were independent of the state. During the following two decades, political control of medicine remained relatively minimal, except in the Soviet Union and in Germany after 1933. After World War II the distribution of medical services throughout the developed world was transformed from a capitalist to a socialist system: the source of the physician’s income shifted from the patient to the government or a government-regulated insurance system. *Pari passu*, medical research, the definition of disease, and the classification and control of drugs became politicized. One result was that more and more “problems in living”—from smoking to obesity to the unruliness of children and unhappiness of adults—became defined as diseases, and more and more drugs were removed from the free market and made available only to persons diagnosed as ill and called “patients.”


People, we must remember, have always used drugs—alcohol, opium, cannabis, cocaine, tobacco—to cope with life. Under the new medical-socialist regime, many of these and other drugs became available to persons only by prescription, and physicians can write prescrip-

tions for them only for persons diagnosed as ill. Not surprisingly, the result is an epidemic of mental illnesses throughout the Western world, especially in the United States.

## Medicine and Metaphor

Medical practice is based on science and makes use of scientific technology, but is not a science: it is a type of human service, the content and delivery of which are shaped by economic, ideological, religious, and political interests, and by fashions. Medical science, on the other hand, is a part of the body of science: it is concerned with the empirical investigation of the material world by means of precisely defined methods and measures, rigorously applied. In the delivery of medical care, insistence on precision and rigor is condemned as intolerance, lack of compassion, and rigidity. The irreconcilable conflict between the need for precision and rigor in science and the need for flexibility and compassion in providing medical care is reflected in our current nosology—lumping together uremia and schizophrenia, anemia and addiction, diabetes and depression—as “diseases” belonging in the same “natural” class. This is disease inflation, pure and simple.

A government committed to a gold monetary standard cannot create money by means of printing presses and defining the product as the sole legal currency. Absent the gold (or another commodity) standard—under a fiat paper “legal tender” standard—the government can and does do just that. The same goes for disease. A medical profession and government committed to the “gold” pathological standard of disease cannot create new diseases by attaching disease names (diagnoses) to unwanted behaviors. Absent the pathological standard—under a fiat “medical model” standard—countless metaphorical illnesses have become legally defined and popularly accepted as real diseases. Every one of them entitles, perhaps even obligates, physicians to write prescriptions for them.

In the scope of a few centuries Western societies were transformed from theocracies to democracies and then to pharmacracies, that is, therapeutic states. In such states deprivations of liberty are rationalized as health measures, imposed by medical authorities, and perceived as disease prevention or medical treatment. 



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# Freedom and the Hotel: The Lessons of the St. Nicholas and Statler

BY DANIEL HAGER

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Imagine you were a commercial traveler of a century ago. Life would consist of endless hardships, wouldn't it? Primitive transportation, primitive lodgings, primitive food service. A grungy daily grind, to be sure.

But that picture is inaccurate. The hotel industry was in the midst of a transformation whose legacy is still evident today. This progress was a classic case of free-market responses to perceived economic opportunities.

It was occurring during the so-called Progressive Era, which ostensibly embodied the belief that governments must clamp down hard on business to prevent it from damaging "society." Today that dogma is widely taught and accepted. A brief view of hotelkeeping in the early 1900s can serve as an antidote to contemporary misrepresentations.

The pages of a trade magazine, *The Hotel Monthly*, depict vividly the industry's fast-changing nature. Editor John Willy acknowledged in "A Tribute to the Traveling Man" (April 1906) that this life did indeed entail hardships. He wrote, "We see him waiting in dingy, dirty, uncomfortable depots for trains that are hours late . . ." Part of the problem was the coal-fired steam locomotive, which by its nature belched smoke even in the confines of large depots. Soot was a fact of travel life at that time. And without the availability yet of self-operated vehicles, travelers had to adapt to schedules directed by others, just as "mass transit" forces that inefficiency on users today.

The railroads, by supplanting the rudimentary land-transportation system of stagecoaches and wagons and

often impassable roads, fostered the mass distribution of goods throughout the American hinterland. Trade expanded. New wealth was created. Even in remote villages, residents gained access to merchandise formerly enjoyed only in urban centers.

On the front lines of this development were the ubiquitous commercial travelers, the derby-hatted "drummers," as they were colloquially called. They fanned out across the railroad network lugging their huge trunks full of sample wares to show local merchants and manufacturers. To accommodate them, hotels sprang up in the decades after the War Between the States, even in towns as small as two thousand. The hotels featured "sample rooms," where drummers could set up expansive displays of their goods.

In the early days their living accommodations were not much improved from the 1830s, when "in the leading hotel in New York . . . slops from the rooms were carried to the street and emptied in the open gutters" (John J. Bohn, quoted September 1905). The guest washed from a bowl of water poured from a pitcher. For other functions there was either a chamber pot under the bed or a privy out back. The bed itself might be little more comfortable than the board floor.

Although many city hotels in the 1870s and 1880s offered improved services—such as the McLure House in Wheeling, W.Va., a prosperous river port and railroad



E.M. Statler

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center—the bathless “average country hotel” of the ’80s still had “its toilet room in the back yard” and provided “cheerless rooms and husk mattresses infested with *Cimex lectularius*” (Henry J. Bohn, quoted November 1909).

Competition prodded many hotelkeepers to upgrade their establishments, but some who held monopolies in their small towns were unresponsive. They paid the price, according to Willy, noting that “where the accommodations are miserable . . . [the traveling man] may kick; and sometimes he does kick; but more often he makes a quiet mental note to give the house of poor accommodations as little of his patronage as he possibly can, and to arrange his route to give as much of his time as he can to the house that studies his comfort” (April 1906).

One feature of improvement in the late 1800s was steam heat. Standard practice previously was an extra charge for a stove fire in the room or out in the hall. Then some hotels began offering free steam heat, Willy wrote, and the laggard landlord “had to either have fires or put in a steam heat plant and furnish free heat, to keep his trade” (February 1907).

In the 1890s, he added, “hot and cold running water in the rooms was seldom found; now, practically all the new houses that are built have this desirable feature as a matter of course” (February 1907).

A Decatur, Illinois, *Review* reporter traced additional developments in an article on that city’s St. Nicholas Hotel. He wrote:

Steam heat came and everybody had warmth. Then it was necessary to go on and get something else. The bath was ordered as an extra. People on the road got to learn that the bath was more than a luxury, that it was something they needed. After a little while they got the bath habit, and once contracted it can never be shaken. There are now many men on the road who would rather pay extra money for a bath than for flourishes on the table. The result now is that at least a third of the guests call for a room with a bath. . . . [T]he best rooms are always sure to go first.”

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## Electricity was a revolutionary technology for hotelkeepers.

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The change had been remarkable: “Old patrons of the house will call for a room with bath, and if they cannot get one they will even go to some other place and hunt one. Some of the same people fifteen years ago hardly thought it worth while to order a fire” (quoted June 1905).

Electricity was a revolutionary technology for hotelkeepers. Willy titled his report on a visit to Western Electric Company’s 6,000-worker Chicago-area factory “Electricity, the Most Useful Hotel Servant” (August 1908). “Incandescent electric lights are now in universal use,” and “Now nearly every hotel of importance has telephone in every room” (February 1907). Still air was stirred by electric fans. Down in the kitchen a host of appliances could be plugged in, including the modern mechanical dishwasher.

Willy launched into grandiloquence over the recent advances in lodging facilities: “The great hotelkeepers of America have been characterized as ‘Captains of Creators of Creature Comforts’” (February 1907).

## Higher Rates Too

With the added comfort features came higher room rates. Rising prices in other business sectors also led to an apparent “increased cost of living,” Willy noted. Actually, he pointed out, consumers were getting more for their money than ever as “a thousand and one luxuries undreamed of fifty years ago” had become “common and considered necessities: if we could get along with the simple requirements of fifty years ago, the cost of living would be decreased to probably half of what now prevails” (March 1908).

Meanwhile the entrepreneurial spirit was restlessly at work seeking to reduce costs and prices. The era’s chief hotel genius in this regard was Ellsworth Milton Statler (1863–1928), whose life is recounted in an authorized biography by Floyd Miller, *Statler: America’s Extraordinary Hotelman*. E. M. Statler grew up in Bridgeport, Ohio, across the Ohio River from Wheeling. He went to work at 9 years old, feeding a fiery oven in a glass factory, but became captivated by the glitter of the McLure House, where he nagged his way into a bellhop job at 13. At 14

he was head bellhop, at 16 night manager, at 18 chief clerk as well as lessee of its failing billiard parlor, which he turned into a moneymaker. From his teens he filled notebooks with ideas for implementing later in his own hotels. Already at 15 he understood the route to success under capitalism—serving customers well. A petty staff-stimulated argument led to a miffed guest's departure and prompted the youngster to write in his notebook, "The guest is *always* right."

After success with a massive temporary hotel at the 1904 Louisiana Purchase Exposition in St. Louis, Statler had enough capital for a permanent project. He chose Buffalo, where he still profitably operated a huge restaurant. He designed his 300-room hotel himself applying the best ideas from his notebook. It was the first in history to have a private bath in every room. He vertically stacked his rooms and placed bathrooms in each back to back served by a common shaft running from the bottom floor to the roof. Each shaft contained all needed plumbing and heating pipes and electrical conduits. Behind each bathroom mirror was a maintenance port. That efficiency and others from his fertile mind reduced construction costs so much that Statler developed a slogan that hit competitors like a thunderbolt: "A room and a bath for a dollar and a half." Other hotels with inferior accommodations were charging as much as three dollars a night.

He opened his hotel in January 1908, and the industry was never the same. Willy wrote the next year, "The new commercial hotels are now mostly planned for rooms with private bath" (June 1909). Travelers could

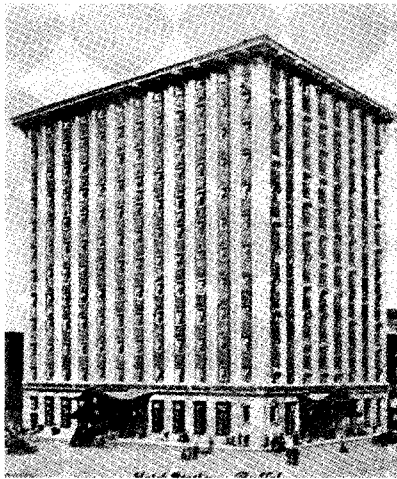
now live as well as at home if not better. The "Statler plumbing shaft" became a standard feature in building construction (*Statler*). Other hotelmen referred to him as "Statler the Startler" and invented a new verb, "to Statlerize."

As he expanded his chain to Cleveland, Detroit, St. Louis, New York, and Boston, Statler's intensive employee-training programs in customer satisfaction raised the standard throughout the industry. A plaque at Cornell University in Ithaca, N.Y., preserves a Statler quotation: "Life is service. The one who progresses is the one who gives his fellow men a little more, a little better service."

*The Hotel Monthly* provided a sharp contrast after American hotel owner Albert Pick Jr. visited the Soviet Union in 1957. He reported that hotels there were "overpopulated" with inefficient workers who "do not seem to be well trained." Hotel furnishings were typically "rather stark, cold and unattractive; the furniture was heavy." His party stayed at a five-year-old Moscow hotel with rooms furnished in an ornate nineteenth-century style in which "nothing goes with anything else."

Hotels lacked purchasing departments: "Management has no opportunity to negotiate price, quality or delivery date on any of its requirements. Instead, everything needed is requisitioned by the hotel from the state, and apparently the state decides what the hotel shall have." Even in the Moscow hotel, one of the city's best, "so far as the food and service go, it falls far short of what we are accustomed to in the average American commercial hotel" (December 1957).

What more needs to be said?



Buffalo Statler Hotel

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# The Immorality of Redistribution

BY HAROLD B. JONES, JR.

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It has been proposed that government assistance programs like prescription drugs should be provided only to those who earn less than a certain income. The fate of such a policy can be predicted from what has happened to Medicaid. Intended to provide medical care for the poor, Medicaid has become “inheritance protection for the children of well-off seniors.” No retirement plan is complete without a scheme for hiding assets and income in order to qualify for Medicaid. A means test for other benefits will lead to a vast expansion of the “elderlaw” industry and to ever-more ingenious schemes for concealing wealth.

Lord Bolingbroke said that history is philosophy taught by example. The philosophy behind Medicaid and its relatives is “to each according to his need,” and the history of these programs suggests this philosophy is badly flawed. Back when most of the American welfare state was still in the planning stage, Milton Friedman pointed to the nature of this flaw with two parables. The first told about three Robinson Crusoes, one who landed on an isle of plenty and the other two who found their struggle for survival difficult. The second parable was about the chance discovery of a twenty-dollar bill. In both cases, Friedman said, we might applaud the fortunate party if he chose to share his abundance, but in neither case would we be well advised to insist that he do so. “Are we prepared to urge on ourselves or our fellows that any person whose wealth exceeds the average of all persons in the world should immediately dispose of the excess by distributing it equally to all the rest of the world’s inhabitants? . . . [A] universal ‘potlatch’ would make a civilized world impossible.”

The principle of forcible redistribution, this is to say, does not allow for universal application. Friedman

meant only that human nature being what it is, redistribution schemes never work out as planned. He said they are impractical, but specifically refused to attack the ethical foundation on which they are built. Two centuries earlier, Immanuel Kant had said that, more than merely impractical, any principle that does not allow for universal application is fundamentally immoral. It is time to take another look at Kant and to consider what he would tell legislators who think they can solve social problems by taking the wealth of some and giving it to others.

Kant was born in Prussia in 1724, a year after Adam Smith was born in Scotland. His father was a saddler, and for all his life Kant displayed the commonsense attitudes of a small entrepreneur. His writing is filled with catchphrases he must have picked up at the family dinner table: “Contract no debt for which you cannot give security”; “be thrifty, then, so that you will not become destitute”; “be no man’s lackey”; “he who would like to eat bread should contrive a mill.”<sup>4</sup> Later in his life his best friends were businessmen, and he liked to use expressions he had picked up from them.<sup>5</sup> He describes one argument as particularly weak by saying it is like a merchant trying to “improve his financial state by adding a few zeroes to his cash balance.”<sup>6</sup>

He received his doctorate in 1755 and was allowed to lecture as “private teacher” (*Privatdozent*), which meant he had no official position but could earn as much as his students were willing to pay. Adam Smith, who had some familiarity with the universities of the time, said

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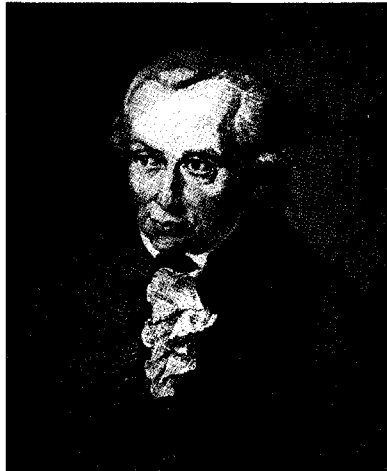
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that professors who could rely on a salary showed little concern for the quality of their lectures. The only ones who ever became good instructors were those who were entirely dependent on the fees paid by their students.<sup>7</sup> Kant fell into the latter category, mastered the art of teaching, and found his classes full.<sup>8</sup>

Kant was in fact something of an educational entrepreneur. The work of a *Privatdozent* tended to be less than highly remunerative; few could afford to engage in it without some other source of income.<sup>9</sup> Kant compensated by maintaining a careful budget and teaching a large number of classes. He could become quickly expert in any field he chose and therefore could talk about anything in which the people of Königsberg might be interested.<sup>10</sup> Economics was one the subjects on which he lectured,<sup>11</sup> and in *The Metaphysics of Morals* he specifically refers to Adam Smith.<sup>12</sup>

In 1770 Kant became a professor of philosophy at the University of Königsberg and began the work that made him famous. Up to this point his primary interests had been science and mathematics. Will and Ariel Durant have gone so far as to say that if he were remembered for what he did in the first half of his life, he would be remembered as a scientist.<sup>13</sup> After the publication of *Critique of Pure Reason*, his name became almost a synonym for philosophy.<sup>14</sup> The size of his achievement may be measured by the fact that of the 15 volumes in a paperback printing of Frederick Copleston's *History of Philosophy*, all of one volume and most of another are about Kant. Copleston, a Jesuit and an Aristotelian, devotes more space to Kant than to Thomas Aquinas and Aristotle combined.

Kant's famous and widely misunderstood theory of knowledge notwithstanding, he was not interested primarily in how we learn about external reality. His central concern was ethics. The question, "What can I know?" he said, was "merely speculative" and deserved attention only for the sake of two vastly more important queries: "What should I do?" and "What may I hope?"<sup>15</sup> He wanted to show that morality has a claim on us even in the absence of perfect knowledge.<sup>16</sup>



Immanuel Kant (1724–1804)

Kant said there are two ways in which we can learn about morality. First, we can watch what people do; he calls this the study of "practical anthropology."<sup>17</sup> If we take this approach, we soon find it is difficult to separate morality from the other factors that come into play. Two different people may be doing entirely different things, and both of them may seem to be getting away with it. Two societies following very dissimilar social policies may both be prosperous. Something may seem to work at one time but not at another. This is the problem that Ludwig von Mises refers to as "complex phenomena."<sup>18</sup> The threads of causation intertwine, and it is impossible to be sure about which is determinative for whatever we may be studying.

The other approach, and as far as Kant was concerned the only acceptable approach, was logical analysis. He wanted to do more, however, than simply abstract from the particulars and arrive at generalizations. The analysis of empirical data has its place, he said (remember his early career in science and mathematics), but it is a poor tool for the examination of ethical standards. Moral philosophy seeks to discover "what *ought to happen*, even if it never does happen."<sup>19</sup> (Even if experience has taught us that all men are liars, still we know we ought to tell the truth.) We can address the core issues of morality only by means of disciplined logic.<sup>20</sup>

### Law of Non-Contradiction

The indispensable tool is the law of non-contradiction. Every freely chosen behavior, Kant said, gives expression to some general principle. He referred to general principles of this kind as "maxims." He said that if the maxim underlying a particular action could be universally applied, the action is moral. If a universal application of the underlying maxim would run into the law of non-contradiction, the action is immoral. Thus Kant's Categorical Imperative is to act only according to maxims that can be universally applied.

Suppose, for example, that I am having financial difficulties and know I can gain some relief by writing a bad check. The underlying maxim is that it is acceptable

to write checks even if one knows the money in one's account is insufficient to cover them. If everyone were to live according to this maxim, merchants and creditors would begin to demand cash. If that were the case, I could not get myself out of my present straits by writing a bad check, because no one would accept it.<sup>21</sup> If I take the trouble to think, I will see that if it were universalized, my maxim would stumble over the law of non-contradiction. The behavior to which it gives rise is therefore immoral.

Widely accepted standards that fail the test of Kantian morality survive because they are never carried to their logical conclusion. This does not mean they are not dangerous. Kant gave the example of fighting duels, the maxim of which is that you may kill anyone who offends you. If universalized, this maxim would lead quickly to the elimination of every potential offender (including yourself) and therefore to the disappearance of dueling, not to mention the destruction of society.<sup>22</sup> The custom could survive only because relatively few people ever resorted to it.

Redistribution policies are more dangerous than dueling because they have become more widely accepted. Even the relatively wealthy (as in the case of Medicare) have learned to take these policies for granted. They have learned to accept the maxim "To each according to his need" without stopping to realize that the point at which it becomes a universal principle of action will be the point at which the divorce between production and consumption is finalized. But it is impossible to consume what has not been produced. Like writing bad checks and dueling, the welfare state is immoral because the maxim on which it is based runs headlong into the law of non-contradiction.

This line of reasoning bypasses the administrative questions of how to identify the "needy" and of how to set up the apparatus to provide for them. It steps over the problems of perverse incentives and bureaucracy. It avoids the economist's traditional concern with efficiency. It agrees with those who argue that the welfare state is impractical but insists that this impracticality is the result of something deeper. The redistribution of wealth

is immoral, it says, and nothing immoral is likely to work well in practice.

In contrast to the principle on which the welfare state is built, the maxim of capitalism meets the test of economic efficiency precisely because it meets the test of Kantian morality. Milton Friedman describes the capitalistic ethic as "To each according to what he and the instruments he owns produces."<sup>23</sup> The principle is moral because it can be universalized without running into the law of non-contradiction. A society can enjoy the economic comfort of knowing its books are balanced only if it enjoys also the moral assurance of knowing it has paid for everything it has received.

### The Second Formula

Kant would say redistribution is immoral because the maxim on which it is based could not be universally applied without running into the law of non-contradiction. The welfare state is immoral also because it allows the recipient to make demands on the taxpayer without providing the taxpayer with an equivalent value. Redistribution is immoral, more generally, because it allows one person to treat another as a means to the first person's ends.

*"Act so that you use humanity, as much in your own person as in the person of every other, always at the same time as end and never merely as means":* Kant said this is another way to formulate the Categorical Imperative.<sup>24</sup> He had been carried to the earlier formulation by the conviction that the human mind can demonstrate the results of any maxim's having become a universal principle of action. As the only thing in the universe that is thus capable of distinguishing between right and wrong, intelligence demands ultimate respect: *"Rational nature exists as an end in itself"*<sup>25</sup> and must never be treated merely as a means to some other end. If the maxim that you can treat others as no more than means to your own ends were universalized, each person would treat every other as no more than a means. In this situation, every rational mind would be preoccupied with defending itself from the onslaught of every other rational mind, and society would disintegrate.

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The principle of forcible redistribution, this is to say, does not allow for universal application.

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We can avoid this unfortunate conclusion, Kant said, only if each aspires, “as much as he can, to further the ends of others.”<sup>26</sup> The individual intelligence is at its core the capacity for selecting from among the various purposes to which it can commit itself.<sup>27</sup> It is incapable of seeking ends other than its own. To argue anything else is to run immediately into the law of non-contradiction. The human mind rises to the level of morality when it learns to seek its own ends by providing others with the means to their ends.

This is exactly what happens in voluntary exchange. Adam Smith’s famously self-interested butcher and baker were seeking their own ends: they wanted to replenish their inventories, provide for their families, and set aside some money for retirement. Their equally self-interested customers were looking for something to put on the table at dinnertime. The two businessmen were attempting to get what they wanted by providing for the needs of those who came into their shops. The members of their clientele were attempting to get what they wanted by providing funds to keep the butcher and baker in business. Each party to every transaction pursued his ends by advancing the ends of the other party.

The immorality of redistribution lies in the elimination of this mutuality. The voter seeks to use the taxpayer as a means to the voter’s financial security without at the same time doing anything to serve the taxpayer. The politician attempts to use both the taxpayer and the voter as a means to the politician’s goals of power and tenure. The fact that the voter, the taxpayer, and perhaps even the politician may be the same person does not raise the scheme to the level of morality. It means only, as Herbert Schlossberg has observed, that we have somehow come to believe we can enrich ourselves by picking our own pockets.<sup>28</sup>

This childish belief is in part the result and in part the cause of modern social arrangements. Kant condemned the paternalistic state because it “treats citizens as children.”<sup>29</sup> Such treatment of course encourages mental

immaturity, but it is also the consequence of mental immaturity. The citizen who has reached the level of adulthood in his thinking understands the logical impossibility of a policy that does not allow for universal application and the danger of treating others as no more than a means to his own ends. Such a citizen has set aside the childish belief that the “moral” and the “practical” are in conflict. The immoral government that treats Americans as children is their own creation. It will not get better until their economic beliefs have risen to the level of rational morality.

The crying evil of Kant’s time was serfdom. Although little more than a system for the cruel exploitation of servile labor, it was both widely accepted and justified by the teachings of the Church. The serf heard time and again that his situation was the result of a Divine ordinance, but he knew it was a violation of his right to be treated as an end in himself and was endlessly clever in devising ways to escape the obligations it laid on him. As free cities and extra-feudal lines of authority began to appear, he learned that *stadtluft macht frei* (“town air makes free”) and at the first opportunity escaped from the burdens of the countryside.

By 1500 this process was already underway in England, but on the continent it was delayed by dynastic rivalry and war. At the end of the eighteenth century, serfdom remained a fact of life in much of Europe. In reply to those who argued for the preservation of ancient and accepted institutions, Kant said, “[I]t is absurd to suppose a wrong becomes a right because it has continued a long time.”<sup>30</sup> Serfdom had to go because it violated the laws of rational thought. It could depart either with a peaceful change in the laws or with the violence and despotism of the French Revolution.

Something similar could be said about modern systems of forcible redistribution. Their survival creates a precarious balance. They continue because they are widely accepted; they are dangerous because they tear at

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In contrast to the principle on which the welfare state is built, the maxim of capitalism meets the test of economic efficiency precisely because it meets the test of Kantian morality.

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the social fabric. The scale must eventually tip one way or the other, either toward greater morality and more freedom or toward much less.



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18. Ludwig von Mises, *Human Action* 4th ed. revised (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996), p. 31.
19. Immanuel Kant, *The Groundwork on the Metaphysics of Morals*, trans. Allen W. Wood (New Haven: Yale University Press, 2002 [1785]), p. 44.
20. *Ibid.*, p. 5.
21. *Ibid.*, p. 39. This illustration is an adaptation of Kant's, which is about making a promise to get a loan you know you cannot repay.
22. Kant, *Practical Reason*, p. 32.
23. Friedman, pp. 161–62.
24. *Groundwork*, pp. 46–47.
25. *Ibid.*
26. *Ibid.*, p. 48.
27. *Ibid.*, p. 45.
28. Herbert Schlossberg, *Idols for Destruction* (Wheaton, Ill.: Crossway Books, 1990), p. 281.
29. Kant, *Metaphysics of Morals*, p. 94.
30. *Ibid.*, p. 131. Although I am here quoting Kant out of context, this sentence is an accurate representation of his attitude toward self-dom; see Kuehn, p. 372.

## Coming in the April issue of *The Freeman*

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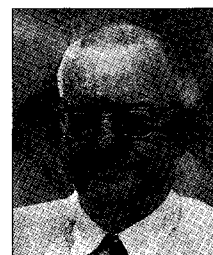
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## Free Trade: History and Perception

BY STEPHEN DAVIES



In the natural sciences, such as physics, there is a large number of statements that can be made about the world that command general assent from scientists and those with a scientific education. This is not true to anything like the same degree in the human and social sciences, such as economics and history. The reason for this is the nature of their subject (human beings and their interactions) and the consequent inability to perform controlled and repeatable experiments.

Nevertheless, there are some statements about human beings and the social world that can be made with almost as much certainty as those concerning the natural world. One of these is the principle of comparative advantage and the consequent argument that a policy of free trade, even if followed unilaterally, will act to maximize both human cooperation and material well-being. This is one of the few things on which almost all economists agree, however much they differ in their politics and philosophy or position on other economic questions. Moreover, it is a proposition that has overwhelming empirical support: the brute facts of history resoundingly confirm that free trade increases output and leads to closer cooperation and economic integration among people, often those who are widely separated physically.

Despite this, however, the wider public does not share the economists' confidence in the principle. The case for free trade, which economists regard as overwhelming and as certain as is possible in the social sciences, has to be constantly remade in each generation. The contrary case, for protection and local self-sufficiency, has a continuing appeal and frequently carries the day in politics, often with disastrous results. There are a number of reasons for this, not least that the argument in favor of free trade is counterintuitive for many and

that the costs of the policy are concentrated and visible while the benefits are frequently widespread and diffuse. However, there are two other related reasons that go a long way to explaining public thinking about this question: 1) the perception of trade as taking place between groups or political entities rather than individuals, and 2) the misunderstanding of history that flows from this. These date back to the first formulation of the idea of comparative advantage and still obscure what is actually at issue in the continuing argument.

Although earlier authors, such as Adam Smith, had pointed out the benefits of unrestricted trade and commercial intercourse, it was the British economist David Ricardo who first articulated the classical argument for free trade on the basis of comparative advantage in 1812. The idea that a part of the world should specialize in producing those products in which it had an absolute advantage was well established by then. What Ricardo did was to show with a simple mathematical argument that it paid for parts of the world to specialize in particular products

even if they did not have an absolute advantage; that is, even if the same goods could be produced more cheaply elsewhere. The critical factor was their comparative cost in terms of alternative products forgone.

Ricardo's argument was quickly accepted and remains so among economists to this day. However, the way he presented his argument contained a basic flaw, which is the origin of the misunderstanding referred to earlier. He presented trade as taking place between countries rather than individuals. Quite simply, this is false. Countries do not trade with each other. It is indi-



David Ricardo (1772–1823)

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viduals and corporate entities, such as firms, that do this. From the economic point of view, trade between persons in Maine and California is no different from trade between persons in California and Japan.

However, most people do not see economic life this way, and that is not how it is reported in much of the media.

Even more important is the way this distorts our understanding of economic history and the lessons to be learned from it. Two common arguments are made by critics of free trade. The first is that Ricardo's model assumes that capital will not move from one country to another. (Ricardo did indeed make this assumption, which is a consequence of his seeing the world of trade in terms of nations rather than individuals.) The second is that empirical history refutes the theory of free trade. The critics argue that the history of a number of nations, in particular the United States, shows that it is protection rather than free trade that brings about economic development and a rising standard of living while for most countries being integrated into a world of free trade means being condemned to low-value production and low incomes.

At first sight the evidence for the second argument appears strong. The United States moved sharply in the direction of a protectionist tariff policy after the Civil War and continued to follow this policy right up to the aftermath of World War II. During the same period (excluding the Great Depression and war years), the American economy grew rapidly and the United States became the world's greatest industrial power. How is this compatible with the argument that free trade is the best policy? The answer lies in realizing that trade is a matter of individual exchange rather than exchange between nations. Once you go beyond a society of completely self-sufficient households (if indeed such a thing ever existed) there will always be free trade. The question is not free trade yes or no, but rather how big is the area within which free trade takes place? The degree to which all partici-

pants will benefit from trade is a function of the extent of that area in terms of its geographical size and variety and the size and density of its population.

### Success Demystified

This makes the success of the nineteenth-century United States easily understandable. The size of its territory and population made it the second largest free-trade area on the planet, after the British Empire. Moreover, Britain's continuing free-trade policy reduced the negative effects of U.S. protectionism on the world economy. Looking at things in this way makes the current debates over globalization easier to understand inasmuch as we can see more clearly what the real issues are. We can also see that the first objection to Ricardo's

model is invalid. As with trade, there is no meaningful economic distinction between a capital flow from, say, Somerset to Yorkshire and one from Yorkshire to Lisbon. The real question again is what the size and boundaries of the area within which capital flows should be.

So what are the real issues at stake in the historical and contemporary arguments about trade? The basic one is: how far the economic and political units should coincide. The logic of economics is that if you want to maximize wealth and economic efficiency, then the unit of trade should be as

large as possible, preferably the entire planet. Classical liberals argue that this will also bring social and political benefits, above all greater peace and interconnections between different parts of the world.

The most reasonable counterargument is that this will lead to change that is too rapid, with consequent social instability and the destruction of settled ways of life, which will derail many people's expectations. Essentially, there is a tradeoff between greater wealth, comfort, and individual opportunity on the one hand and social stability and cohesion on the other. The choice is obscured, however, by a mistaken view of trade and the misleading perception of the world to which it leads.




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The case for free trade, which economists regard as overwhelming and as certain as is possible in the social sciences, has to be constantly remade in each generation.

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# Should Professors Be Allowed to Unionize?

BY GEORGE C. LEEF

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A current dispute at a liberal-arts college in Wisconsin prompts me to ask whether professors should be allowed to unionize. For many years I have been interested in questions of labor law and probably would have been interested in this dispute even if it did not happen to involve my alma mater.

Carroll College is a typical Midwestern liberal-arts college, located in the southeastern Wisconsin city of Waukesha. It is nominally affiliated with the Presbyterian Church, but that affiliation was nearly invisible during my student days in the early 1970s and is certainly no stronger today. An administrative decision to create separate schools of liberal arts and professional studies in 2001 led to bitter feelings among a significant number of the approximately 120 faculty members. Some concluded that unionization and collective bargaining would serve their interests and began a drive to establish the United Auto Workers as their bargaining representative.

A sufficient number of faculty members signed cards saying that they wanted a union election, so the National Labor Relations Board (NLRB), which regulates such matters, called for an election. The college administration protested that, under various NLRB and Supreme Court precedents, the faculty was outside the jurisdiction of the NLRB and therefore no union election could legally bind it. The regional NLRB director decided otherwise, however, holding that Carroll's professors were more like "employees," who may unionize

under the law, than like "managers," who may not. The election was held in January 2004, but the ballots were left uncounted pending an appeal by Carroll's administration to the NLRB in Washington. Early last September the NLRB upheld the decision of the regional director. The ballots were then counted, resulting in a 57–39 vote in favor of unionization.

The school can now appeal to federal court to block enforcement of the NLRB's ruling that it must bargain

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If the unhappy professors and their union agents were told that there would be no collective bargaining, they are not without noncoercive means of fighting back.

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with the UAW. However the case ultimately turns out, it throws light on some crucial features of American labor-relations law—features that run entirely contrary to the concept of individual liberty. The controlling statute here, the National Labor Relations Act, is one of the most authoritarian pieces of special-interest legislation ever to take up pages in the United States Code.

First, once a union has been certified by the NLRB as representing the workers, it becomes the *exclusive* representative of all those in the "bargaining unit." If any dissenting professor wants

to handle his own disputes or contract negotiations with the administration, that's too bad because it isn't allowed. In 1944 the Supreme Court faced that issue in *J. I. Case v. NLRB* and held that it was illegal for an employer to engage in individual bargaining with willing employees once a union had been established, saying that "advan-

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tages to individuals” might prove to be “disruptive of industrial peace” and that “increased compensation, if individually deserved, is often earned at the cost of breaking down some other standard thought to be for the welfare of the group.”

Thus individuals are denied the freedom to bargain and represent their own interests owing to the belief that it’s more important to protect group solidarity than liberty. Nowhere else in American law is a person compelled to accept another as his representative contrary to his wishes, but the NLRA saddles millions of people with union representation they have never chosen. There is no justification for preventing professors (or other workers) from seeking union representation just because of a bureaucratic decision that they are too “managerial,” but neither is there any justification for requiring those who want no union or a different union to abide by the will of the majority.

Surprisingly, even some adamant unionists agree that exclusive representation is undesirable. James Pope, Peter Kellman, and Ed Bruno, writing in the pro-union publication *WorkingUSA* (Spring, 2001), say, “[T]he presence of a majority union extinguishes the right of dissenters to bargain as individuals or to form their own, minority unions. . . . [P]ro-union analysts contend that when a majority union is insulated against competition, its officers may tend to ignore the interests of minorities. . . . [T]he fact that the overwhelming majority of industrial countries reject exclusive representation . . . should give us pause.”

They’re correct. Exclusive representation is a bad policy and should be scrapped.

Second, the law mandates that the employer bargain “in good faith” with a certified union. Before the enactment of the NLRA, an employer faced with a request for collective bargaining from some or all of his employees could legally do what anyone else can do when confronted with a contractual offer that’s of no interest to him—reject it. Under the common law of contracts, no one is compelled to negotiate with anyone else, much less come to any terms. But the NLRA makes it an unfair labor practice for an employer to decline to bar-

gain “in good faith.” Nowhere else in American law does anyone face legal sanctions for simply saying no to an offer from a private organization.

Just as exclusive representation is designed to strengthen the union hand, so is mandatory bargaining. The question, however, is why the government should abandon legal neutrality to assist unions. In the NLRA we find the tendentious assertion that in the absence of collective bargaining, workers don’t possess “full freedom of contract.” But that is simply untrue. It was untrue in 1935, when the law was passed, and it is emphatically untrue today, when workers of all kinds have many options.

Mandatory bargaining under the NLRA is a deviation from the sound idea that the law should apply equally to all individuals and organizations. If Carroll College or any other employer does not want to engage in collective bargaining, the law should not penalize it. Mandatory bargaining should also be scrapped.

### The Function of Law

If mandatory bargaining were repealed, however, couldn’t employers just ignore the desire of a majority of its workers for collective bargaining through a chosen union? Wouldn’t unions be rendered ineffectual? There are two responses to that objection.

First, fulfilling people’s desires isn’t a proper function of the law. Second, if the unhappy professors and their union agents were told that there would be no collective bargaining, they are not without noncoercive means of fighting back. Rather than going to the NLRB to penalize the school for its refusal, the professors and union can threaten a strike or threaten to unleash adverse publicity over the school’s intransigence. Such actions could be taken in the event that collective bargaining did not lead to satisfactory results, and there is no reason why they couldn’t be used in an attempt to get the college to agree to collective bargaining in the first place.

Years before the enactment of the NLRA, unions existed and collective bargaining took place, but without the coercive provisions of the law discussed here. Those

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Surprisingly, even some adamant unionists agree that exclusive representation is undesirable.

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provisions should be repealed. If any number of college professors or other workers want union representation, nothing in the law should stand in their way. Equally, however, nothing in the law should force union representation on those who don't want it or mandate that an employer negotiate with a union against its will.

Actually, there is much more in the NLRA that is objectionable than the two provisions I have discussed. The entire statute should be repealed. Under the Tenth Amendment, states could then enact whatever law regarding labor relations they wanted, subject to the limits of the U.S. and state constitutions. When the NLRA's constitutionality was challenged in 1937 in *Jones & Laughlin Steel v. NLRB*, four members of the Court wanted to declare it unconstitutional on the grounds

that Congress only has authority to regulate *interstate commerce* and that doesn't encompass the details of the employment relationship. Under the Court's Commerce Clause precedents, the case should easily have been decided against the law. It was only President Roosevelt's threat to "pack" the Court that caused two justices to switch from positions they had taken just a year earlier and uphold it.

To answer the question posed in the title, college professors should be allowed to unionize. Those who don't want to should also be free to represent themselves. And schools should have the right to decide whether they will engage in collective bargaining. If we are ever going to return to freedom all around, we must get rid of the authoritarian National Labor Relations Act. 

## ***The Ideal University***

Some day, possibly, we shall see State-owned education disappear as we have seen a State-owned Church disappear. The relations between the State and education are as immoral and monstrous as those between the State and religion; and some day they will be so seen. In the Middle Ages, some man of learning and ability, with a gift for teaching, like Peter Abelard or William of Champeaux or John of Scotland, emerged into repute; and people went to him from here and there, camped down on him and made him talk about such subjects as they wanted to hear discussed—and this was the university. The university was, as we say, "run" by the students. If they got what they wanted, they remained; if not, they moved on. Meanwhile, they lived as they pleased and as they could, quite on their own responsibility.

The nearer we revert to that notion, the nearer we will come to establishing in this country some "serious higher education." A university run by the students, with only the loosest and most informal organization, with little property, no examinations, no arbitrary graduations, no president, no trustees! A university that would not hold out the slightest inducement to any but those who really wanted to be put in the way of learning something, and who knew what they wanted to learn; a university that imposed no condition but absolute freedom—freedom of thought, of expression and of discussion!

—ALBERT JAY NOCK, "The Vanishing University"

# The Real Revolution and You

BY IVAN R. BIERLY

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**C**lear thinking and straight answers can help you to win the real revolution which goes on in the minds of men.

Who are the real revolutionaries in the world today? Many would say, “The Communists, of course! Their day-and-night, around-the-world effort is the major revolutionary program of our times!”

Others would counter, “No! Revolution means a radical change and communism is only a return to an age-old authoritarian tyranny, rooted in paganism and manifested in imperialism. What’s new about that?”

Still others would suggest, “The revolution has happened here in the United States in the past 20 years! Almost overnight we reversed ‘rugged individualism’ and launched into a bold new era—with a prosperous planned economy and guaranteed security.”

While it may come as a shock to some, there is nothing revolutionary or even new about America’s quarter-century experiment in attempting to provide for “social welfare.”

It has been tried on various occasions in the last 6,000 years. To cite just one—Augustus Caesar planned meticulously for his people, and initiated various social reforms so they could live happily, free from want, and even without exerting much initiative. But Caesar’s Roman Empire vanished into the centuries-long black-out of the Dark Ages.

## The American Revolution

**N**o, the greatest of all socioeconomic revolutions occurred some 180 years ago on the shores of colonial North America—and it is still going on today. This revolution seemed to some only a battle of Minute Men and muskets—fought on such bloody fields as Lex-

ington and Concord and Bunker Hill. But more significantly it was *a revolution of ideas, fought in the battlefield of men’s minds.*

The idea that triumphed was startling in its simplicity, but so powerful that it has long made America the mecca of the downtrodden and walked-over of the world. The idea was simply this: You are an individual person—the equal of any other—not just in theory but in fact. You were created by God, given a mind with which to think, and plan, and learn, and do. Along with this you have a responsibility—to use your talents, and to be a responsible individual.

While this idea may seem obvious today, we must recall that it had never before been accepted as fact, and really practiced in societal life, in all the previous 6,000 years of recorded history! Always before, people had been weighted down with the tyrannous belief that some men are divinely endowed to lord it over others.

## The Declaration of Independence

**B**ut on July 4, 1776, a long-germinating idea burst forth its rebellious message. The Declaration of Independence was more than an angry protest that old King George was a wretched scoundrel for all the abuses he had hurled at the American colonists. It was a declaration that no man is delegated by God to rule over his fellows: that individual persons have rights from their Creator; and that along with these rights, individuals are willing and able to look out for themselves and to recognize the rights of others.

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*Ivan Bierly was a member of the FEE staff. This is an excerpt from an article that first appeared in the March 1956 issue of The Freeman.*

Much of the old world laughed. “Such nonsense! This upstart nation cannot last. No such loose government has ever lasted—none ever will. Some are chosen to rule, others to fawn and give!”

More than once the old-world cynics were almost proved right. Some colonists wanted to make George Washington king and transplant an old-world monarchy in America; but Washington knew that Valley Forge and the whole Revolution stood for something else—for throwing off the yoke of servitude.

Again, behind the closed doors of the Constitutional Convention, some notions were propounded that might have wrecked the young nation; but despite mistakes, the delegates produced a remarkable document, wisely calculated to restrict the role of government and release the energies of free men.

### One Great Asset

At the outset, the infant country was burdened with problems. Unemployment, high prices, unrest, and discouragement followed fast in the wake of the revolution. But the young United States also possessed an asset—one so great that it more than offset the liabilities. That asset was a magnificent individual freedom which permitted an unprecedented release of human energy.

Human energy is an interesting thing. The individual person has energy. *You* have some; but I can't turn it on. Only *you* can! Magnify the turning on of this energy, full force, in 13 colonies and a few millions of people, and you can understand what happened to America.

There were no economic plans. No blueprints. And no limitations but the requirement that what one did or made must be useful either to himself or someone else, useful enough so that another person would willingly give what he already owned in exchange for it.

### Freedom in Action

Encouraged by the freedom to do as they pleased, as long as they did not interfere with the rights of their neighbors, and urged on by the knowledge that they were allowed to keep the fruits of their own labors, the colonists displayed a remarkable industry and a keen inventiveness—ever seeking and finding better, faster, easier ways to do things.

Many saved enough to be able to invest in new ideas. Not all of these investments panned out; but when they did, they resulted in still more savings, which in turn were converted into the tools that made possible still further advances in production.

There was little regulation of industry, and no government attempt to guarantee individual security. Men were on their own—free to work as they pleased but obliged to be self-reliant and provide for their own needs.

The result: The greatest prosperity the world has ever known! The most stupendous advance in material well-being—in new inventions and in the standard of living—that has ever been seen!

### Are We Forgetting Our Own Revolution?

But strangely enough, in the past half-century Americans have been running away from their own revolution. They have forgotten—or failed to understand—what it was that gave them their unprecedented prosperity. They have returned to the Old World and imported an alien idea—the socialistic belief that government has the right to control productive activity, and that it is entitled to take from some persons in order to give to others!

This Marxian notion—catering as it does to the human impulse to get something for nothing—has, in many of its forms, been widely accepted. There remains but a relatively small group which recognizes that these socialistic tendencies are contrary to all that has made America great. And it is a still smaller segment who actually understands the religion-rooted, politico-economic ideas on which this country was founded. It is this group who are America's true revolutionaries. And those who are best informed and most articulate among them are fighting the most genuine revolution in the world today—the revolt against the tyranny of the socialistic welfare state.

People sometimes say, “I believe in freedom. I thoroughly disbelieve in state socialism. What can I *do*? How can I help *change* things?”

The answer, as I see it, is: “First, do something to yourself; change yourself!” That is, develop your own understanding of the system you say you believe in. Until you thoroughly grasp the precious value of

individual liberty, the immense productivity of the free economy, and the great necessity of strictly limited government, you can do little to aid the cause of freedom.

Each of us must begin by building up his own idea-arsenal. Let me share with you elements of this again-revolutionary idea which I have found helpful in clarifying my own thinking:

1. A belief in the dignity and inherent worth of the individual.
2. The conviction, which follows naturally, that whatever an individual produces is rightly his own, to do with as he sees fit. To deny this is to deny his individual nature; unless his property is his own, he cannot be independent of those who would make a prior claim on his property. And so, no one has a right to tell a person what is a proper use for his property, so long as he does not employ it to damage others.

### Every Nation Has Capitalism

In sharpening my own understanding of the private property concept, and in discussing ideas with others, I find it helpful to recognize that “capitalism” is universal in the modern world. Every advanced economy uses machines and tools to augment production, and these are capital. The big question is who will decide how the capital is to be used—the bureaucratic power, or the individuals in the market?

While ours is a capitalistic system, the goal is not just any kind of capitalism, but an *individual* or *competitive* capitalism. Russia today is a capitalist country. Everyone has seen in the newsreels the Soviet copies of American farm machines crossing great fields at harvest. How did Russia get these tools? From savings. If there were no savings, there could be no tools. And the conversion of savings into capital—tools—is capitalism.

So we see that the schism that is splitting the world today is not between capitalism and noncapitalism. It is between state capitalism and individual or competitive capitalism; between state control of the means of production, and individual decisions in the marketplace;

between *your* deciding what color and style of shirt you will wear, and someone else doling out his idea of what will satisfy your needs.

In my thought and conversation, I also find it helpful to consider the *individuals* involved in a situation, rather than vague groups such as “society” and “government.”

One evening a young minister and his wife came to call at our home. He had never disguised his socialist leanings, and that night—as usual—we started to discuss politics and economics. The conversation soon ran to “social security,” and he insisted that government could guarantee such security. I tried to show him that government had no income but what it took from its citizens, so it couldn’t guarantee any one of us something we didn’t already have—unless it forcibly took it from *someone else*. And at the same time, I observed, we had to pay a high-priced middleman in Washington to do the arranging for us.

He finally accepted this as a correct description of our “social security” system, but proceeded to *endorse* the process of taking from one to give to another.

### Taking by Force to Do “Good”

I could hardly believe that this young clergyman, who took his Sunday morning texts from the Ten Commandments, could deviate so far on a Wednesday night! So, I proposed a test of his good faith. I said I would like to act out with him, in a simple man-to-man situation, exactly the same kind of process he was endorsing in the “social security” system. He agreed.

“All right. Give me your wallet,” I said.

“What do you mean?”

“Just this. You said it is proper for government to take from some, in order to give to others who are in need. I’m acting as ‘government,’ and I know three families between here and town who need the contents of your wallet more than you do.”

“This is different!” he protested.

But his wife, who hadn’t said much so far, spoke up.

“Give it to him, dear. He’s got you trapped in your own arguments!”





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# Capital Letters

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## Wal-Mart Subsidized?

### **To the editor:**

Wal-Mart is heavily subsidized by American tax dollars. As such there is nothing “free” about anything that Wal-Mart does (John Semmens, “Wal-Mart Is Good for the Economy,” October 2005). Wal-Mart’s subsidy is an indirect subsidy, but nevertheless, Wal-Mart directly benefits from the American tax dollars that were used to build the manufacturing plants that supply Wal-Mart with essentially all of the goods that they sell in their stores.

During the mid-1980s the Reagan administration gave a \$7 billion steelmaking complex to Shanghai, China. In addition, American taxes, under a dozen or more budget headings, paid for the untold thousands of manufacturing plants that have been given to China and many other nations.

Those vast sums of giveaway money (that built the factories in China and other developing countries that supply goods to Wal-Mart) are euphemistically called “foreign aid.” The trillions of dollars we have given away in “foreign aid” are essentially the same number of trillions of dollars as are now in our national debt (which we should start to amortize).

Ignoring this vast subsidy to Wal-Mart gives a highly superficial analysis of things economic. *The Freeman* should not be this superficial in its analysis of Wal-Mart.

—ROBERT P. KINGSBURY

*Laconia, N.H.*

### **John Semmens replies:**

The contention that “the Reagan administration gave a \$7 billion steelmaking complex to Shanghai, China” is dubious, at best. Even if it were true, that hardly becomes Wal-Mart’s fault.

Buying the best products at the lowest cost is sound economizing behavior. If China offers the best value it makes sense to buy from them regardless of how their production facility was financed. Wal-Mart and its cus-

tomers could hardly be blamed for taking a bargain.

Refusing to buy the best value will not remedy the bad policy of foreign-aid grants. The U.S. government debt won’t get any smaller from such a refusal.

The foreign aid giveaways should be stopped, but the government should not stop buyers from purchasing what they see as a good value. To do so would reduce the economic well-being of the nation’s inhabitants.

## FDR’s Plan to Radically Transform America

### **To the editor:**

Sheldon Richman left out the darkest part of the story in his column, “The Shady Origins of Social Security,” in the September 2005 issue of *The Freeman*. When President Franklin Roosevelt introduced to Congress the legislation that eventually authorized Social Security, it also contained Title IV, a national health-insurance program. Following an emergency meeting of the AMA’s House of Delegates, opposition to his portion of the bill grew so intense that President Roosevelt had to remove it. The history of health care through the second half of the twentieth century, apart from technological advances, is essentially the story of the attempt to enact that withdrawn program to socialize medicine.

What Roosevelt proposed in 1935 was so thoroughly Bismarckian one can’t help but wonder if his purpose was not merely to attempt to gain votes, as Richman suggests in his concluding sentences, but a radical political transforming of America.

—MERRILL A. COHEN, M.D.

*Dover, Pa.*

We will print the most interesting and provocative letters we receive regarding articles in *The Freeman* and the issues they raise. Brevity is encouraged; longer letters may be edited because of space limitations. Address your letters to: *The Freeman*, FEE, 30 S. Broadway, Irvington-on-Hudson, NY 10533; e-mail: [freeman@fee.org](mailto:freeman@fee.org); fax: 914-591-8910.

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# Book Reviews

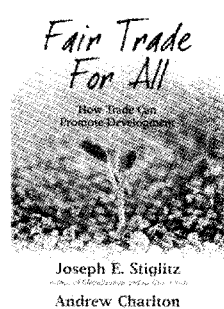
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## **Fair Trade for All: How Trade Can Promote Development**

by Joseph E. Stiglitz and Andrew Charlton

Oxford University Press • 2005 • 315 pages • \$30

Reviewed by Richard M. Ebeling



Joseph Stiglitz is a professor of economics at Columbia University. He served as a member and then chairman of President Bill Clinton's Council of Economic Advisers from 1993 to 1997, and then was the chief economist and senior vice-president at the World Bank from 1997 to 2000. In 2001

Stiglitz was awarded the Nobel Prize in economics for his work on imperfect and asymmetric information in markets.

His new book, *Fair Trade for All*, is coauthored with Andrew Charlton, a researcher at the London School of Economics. Their central thesis is that if poor countries are to develop and prosper, the developed world must not merely acquiesce in their interventionist and protectionist policies, they must assist them. You see, free markets, according to Stiglitz and Charlton, just don't work.

They start with the standard economics-textbook model of a perfectly competitive market, where the institutions through which the participants interact assure a full and efficient use of all relevant knowledge. Looking around the "real world," and especially in poor and less-developed countries, they observe that financial and other markets fall far short of this stylized textbook conception. These poor countries, therefore, suffer from severe "market failure," which only wisely directed government intervention and regulation can cure.

Stiglitz and Charlton drag out of the grab bag of policy proposals many of the oldest and most frequently refuted ideas. A leading one, on the basis of which they defend protectionist tariffs, is the "infant industry" argument. The premise is that a new industry will only be

able to grow in a less-developed country if it is protected from more cost-efficient foreign competitors who otherwise would dominate the market. Later, once the infant has "grown," it will no longer need that temporary trade protection.

The infant-industry argument, however, is merely one example for the authors, who believe that it is quite legitimate and useful for governments to undertake various "industrial policies" in which they pick potential "winners" for subsidies and regulatory benefits so that an underdeveloped country eventually can become a major player in the arena of global trade.

They also advocate controls on capital and investment flows in and out of less-developed nations. Governments in these countries will determine what foreign investment will be permitted and also restrict the ability of foreign investors to withdraw their funds if they become concerned about the policies being followed in the host country.

At the same time, they call for the developed countries to remove all their trade barriers to the exports of these less-developed nations, while providing them low-interest loans, foreign aid, and other subsidies in order to fully afford all those interventionist and welfare-state projects behind their high tariff walls. Furthermore, Stiglitz and Charlton insist that it would be a misuse of American or European "power" to impose any significant guidelines or restrictions on those countries' interventionist and protectionist policies. Those governments should have a relatively free hand to use the money from Western taxpayers in any way they want. To impose rules or guidelines would be "elitist" and undemocratic!

Other than in an occasional passing comment, the authors give no weight to the idea that financial and other markets fail to function more efficiently in less-developed countries because property rights are not legally recognized and enforced. Stiglitz and Charlton seem oblivious to the important work that has been done by people like Hernando de Soto, who, in *The Mystery of Capital* (2000), demonstrated that throughout what used to be called "the third world" governments have either prevented or made extremely difficult the legalization of property titles, without which access to both domestic and international financial markets for

economic growth is virtually impossible.

Also, their textbook conception of “perfect” financial markets totally ignores how local markets develop to fit and serve the economic capabilities of participants. The authors seem to be equally unaware of the work done by the late Peter Bauer on this very theme. In his last book, *From Subsistence to Exchange* (2000), Bauer explained in great detail the process by which subsistence and low-income farmers and producers are spontaneously integrated into the wider national and international market through the evolution of networks of local traders and merchants who also provide credit.

Such networks need neither government support nor subsidy. Local merchants and budding entrepreneurs know the local conditions and opportunities that enable the trading connections to best fit the situation in each part of the poorer country.

The alleged nonexistent or “imperfect” product or financial markets in these countries only seem so when looked at through the analytical “glasses” of textbook perfect competition. When looked at through the eyes of the participants, the markets in fact may be functioning just as efficiently as the transactors require. Market institutions naturally evolve at that pace and in those forms that match the expanding potentials and opportunities of producers, merchants, and traders.

As Bauer and others have emphasized, what is needed from government is security from private and political plunder through the guarding of property rights, contract law, and equal treatment under the judicial system. In addition, low taxes, limited government expenditures, and a noninflationary monetary system are all that government can contribute to helping the development process.

Stiglitz seems also not to have read the writings of his fellow Nobel laureate James Buchanan. Otherwise, he would have learned from Public Choice theory that the interventionists into whose hands he wishes to leave the fate of the poor around the world are most likely to use their political power to serve themselves and various special interests with whom they are aligned, and not to improve the circumstances of the vast majority over whom they rule.

Joseph Stiglitz apparently suffers from a lot of imperfect knowledge in the field of economics, in spite of his

confidence in knowing how to plan and regulate other people’s lives.



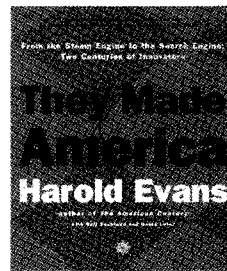
*Richard Ebeling (rebeling@fje.org) is the president of FEE.*

**They Made America: From the Steam Engine to the Search Engine: Two Centuries of Innovators**

*by Harold Evans*

Little, Brown • 2004 • 496 pages • \$40.00

Reviewed by George C. Leef



What a stunning book!

**T**hey Made America is a big glorious coffee-table kind of book that deserves to be picked up and read, not just dusted occasionally. Harold Evans (actually, Sir Harold—this former editor of the *London Times* was knighted in 2004) has given us a marvelous compendium of short biographies on American inventors and innovators. He begins late in the eighteenth century and continues on through to the present. Evans calls these people heroes, and while his portraits are done “warts and all,” one cannot help being swept up in his enthusiasm for individuals who have done so much to bring progress to mankind. Not a politician in the bunch.

Robert Fulton makes it into the book, but the first chapter goes to John Fitch, who actually beat Fulton in the development of a working steamboat by 20 years. Like nearly all early innovators, Fitch was a self-made man whose native intelligence more than compensated for his lack of formal education. A near escape from an Indian war canoe had set Fitch to thinking about the advantages of a steam-powered craft, and he succeeded in building one without ever having heard of James Watt.

All the famous American inventors and innovators are here—Eli Whitney, Charles Goodyear, Thomas Edison, Henry Ford, George Eastman, the Wright brothers—as well as some people the reader probably won’t know. Sarah Breedlove Walker, for example, was a remarkably successful black businesswoman who rose from abject poverty because of her ability to create and

market hair-care products. Evans writes that “she attributed her rise to the virtues of patience, thrift, and the acquisition of practical skills, then being preached by the former slave Booker T. Washington.” Eventually, Madam Walker, as she was known, would build for herself a magnificent Italianate villa in Irvington-on-Hudson, New York (FEE’s hometown, of course). Her story demonstrates that it was possible for blacks to succeed in business at a time when the political system did all it could to keep them poor and ignorant.


The individual chapters are fascinating, but there is a bigger message here. Evans writes of the people who chose to come to America. “[U]nnoticed among the millions of these ambitious self-selected risk-takers . . . were individuals who were exceptionally willing to dare. Their gifts for innovation accelerated America’s progress over two centuries . . . . When they disembarked, blinking in the bright light of the New World, they had no idea what their destinies would be. The magic was in the way they found fulfillment for themselves—and others—in the freedom and raw competitive excitements of the republic.”

Yes, the individuals about whom Evans writes made America, but they needed the environment of freedom to succeed. The reason is that innovation can only thrive in an atmosphere of liberty. Evans’s writing suggests this crucial connection, but I wish he had made it more explicit.

A corollary point: Evans correctly says of early America, “Everything turned on individual enterprise. The national government was weak and the laissez-faire ideas of Adam Smith had taken root.” In the America of the 21st century, however, the national government is virtually omnipotent and the sphere of laissez faire is greatly constricted. Evans includes several “digital age” innovators, such as the founders of eBay and Google. Communications is one of the few areas of the economy still relatively free of regulation, and the question thus presents itself: Are we stifling innovation and progress in the many sectors of the economy that are heavily regulated? The absence of modern innovators in certain other fields seems like the Sherlock Holmes story in which the dog didn’t bark.

Finally, here’s a quibble. Evans wants to distance himself from libertarians and Randians by saying that we

need to think about all the ways in which government has stimulated innovation—like the interstate highway system. Compared to the enormous destruction of wealth that has been caused by our Leviathan through its taxation to support domestic and international meddling, however, any benefits from the state must be microscopic in comparison.

Having said that, I still think the book is a stunner. 

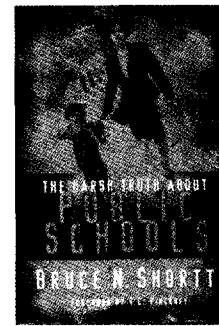
*George Leef (georgeleef@aol.com) is book review editor of The Freeman.*

## The Harsh Truth About Public Schools

by Bruce N. Shortt

Chalcedon Foundation • 2004 • 466 pages • \$22.99 paperback

Reviewed by David L. Littmann



Prepare for a mind-altering experience as you take a scary but empowering read through Bruce Shortt’s book *The Harsh Truth About Public Schools*.

The reader should not be deceived by what seems an overwhelmingly sectarian starting point in this well-organized, reader-friendly book. Shortt’s style is highly effective in convincing readers that the “public school” system in the United States today is beyond reform.

From beginning to end, the writer, an attorney who homeschools his children, documents the dishonorable conduct, degenerating academic standards, and defensive bureaucracy that are jeopardizing America’s future, courtesy of teacher unions’ self-interest and increasingly derelict parents.

For the critical reader it’s easy to cop an attitude toward the book in Chapter One. Many will think, “Why is the author blaming the purveyors of public education—from teachers and principals to school boards and activist courts? Why isn’t the finger-pointing toward complacent, delinquent, and irresponsible parents and taxpayers?” Gotcha! Whether this is the intended or unintended direction of Shortt’s work, he compels readers into subsequent chapters, all the way to the end, where constructive alternatives to the failing

public-school system are enumerated and discussed.

Shortt's early chapters are designed to shock, as the author hops from one school district to another, covering every state, to document instances of classroom lies and perversion that not only go unpunished, but are also the subject of attempted cover-ups by public school officials. He cites a case where parents were not notified when a transsexual was brought into a first-grade class to describe how sex changes are performed! And under the heading "Whose Children Are They?" the author tells of a parent who went to the trouble of reviewing classroom material and learning later that the teacher told the child, "Your parents don't have to know."

By the end of the third chapter, the reader is thoroughly aware of the pervasiveness of corruption, mediocrity, and deception in public education today.


Shortt also presents an eye-opening history of the evolution of American public education, along with the motivations (some idealistic and well-intentioned, and some quite nefarious) that moved this country away from nearly 100 percent private education to our current, 89 percent government schooling. This fascinating, 200-year excursion elaborates the multitude of reforms that parents and educational experts have proposed, and hits hard on the obstacles to reform that have been erected by teacher unions and lobbyists for the status quo.

The book later explores success and failure patterns in charter schools, private and parochial organizations, and homeschools. Shortt also compares the school bureaucracy's nauseating, defensive braggadocio with the disappointing reality of academic performance.

The author also debunks the establishment myths about this being our "best-educated generation." He counters this with the discouraging ACT and SAT scores of our top public high-schoolers, despite fabulous growth in taxpayer spending per pupil, which has far outpaced price inflation. Shortt also exposes the dirty little data secrets attendant to falling levels of expectation and performance in the public-school arena: drop-out rates, the cost and growth of remedial education, cheating by teachers and administrators to raise test scores, and so on.

To achieve durable, long-term gains in student achievement with far fewer dollars per pupil, Shortt rec-

ommends homeschooling and parochial education. Not that the author omits discussion of reform from within the public-school system: vouchers, charter schools, and meetings with teachers, principals, and school boards just for starters. He evaluates them and concludes that these efforts at reform are a snare and delusion. He advocates that every church support and educate parents about homeschooling and collaborate with other churches to find ways to bring every Christian child out from government-school bondage.

Given Shortt's central concern with rescuing Christian children from increasingly immoral, dangerous, and dumbed-down learning environments, he might be accused of writing a book that would appeal only to Christian conservatives. Not true. Within his fine book Shortt includes quotations from rabbis and the Hebrew prophets that support his case that government schooling is an enormous impediment to quality education and the longevity of an ethical, progressive society. 

*David Littmann (David\_Littmann@hotmail.com) recently retired as chief economist of Comerica Bank.*

**Tariffs, Blockades, and Inflation:  
The Economics of the Civil War**

*by Mark Thornton and Robert B. Ekelund, Jr.*  
Scholarly Resources, Inc. • 2004 • 124 pages •  
\$65.00 hardcover; \$19.95 paperback

Reviewed by John Majewski



In concise and clear prose Professors Mark Thornton and Robert Ekelund use basic economics to explain the causes, outcome, and consequences of the Civil War. Employing Public Choice theory—a subdiscipline of economics that focuses on how public officials and government bureaucracies make decisions—Thornton and Ekelund attempt to revise many standard accounts of the war. Although their economic analysis sometimes comes across as simplistic, they nevertheless add an important and overlooked perspective on the causes and consequences of the bloodiest war in U.S. history.

Perhaps the most controversial claim in *Tariffs, Blockades, and Inflation* is that the tariff (as opposed to slavery itself) may have been far more important in causing the Civil War than many historians assume. The protective tariff hurt the long-run economic performance of the nation as a whole, and it was undoubtedly a major regional divide between North and South. Northern manufacturers benefited most from a protective tariff, while Southern planters and farmers, who paid higher prices for the manufactured goods they purchased from either Britain or the North, suffered most. Given that Lincoln wanted to raise tariffs, Thornton and Ekelund argue, his election signaled the possibility of a protectionist regime that might have reduced the value of Southern plantations and slaves by some \$700 million. Southerners could probably have blocked Lincoln's attempt to raise tariffs if they had stayed in the Union, but Thornton and Ekelund argue that "tariff uncertainty" made secession an appealing option. Rather than risk higher tariffs, why not simply leave the Union?

Thornton and Ekelund also highlight the impact of the Union blockade, which ironically led Southern blockade runners to import highly valued luxury items rather than wartime necessities. Thornton and Ekelund argue that the blockade changed relative prices within the Confederacy so that it became more profitable to import easily transportable luxuries (such as silk textiles) and less profitable to import bulky necessities (such as iron and machinery). Profit-oriented blockade runners thus focused on luxuries even as Confederate civilians and soldiers suffered grievous shortages of basic necessities. The "Rhett Butler" effect, as Thornton and Ekelund call it, had a host of unintended consequences. It lowered Confederate morale and led to widespread condemnation of "unpatriotic" blockade runners and speculators. Such public sentiment, in turn, led to counterproductive government policies (such as price controls) that made shortages even worse.

The final chapters show the consequences of government intervention in both the North and the South. Thornton and Ekelund, for example, analyze inflation as a form of taxation. By raising money from the printing press, the North and South alike created a ruinous infla-

tion that misallocated resources and severely damaged morale. The inflation problem was especially severe in the South, which could not impose direct taxes or borrow money to the same extent as the North. The focus on inflation ties in nicely with the argument that the Civil War hindered rather than helped economic growth. This point is especially persuasive and important, if only because some historians still believe that war is essentially good for a capitalist economy.

In many respects *Tariffs, Blockades, and Inflation* is an appealing book. The explanations of economic theory are clear and helpful, and the book is generally evenhanded in its willingness to blame both Northerners and Southerners for enacting bad economic policy. Yet the book is somewhat uneven. Its brief and readable format—and its tendency to summarize secondary works rather than delve into nineteenth-century sources—sometimes oversimplifies complicated political debates. The book's brevity also means that some arguments are not fully fleshed out. To cite one example, Thornton and Ekelund claim that a less inflationary policy in the South would have forced policymakers "to rely on more decentralized and defensive military strategy." This is a big point that cries out for further evidence and elaboration.

So, too, does their idea that "tariff uncertainty" was an important motivation for Southern secession. Tariff uncertainty had always existed in the antebellum decades. Why, then, did Southerners leave the Union in 1861 and not in 1842, when the Whigs passed a protectionist tariff? Or why did most Southerners reject secession when South Carolina attempted to nullify the tariff in the early 1830s? How rational is it to fight a war, which would leave 620,000 men dead, over tariffs that might or might not be enacted?

If *Tariffs, Blockades, and Inflation* may leave readers wanting more, it nevertheless is a clear application of market-based economics to the Civil War issues. Readers will find it a helpful introduction to the literature that Thornton and Ekelund cite in their useful bibliographic essay.

*John Majewski (majewski@history.ucsb.edu) is a professor of history at UC Santa Barbara.*

## It's Always Something

BY RUSSELL ROBERTS



Our economy is in the middle of an extraordinary run of success. Unemployment is low. Personal wealth is near an all-time high. Real wage growth sometimes appears less robust, but when benefits are included, real compensation is healthy. And even with the cries from some that economic mobility isn't what it once was, legal and illegal immigrants continue to flock to the United States. Evidently being poor here beats being poor elsewhere by a long shot.

Despite this track record, despite the mildness of the three recessions in the last 25 years, you might think from reading the papers and listening to people talk that the economy was balanced on a knife edge, ready to fall any minute into an abyss of failure.

There is always a massive threat to our economic security. Not something mildly troubling. Not something that is merely annoying. No, there's always an enormous threat to our very well-being, a force that threatens to overturn decades of progress and plunge us back into the economic stone age. To hear the worriers talk, you'd think we're at risk of returning to the Middle Ages, or to pre-New Deal America circa 1929, a world of abject poverty and mass unemployment.

There are two types of threats that show up in the media. The first is the foreign threat. In the last 25 years one nation after another has been identified as threatening our standard of living and economic system.

First it was Japan. It was stealing all our automobile jobs, maybe all the other good-paying jobs too. Then Japan went into a nosedive of recession followed by stagnation. When it became clear that Japan wasn't getting

up off the canvas, it had to be replaced by a different foreign villain.

With NAFTA up for consideration in the early nineties, the choice was easy. Canada. Oops. Canadians don't scare people. So when NAFTA was in the news, the Canadians wouldn't do. Had to be the Mexicans.

We were told that the Mexicans, because they had lower wages than Americans, would suck jobs south like a magnet draws iron filings. Soon, all manufacturing jobs would be gone and we would be left doing one another's laundry.

NAFTA passed and nothing happened. The threat of Mexico was completely forgotten and placed in the Hall of Shameful Economic Ignorance next to the Japanese threat.

Next up: China! The Chinese are really scary. America runs big trade deficits with China. Just like Japan. People forgot that those big trade deficits with Japan hadn't hurt America at all and that Japan's economy was floundering. China with its billion people was going to steal our jobs and turn the American economy into a giant laundry or cosmetic counter or fast-food restaurant. China was definitely a threat.

nitely a threat.

In the middle of the Chinese worry, a new one joined it, creating a two-headed monster. First, the Chinese were destroying all the manufacturing jobs. But the new threat was outsourcing. Outsourcing was going to destroy every job that paid more than a pittance. The economists naively argued that trade creates wealth and

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To hear the worriers talk, you'd think we're at risk of returning to the Middle Ages, or to pre-New Deal America circa 1929, a world of abject poverty and mass unemployment.

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that the manufacturing jobs would be replaced by new jobs in sectors where we were even better than manufacturing. Well, now look what was happening, according to the worriers. The high-tech, knowledge jobs that were supposed to be the last refuge for American workers as manufacturing disappeared were being stolen by Indians.

What a combination! China and India. Almost two billion people. Never mind that a lot of the jobs the Indians were “stealing” weren’t high-tech at all. They were call-center jobs. But even the call-center jobs were part of the service sector, part of what we were supposed to be good at once we gave away all our manufacturing jobs. India and China could steal our meager 130 million jobs in a few months.

The outsourcing hubbub reached its peak in the election of 2004. Once the election was over and the economy kept growing, the issue fell out of the news. The tech sector, it turned out, was doing just fine. Tech-sector jobs were actually growing. American web designers and network installers and database whizzes still made more than their Indian counterparts, but somehow, not all the American jobs went to India. The whole thing turned out to be a molehill rather than a mountain.

When Americans stop worrying about foreign threats, they turn inward and worry about domestic ones.


The usual worry is that a very successful American company is ruining the economy. For a while, it was Microsoft. (Actually it used to be IBM, but that goes back 30 years.) Then when Microsoft got fat and happy and looked less dangerous as the Internet vied with the desk-

top for computing power, Google started to scare everybody. Google is running everything! It’s got the search engine most people use. Soon it’s going to own all the books, and the next thing you know, it’ll have all the e-mail, and so on and so on. For a brief moment, AOL-Time Warner was going to rule the world and control all the news and soon we’d all be captive to one megacorporation controlling what we read and saw and knew. But the AOL-Time Warner scare just didn’t have the legs.

### The Wal-Mart Threat

People are still worried about Google. But the new threat is Wal-Mart. It’s pulling down wages all across America. How is it that by creating a demand for low-skilled workers Wal-Mart is *lowering* wages? Never could figure that one out. People forget that when low-skilled workers worked at mom-and-pop general stores on Main Street, we had low wages and high prices. Now we have low wages and low prices. I know which is better for America and its poor.

To hear the worriers tell it, soon we’ll all be working at Wal-Mart making lousy wages with no benefits, selling low-priced foreign goods to one another.

It’s always something. Something to scare people who do not understand how trade really works, how markets work, or how wealth gets created and spread. You’d think that the abysmal track record of the worriers would dent their credibility. But it doesn’t seem to. People are just as worried about Wal-Mart as they were about Japan. As my colleague Don Boudreaux likes to point out, economists will always have work to do explaining how the economy really works. 

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