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F. A. Hayek

FEATURES

Harry Truman

COLUMNS

BOOK REVIEWS

by Richard M. Ebeling

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F. A. Hayek and *The Road to Serfdom*: A Sixtieth-Anniversary Appreciation

Sixty years ago this month, in March 1944, *The Road to Serfdom* by F. A. Hayek was first published in Great Britain. For six decades it has continued to challenge and influence the political-economic landscape of the world. Hayek delivered an ominous warning that political trends in the Western democracies were all in the direction of a new form of servitude that threatened the personal and economic liberty of the citizens of these countries.

At the time the book was released Great Britain and the United States were engulfed in a global war, with Nazi Germany as the primary enemy and Soviet Russia as the primary ally. In 1944 the British had a wartime coalition government of both Conservative and Labor Party members, with Winston Churchill as its head. During these war years plans were being designed within the government for a postwar socialist Britain, including nationalized health care, nationalized industries, and detailed economic planning of industry and agriculture.

For the 12 years before America's entry into the war Franklin Roosevelt's New Deal had transformed the United States through a degree of government spending, taxing, regulation, and redistribution the likes of which had never before been experienced in the nation's history. Many of the early New Deal programs had even imposed a network of fascist-style economic controls on private industry and agriculture; fortunately, the Supreme Court had declared most of these controls unconstitutional in 1935.

At the same time, the Soviet Union was frequently portrayed as a model—however rough around the edges—of an ideal socialist society, freeing "the masses" from poverty and exploitation. The Nazi regime, on the other hand, was usually depicted as a brutal dictatorship designed to maintain the power and control of aristocratic and capitalist elites that surrounded Hitler.

Hayek's challenge was to argue that German Nazism was not an aberrant "right-wing" perversion growing out of the "contradictions" of capitalism. Instead, the Nazi movement had developed out of the "enlightened" and "progressive" socialist and collectivist ideas of the pre-World War I era, which many intellectuals in England and the United States had praised and propagandized for in their own countries.

It was in Bismarck's Germany, after all, that there had been born the modern welfare state—national health insurance, government pension plans, regulations of industry and the workplace—and a philosophy that the national good took precedence over the interests of the "mere" individual.

In this political environment Germans came to take it for granted that the paternalistic state was meant to care for them from "cradle to grave," a phrase that was coined in Imperial Germany. Two generations of Germans accepted that they needed to be disciplined by and obedient to the enlightened political "leadership" that guided the

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Richard Ebeling is president of FEE.

affairs of state for their presumed benefit. Beliefs in the right to private property and freedom of exchange were undermined as the regulatory and redistributive state increasingly managed the economic activities of the society for the greater "national interest" of the German fatherland. By 1933, when Hitler came to power, the German people not only accepted the idea of the "führer principle," Hayek argued, but many now wanted it and believed they needed it. Notions about individual freedom and responsibility had been destroyed by the philosophy of collectivism and the ideologies of nationalism and socialism.

But Hayek's main point was that this tragic history was not unique or special to the German people. The institutional changes that accompanied the implementation of socialist and interventionist welfare-state policies potentially carried within them the seeds of political tyranny and economic servitude in any country that might follow a similar path.

The Ultimate Monopoly

The more government takes over responsibility for and control over the economic activities of a society, the more it diminishes the autonomy and independence of the individual. Government planning, by necessity, makes the political authority the ultimate monopoly, with the power to determine what is produced and how the resulting output shall be distributed among all the members of the society.

What freedom is left to people, Hayek asked, when the government has the ability to decide what books will be printed or movies will be shown or plays will be performed? What escape does the individual have from the power of the state when the government controls everyone's education, employment, and consumption?

He also warned that the more that government plans production and consumption, the more the diverse values and preferences of the citizenry must be homogenized and made to conform to an overarching "social" scale of values that mirrors that hierarchy of ends captured in the central plan.

Even dissent, Hayek warned, becomes a threat to the achievement of the plan and its related redistributive policies. How can the plan be achieved if critics attempt to undermine people's dedication to its triumph? Politically incorrect thoughts and actions must be repressed and supplanted with propaganda and "progressive" education for all. Thus unrestricted freedom of speech and the press, or opposition politicking, or even observed lack of enthusiasm for the purposes of the state became viewed as unpatriotic and potentially subversive.

In addition, the classical-liberal conception of an impartial rule of law, under which individuals possess equal rights to life, liberty, and the peaceful acquisition and use of private property, would have to be replaced by unequal treatment of individuals by the political authorities to assure an ideologically preferred redistributive outcome. But, asked Hayek, by what benchmark, other than prejudice, caprice, or the influence of interest groups, would the planners make their decisions?

Finally, in one of the most insightful chapters in the book, Hayek explained why, in the politicized society, there is a tendency for "the worst to get on top." Fulfillment of the government's plans and policies requires the leaders to have the power to use any means necessary to get the job done. Thus those with the least conscience or fewest moral scruples are likely to rise highest in the hierarchy of control. The bureaucracies of the planned and regulated society attract those who are most likely to enjoy the use and abuse of power over others.

Hayek died on March 23, 1992, at the age of 92. In the 12 years since his passing, *The Road to Serfdom* has come to be seen as one of the greatest political contributions of the twentieth century. Indeed, it played a very crucial role in stemming the tide toward totalitarian collectivism in the decades that followed World War II. ❑

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Fax: (914) 591-8910; E-mail: freeman@fee.org
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Cover: F. A. Hayek

PERSPECTIVE

The Collectivist Paradox

Among other grand achievements, F. A. Hayek had a remarkable career pointing out the flaws in collectivism. One of his keenest insights was that, paradoxically, any collectivist system necessarily depends on one individual (or small group) to make key social and economic decisions. In contrast, a system based on individualism takes advantage of the aggregate, or "collective," information of the whole society; through his actions each participant contributes his own particular, if incomplete, knowledge—information that could never been tapped by the individual at the head of a collectivist state.

One outcome of these features is that when the dictator errs, the consequences are felt by everyone, yet when an individual errs in a decentralized market order, the consequences are local and small-scale, often offset by better decisions made elsewhere.

Here's how Hayek put the matter in *The Road to Serfdom*, the 60th anniversary of which we celebrate this month: "It may be said that it is the paradox of all collectivist doctrines and its demand for 'conscious' control or 'conscious' planning that they necessarily lead to the demand that the mind of some individual should rule supreme—while only the individualist approach to social phenomena makes us recognize the superindividual forces which guide the growth of reason."

Hayek thus offers a supplement to ethical individualism—call it social individualism. To the proposition that each individual has a right to conduct his life in any peaceful manner he wishes, Hayek adds that when all individuals have that freedom, each one gains access to an expanding store of information that is necessarily far richer than what could possibly be possessed by a dictator and his Ministry of Economic Planning.

The key to that otherwise padlocked store is property. It is property that spawns trade, which in turn generates market prices. Prices, themselves the product of "collective" knowledge, are capsules of information that guide the actions of entrepreneurs and consumers and produce further knowledge. To be sure, prices contain erroneous information and are filtered through people's unpredictable expectations. Nevertheless, the result is an unequalled degree of social coordination and cooperation (the division of labor) that permits an unparalleled and widespread prosperity.

"Individualism is thus an attitude of humility before this social process and of tolerance to other opinions," Hayek added, "and is the exact opposite of that intellectual *hubris* which is at the root of the demand for comprehensive direction of the social process."

Hayek was writing about totalitarian systems, but his thesis applies to contemporary mixed economies as well. Government regulation of peaceful conduct necessarily is devised and enforced by a group of people substantially smaller than the entire society. Those decision-makers can't possibly know what the multitude of individuals acting in an infinite variety of special situations knows. Moreover, legislators and regulators face different incentives from normal market participants. For one thing, unlike entrepreneurs they have little at risk and are rarely accountable for their failures. Interventionists, then, are guilty of the same hubris—only to a lesser extent—that Hayek identified in totalitarianism.

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What error most threatens individual liberty and civilization itself? F. A. Hayek identified it many years ago in a tribute he wrote to FEE founder Leonard Read.

Government today is pervasive, influencing all aspects of life. Let Murray Weidenbaum count the ways.

Do you know what blogging is? Among other things, it's a cheap way to spread the freedom philosophy. Tyler Cowen explains.

Countless Hollywood movies have been built around the violent conflicts between cattlemen and farmers in the Old West. Who are the good guys and the bad guys? Andrew Morriss sorts it all out.

What do an overprotective gardener and the welfare state have in common? Russell Madden knows.

Part of the effort to persuade people of the value of freedom lies in debunking loaded terms. Gene Callahan and Bob Murphy make a start.

The federal deficit is expected to exceed half a trillion dollars this fiscal year. That makes it a good time for a FEE Timely Classic by Hans Sennholz.

Here are our columnists' offerings: Richard Ebeling celebrates the anniversary of one of the great books on freedom. Lawrence Reed conducts a virtual tour of an important museum. Thomas Szasz asks if preventive detention to avert suicide can square with libertarian principles. Robert Higgs looks back at President Harry Truman's attempt to seize the steel industry. Walter Williams wonders how we got here. And Aeon Skoble, encountering the claim that compassion requires a minimum-wage law, says, "It Just Ain't So!"

In the book-review department, tomes on the ideology of three famous thinkers, the importance of commerce to freedom, the observations of a gutsy economist, and the benefits of free trade come under examination.

—Sheldon Richman

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Decency Requires a Minimum-Wage Law?

It Just Ain't So!

The libertarian cliché that "at least the Republicans are right on economic policies" suffered another setback on the August 11, 2003, *Los Angeles Times* op-ed page, where Republican Douglas MacKinnon argues that anyone who cares about the poor should be ashamed of the failure of the Senate to raise the minimum wage. His essay is a model not only of economic illogic, but of moral illogic also. (Actually, the two are connected.)

The economic fallacy MacKinnon commits, familiar to many readers of this magazine, is the failure to acknowledge that prices for anything, including the cost of buying someone's labor power, depend not only on aggregate supply and demand, but also on the economic priorities ("values") of individual buyers (and sellers). In other words, "demand" refers not only to the number of people who desire something, but also to the (variable) intensity with which a particular buyer desires it. Based solely on aggregate supply and demand, I could have someone else mow my lawn for around $30, but for the most part I am content to mow my own lawn. If it cost 30 cents, however, I would surely hire someone else to do it. The act of mowing my lawn has no fixed, predetermined "worth."

All prices are like that. A good or a service is worth, in economic terms, whatever someone is willing to pay for it. In other words, if someone is forced to pay more for something than he thinks it is worth, he will be less likely to buy it. I like chocolate, but if the price were $20 an ounce, I would surely buy a lot less of it. If a storekeeper finds it is worth $50 a day to have someone sweep in front of the store, he will pay it. But if he were told that it must cost $60 a day, he might decide it is not worth it, or not worth it as often. That is why forced increases in wages (meaning legislatively imposed increases as opposed to increases due to supply and demand) lead to layoffs at the margins. MacKinnon asserts that this is false, on the grounds that many employers already pay more than the minimum wage. But that's a non sequitur. It is precisely the ones who do not (the ones "at the margins") who will be forced to reduce their purchases of labor.

Economic logic aside, MacKinnon is also not reasoning well in terms of moral philosophy. One moral objection is that forcing a purchaser (in this case, the purchaser of labor power) to pay more than he feels something is worth is what we would call in any other context "extortion." That's immoral in a straightforward way, although this is perhaps obscured because the purchaser "obviously" can afford it.

But perhaps I won't impress anyone by urging compassion for the bosses. MacKinnon's main theme is that we must have compassion for the workers, so let's examine that aspect more closely.

He claims that compassion dictates that we care most about those most in need, and that's why it is imperative to raise the minimum wage. But since a forced increase in the cost of something means that less of it will be purchased, and therefore minimum-wage increases mean layoffs at the margins, it is precisely these "most in need" who will be unable to find work; they will either get laid off or be unable to find entry-level positions, of which there will be fewer. So MacKinnon's attempt to be compassionate (paying Smith more money so he can get out of poverty) has a tradeoff: Jones is unemployed and sinks deeper into poverty. From Jones's point of view, this is hardly compassionate.

MacKinnon is right when he says that most employers actually pay more than minimum wage anyway. So maybe it's only a small number of workers who will be laid off as a result of the increase. But so what? Is there some number of Joneses who can be made to suffer to help any number of Smiths? That is the crudest form of utilitarianism, an approach to moral philosophy that fails to take seriously the dignity and self-worth of each individual person. In this context, it would mean it's moral to make some poorer so that some others can make an extra dollar an hour. That's not my idea of compassion.

Compassion Only for Some

MacKinnon makes the (essentially correct) point that the poor have hopes and dreams, that they have integrity, that all they lack is enough money to care for their children and themselves. Are such people deserving of compassion? Of course, but *all* of them are, not just some of them. MacKinnon's solution shows compassion to some, but at the expense of others. Don't the ones who get laid off also have hopes and dreams?

Ethics quiz: is it better to have ten people making \$5.15 an hour, or nine people making \$6.65 an hour and one person making nothing? Answer: it's not up to *you*, and it's not up to MacKinnon. The way to respect the equal dignity of all is not to treat some as dispensable for the sake of others.

Speaking of poor reasoning, MacKinnon commits common logical fallacies as well as economic and moral ones, and this is worth noting because they are the sorts of fallacies that proponents of minimum-wage laws typically make when framing their arguments. MacKinnon commits the "ad hominem" fallacy when he claims that the senators won't pass the increase because they don't know what it's like to be poor. Whether that's true or not, it's neither here nor there with respect to whether it's sound public policy.

The bulk of MacKinnon's argument commits what logicians call the "ad misericordiam" fallacy: he expounds on the fact that he himself used to be poor, that it is terrible to live in poverty, that it is hard for the working poor to make ends meet, that many poor people are poor from birth, and that the poor are people too, equally deserving of dignity. All the things he says on these subjects are true. But they don't constitute a refutation of the economic principle explained above. (It is as if one tried to refute the law of gravity by describing how awful it feels when a piano falls on one's head: it is indeed awful, but that's what falling pianos do.) And they don't address the real suffering of the real people who will be made worse off by these misguided attempts to help people.

—Aeon J. Skoble
(askoble@bridgew.edu)
Department of Philosophy
Bridgewater State College

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The Defense of Our Civilization Against Intellectual Error

by F. A. Hayek

I believe that what the Foundation for Economic Education, with Leonard Read at its head, and all his co-fighters and friends are committed to is nothing more nor less than *the defense of our civilization against intellectual error.*

I do not mean this as the kind of high-flown phrase that one is apt to coin for an occasion like this. I mean it literally, as the best definition of our common task. I have chosen every one of these eight words advisedly and will now try to explain what I mean by them.

In the first instance I wanted to emphasize that what is threatened by our present political trends is not just economic prosperity, not just our comfort, or the rate of economic growth. It is very much more. It is what I meant to be understood by the phrase "our civilization." Modern man prides himself that he has built that civilization as if in doing so he had carried out a plan which he had before formed in his mind. The fact is, of course, that if at any point of the past man had mapped out his future on the basis of the then-existing knowledge and then followed this plan, we would not be where we are. We would not only be much poorer, we would not only be less wise, but we would also be less gentle, less moral; in fact we would still have brutally to fight each other for our very lives. We owe the fact that not only our knowledge has grown, but also our morals have improved—and I think they *have* improved, and especially that the concern for our neighbor has increased—not to anybody planning for such a development, but to the fact that in an essentially free society certain trends have prevailed because they made for a peaceful, orderly, and progressive society.

This process of growth to which we owe the emergence of what we now most value, including the growth of the very values we now hold, is today often presented as if it were something not worthy of a reasonable being, because it was not guided by a clear design of what men were aiming at. But our civilization is indeed largely an unforeseen and unintended outcome of our submitting to moral and legal rules which were never

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Economist and social philosopher F. A. Hayek was one of the twentieth century's most important advocates of individual liberty. His best-known books are The Road to Serfdom *(1944) and* The Constitution of Liberty *(1960). These remarks are reprinted from* What's Past Is Prologue, *a collection of tributes published in honor of FEE founder Leonard E. Read's 70th birthday, September 26, 1968.*

The paperback edition of The Road to Serfdom *(University of Chicago Press) is available from FEE for $16.00 postpaid.*

"invented" with such a result in mind, but which grew because those societies which developed them piecemeal prevailed at every step over other groups which followed different rules, less conducive to the growth of civilization. It is against this fact to which we owe most of our achievements that the rationalist constructivism so characteristic of our times revolts. Since the so-called Age of Reason it seemed to an ever-increasing number of people not worthy of a rational being that he should be guided in his actions by moral and legal rules which he did not fully understand; and it was demanded that we should not regard any rules obligatory on us except such as clearly and recognizably served the achievement of particular, foreseeable aims.


Leonard Read, Mrs. Read, and F. A. Hayek at a FEE seminar in Mineral Wells, Texas, in March 1962.

It is, of course, true that we only slowly and gradually begin to understand the manner in which the rules which we traditionally obey constitute the condition for the social order in which civilization has arisen. But in the meantime, uncomprehending criticism of what seemed not "rational" has done so much harm that it sometimes seems to me as if what I am tempted to call *The Destruction of Values by Scientific Error* were the great tragedy of our time. They are errors which are almost inevitable if one starts out from the conception that man either has, or at least ought to have, deliberately made his civilization. But they are nevertheless intellectual errors which bid fair to deprive us of values which, though we have not yet learned to comprehend their role, are nevertheless indispensable foundations of our civilization.

This has already brought me to the second part of my definition of our task. When I stressed that it is genuine intellectual error that we have to fight, what I meant to bring out is that we ought to remain aware that our opponents are often high-minded idealists whose harmful teachings are inspired by very noble ideals. It seems to me that the worst mistake a fighter for our ideals can make is to ascribe to our opponents dishonest or immoral aims. I know it is sometimes difficult not to be irritated into a feeling that most of them are a bunch of irresponsible demagogues who ought to know better. But though many of the followers of what we regard as the wrong prophets are either just plain silly, or merely mischievous trouble-makers, we ought to realize that their conceptions derive from serious thinkers whose ultimate ideals are not so very different from our own and with whom we differ not so much on ultimate values, but on the effective means of achieving them.

I am indeed profoundly convinced that there is much less difference between us and our opponents on the ultimate values to be achieved than is commonly believed, and that the differences between us are chiefly intellectual differences. We at least believe that we have attained an understanding of the forces which have shaped civilization which our opponents lack. Yet if we have not yet convinced them, the reason must be that our arguments are not yet quite good enough, that we have not yet made explicit some of the foundations on which our conclusions rest. Our chief task therefore must still be to improve the argument on which our case for a free society rests. □

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The Awesome Powers of Government

by Murray Weidenbaum

Government possesses far more mechanisms that influence actions in the private sector than most people realize. The typical business firm faces an impressive array of government powers.

Government as Paymaster. The oldest policy tool available to government is to hire people and put them on its payroll. Government employees represent such diverse professions as teachers, foresters, and revenue agents. Payrolls provide a cadre of public officials whose actions can then be controlled in terms of their influence on the rest of society. This is the tip of the iceberg because small proportions of government resources are devoted to compensation of its employees.

At first blush, direct government hiring seems to have little impact on the economy, but often government sets the standards in the United States. The now prevailing eight-hour day began in the federal government. In specific personnel categories, such as secretaries and teachers, government hiring patterns influence the entire labor market.

Government Purchases. Substantial portions of government budgets are devoted to ordering goods and services produced in the private sector. Products purchased range from high-tech space-exploration vehicles to standard off-the-shelf pens and pencils. The importance of the government market is obvious to key defense-oriented industries such as aerospace, electronics, ordnance, and shipbuilding. In addition, public-sector buyers—from national, state, county, and municipal agencies—purchase items from virtually every industry. Government procurement can be the difference between a good year and a mediocre year for many companies. Thus many businesses have a strong incentive to influence government.

At the national level military contracts to private industry are the major category of purchases from business. State and local government agencies, in contrast, contract mainly for roads and school buildings and various categories of office supplies. The procurement process is an important way in which government influences private-sector actions. The public sector's methods of doing business are very different from standard commercial operations. Moreover, for the companies that produce primarily for military and space markets, the government is virtually a monopoly buyer. It exerts powerful control over the contractors' internal operations by forcing them to act in many ways like a government agency and also to be "socially responsible." Requirements imposed by government on private industry range from hiring and training minority

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Murray Weidenbaum holds the Mallinckrodt Distinguished University Professorship at Washington University in St. Louis, where he also serves as honorary chairman of the Weidenbaum Center on the Economy, Government, and Public Policy. He is the author of Business and Government in the Global Marketplace, *seventh edition (Prentice-Hall, 2004).*

groups to adopting federally set wage and hour standards.

Transfer Payments. A third policy tool available to government is to provide money to individuals—what economists call transfer payments and what the public at large refers to less euphemistically as handouts. The key example is the monthly Social Security check sent to senior citizens. Here the impacts are more indirect than in the case of government procurement. Such expenditures strongly influence the amount of consumption by the recipients and thus affect the size and composition of consumer markets.

Government spending for transfer payments, most of which are labeled entitlements, has become so massive in recent years that trends in that category can be a significant factor in the entire economic outlook.

Raising Demand

Government Subsidies. Government subsidizes private activity in many ways. By absorbing a portion of the cost of production, subsidies raise the demand for the subsidized products in relation to other items. Generous subsidies are provided to many sectors of the economy—and sometimes are referred to pejoratively as *business welfare*: agriculture (farm price supports), fishing (financing for new vessels), nuclear energy (government payments for developing new products), transportation (aid to urban mass transit), housing (low-rent public housing), and mining (special tax benefits). Subsidies are also received by a variety of special clienteles, such as minority enterprises.

Subsidies often contain a regulatory component. For example, government subsidies to shipbuilders can be vital in decisions to build ships in domestic yards rather than overseas. But to qualify for federal subsidies, the ships must incorporate specific national-defense and safety features spelled out by the government. These added features raise both acquisition and operating costs.

In many ways government is a competitor for funds or influence. Thus the Tennessee Valley Authority competes with private utilities, the Government Printing Office with commercial publishers (especially mapmakers such as Rand McNally), and the U.S. Postal Service with private parcel delivery services (United Parcel Service and Federal Express, most notably). Government enterprises also compete with private enterprises in the large markets represented by the government's own purchases. This competition between the public and private sectors is more visible at state and local levels, in such areas as health, recreation, trash collection, and security services.

Government Loans. The government also acts as a banker, lending money to private firms and individuals as well as to many other categories of borrowers. The gamut of federal lending extends to exporters (Export-Import Bank), farmers (Farmers Home Administration), real-estate developers (Federal Housing Administration), and small enterprises (Small Business Administration). Sometimes low-interest government loans merely substitute for available private funds. But, more frequently, the government credit is provided for projects whose expected returns are so low that private markets will not finance them. Government loans are anything but the proverbial free lunch.

Government as Underwriter. Even without spending its own money, government can strongly influence private economic activity. One way the public sector does that is by use of its credit power. The method used most frequently is the guarantee of private loans, as in the dramatic case of Chrysler and the less well-known but more frequent guarantees of new ship construction and exports. Because much of the risk is shifted from the private lender to the government, borrowers who are not considered creditworthy by normal commercial standards are given access to funds. Also, the government fosters the creation of quasi-government credit corporations, such as in the agricultural and housing credit areas (the farm credit banks and the federal home loan banks). The use of the government's credit alters the flow of funds in the economy and thus strongly influences who gains access to resources.

Because they do not seem to require (at

least initially) the direct expenditure of government money, loan guarantees have been proliferating, as have other uses of the government's credit. As seen in the bailouts of insured but failed savings-and-loan associations, the government's contingent liability can at times be converted to direct expenditure—and in very substantial amounts.

Government Regulation. A major area of government involvement in business is the use of the regulatory power. The alphabet soup of regulatory agencies has become well known: CFTC, CPSC, EEOC, EPA, FAA, FDA, FEC, FERC, FMC, FTC, ITC, MSHA, NLRB, NRC, NTSB, OSHA, SEC, TSA, and on and on. Regulations range from broad-gauged requirements for pollution control to rules on the sales of lemons in a given month, from wide-ranging rules on worker health and safety to specialized restrictions on transactions in futures markets. Aside from the limited use of government personnel to design and enforce regulations, the bulk of the costs generated is "off budget" because the expenses incurred are mainly for compliance by private companies and individuals being regulated. Such outlays do not show up in the government's budget; thus regulation has become especially popular. The cumulative effects of regulation on business performance—and on consumers—are pervasive. The concern about terrorism has generated a new wave of regulation.

Taxation. The government tax collector does more than share profits with individuals and with the owners of companies. Tax considerations are a major influence on business decision-making. The liberality of depreciation provisions and the level of marginal tax rates affect the threshold for making new investments. In contrast to these across-the-board provisions, many sections of the internal revenue code are aimed at promoting—or inhibiting—specific sectors of business (such as real estate, new energy sources, and overseas activities).

Government regularly employs its tax power to provide incentives for designated private activities. Using the carrot of tax incentives, governments often foster what they consider to be greater social responsibility on the part of business. In the United States specific internal-revenue provisions include tax credits for hiring certain categories of people (minority groups) and tax deferrals for income from exports. The latter is an example of the complex interaction between tax policy and other government activities.

At times there is a direct link between taxes and controls. For a company's retirement contributions to qualify as a federal tax deduction, a pension program must meet detailed requirements spelled out in regulations issued under the Employee Retirement Income Security Act (ERISA).

Government as Business Partner. In addition to affecting business practices through policy or legislative mandates, governments sometimes manipulate the private sector directly by entering into partnerships with business enterprises. The involvement of government in the ownership of business is common in less-developed countries or in nations with a history of public control of business. In a few cases, the federal government has purchased equity positions in small defense contractors that lack adequate financial resources to meet the military's needs.

As businesses become more global in their operations by expanding into foreign markets, they often establish joint ventures and other associations with their host governments. For instance, McDonald's became the first U.S. firm to penetrate the Russian economy when it opened a restaurant in Moscow in 1990. The restaurant, located near the Kremlin, is a joint venture with the Moscow City Council.

Fed's Influence over Interest Rates

Monetary Policy. The conduct of monetary policy by central banks such as the Federal Reserve System is a prime example of government actions that profoundly affect business but are not normally considered an aspect of business-government relations. The Federal Reserve strongly influences interest rates, the flows of money and credit, inflation rates, and the overall level of business activity in the economy. The Fed is a creature of the Congress and, although technically independent of the executive branch, often responds to presidential leadership. The power of the Federal Reserve System via its purchases and sales of treasury securities and its setting of discount rates and bank-reserve requirements greatly affects the economic and financial environment in which companies operate.

The cost and availability of credit can be key influences on the performance and at times the very existence of business firms. A company's board of directors may spend almost as much time discussing the outlook for the prime rate as the finance committee's report. During wartime and under other emergency conditions, governments often augment indirect monetary (and fiscal) instruments with direct controls over wages, prices, and the use of materials.

Moral Suasion. From time to time, national leaders call on the people to take actions on a voluntary basis. Especially when an activist president occupies the White House, the U.S. government tries to persuade (or "jawbone") the private sector to support it on specific issues. Several presidents have called on business to do such "patriotic" things as limit wage and price increases or eliminate discrimination in the workplace. Such displays of presidential leadership can be compelling because of the vast array of government powers—the proverbial stick in the closet—available to reinforce the "request" for voluntary action.

In 1990, following the Iraqi invasion of Kuwait, President George H. W. Bush jawboned the oil companies not to raise prices too much. The large producers promptly complied. Ironically, the result was to squeeze the high-cost smaller dealers who found it more difficult to absorb the higher cost of crude oil as established in world markets.

In that same year, Health and Human Services Secretary Louis Sullivan criticized R. J. Reynolds for marketing a new brand of cigarettes aimed at African-American consumers. As an African-American physician, he possessed a great deal of moral authority. Within 24 hours, RJR canceled plans to test market the new product. A year later some members of Congress objected vociferously to the plan of Japan's Fanuc Ltd. to buy 40 percent of a Connecticut machine-tool builder that helps make nuclear weapons. Although the legal authority to reject foreign purchases of American companies on national security grounds had lapsed, Fanuc backed off.

In 1993 then-Senator Paul Simon of Illinois (now deceased) warned producers of television programs and TV networks to take aggressive action to curb violence on television or face congressional intervention. In response to earlier Senate hearings, the networks had already agreed to issue warnings to audiences prior to showing programs with substantial amounts of violence. In late 1996, after further public criticism, the major television networks established a voluntary system of describing the content of various categories of programs.

More recently, in 1998, the Department of Defense requested aerospace giant Lockheed Martin not to acquire Northrop Grumman, another large aerospace company (the Department of Justice also indicated its potential opposition). Even though the shareholders of both companies had approved the merger, these important defense contractors yielded to the wishes of their major customer.

Ralph Nader has noted that business, too, has its power, and that is true. Actions by multibillion-dollar corporations can have strong positive or negative effects on a community or an entire region of a country. Yet the contrast between government and business power is striking. The largest company cannot tax you; the smallest unit of government can. The most profitable corporation cannot throw you in jail; the smallest municipality can. □

THE FREEMAN
Ideas On Liberty
MARCH 2004

A Museum You Don't Want To Miss

More than 150 years ago Karl Marx predicted that communism was inevitable. History, he claimed, was marching inexorably toward a communist paradise. In hindsight it would appear that if anything about communism was inevitable, it was that it would sooner or later be relegated to the status of museum relic. In the capital city of a formerly communist country in eastern Europe, that's exactly what has happened.

Visit Prague in the Czech Republic these days and there's a spot you won't want to miss. It's the Museum of Communism, amidst the city's main shopping district and just a five-minute walk from the foot of beautiful Wenceslaus Square. Advertisements around town tell the tourist where to find it and reveal a little irony too: "We're Above McDonald's, Across from Benetton, Viva La Imperialism!" A lively casino occupies the adjacent building.

While in Prague last August I stumbled into the museum with no expectations of its perspective. Was it sponsored by allies of the *ancien régime*, nostalgic for the "good old days" and eager to whitewash the past? Or would it be honest about the country's painful, 40-year experience with a failed ideology? Fortunately, this place tells the truth.

The man behind the museum is not himself a native Czech. He is Glenn Spicker, a 38-year-old American entrepreneur who was attracted to Prague's new business opportunities after the 1989 "Velvet Revolution" expelled the communists from power. He introduced bagels to Prague and opened a jazz club and several successful restaurants. It soon struck him that what was missing in the city was any vivid public reminder of what life was like before 1989. So he spent several months and $28,000 searching flea markets and junk shops for almost a thousand bits and pieces of Red memorabilia—including busts of Marx and Lenin, textbooks, posters, and samples of the shoddy merchandise that once adorned dingy state-owned storefronts all across the country. The museum opened its doors in December 2001.

Exhibits that explain the communist "dream" greet the visitor first upon entering. Slogans, propaganda, and all the paraphernalia of promises made to be broken remind one of the wildly utopian vision once offered by Marx and his followers. Communist theoreticians boasted that they would produce an egalitarian "workers' paradise" of happiness and abundance, but nothing of the sort came to pass in eastern Europe or anywhere else the system was tried. The largest portion of Spicker's museum is dedicated to portraying the reality of the communist "nightmare"—an Orwellian trap where private hardship was the rule behind all the public smiles.

Prague is often called the Paris of eastern Europe for its open and lively city life, stately architecture, rich musical heritage, and cultural diversity. Tourists marvel at the

Lawrence Reed (reed@mackinac.org) is president of the Mackinac Center for Public Policy (www.mackinac.org), a free-market research and educational organization in Midland, Michigan.

art and entrepreneurship evident on every block. Czechs smile and make friends quickly. Just 15 years since liberation, it's easy to forget how tyranny once kept these same people in thralldom.

In Spicker's museum the reconstruction of an interrogation room used by the secret police provides a chilling refresher in state terror. Records show that under communist rule Czech political dissidents were executed by the dozens; more than a quarter million were imprisoned. The secret police employed no fewer than 200,000 spies paid to keep watch over their fellow citizens.

In another corner of the museum sits a replica of a grocery storefront, shabby and unattractive because that's the way storefronts looked under communism. Shelves were often bare or stocked with goods few people wanted. Shoppers had to endure long lines to secure the most basic of commodities. An inscription tells the visitor that price controls led to a thriving black market in which "poorly paid employees of the shops hid rare merchandise for selected customers, who were able to pay some extra money or provide a certain counter-service." Much of Czech society resorted to simple barter: "the butcher exchanged his steaks for bananas from the grocer," for example.

Ecological Disaster

Did communist central planners nurture the natural environment? Hardly. Everywhere communists were in charge—from the Soviet Union and its satellites to mainland China—ecological disaster ensued. The Prague museum explains: "Surface mining in Northern Bohemia changed extensive areas of land into wasteland and the use of solid fuel in power stations polluted the air and killed border forests. Attempts to increase the yield in collectivized agriculture with the application of industrial fertilizers and heavy mechanization led to extensive damage of soil and underground water. This led to the elimination and extermination of a large number of small wildlife species. The statistics show that the average age of inhabitants of communist countries was considerably lower than the average age in the democratic countries. After the fall of communism in the Czech Republic the average age of citizens rapidly increased by about five years."

Though the story the museum is designed to tell is grim, Spicker does have a sense of humor. To help raise money to pay the bills, the museum gift shop offers postcards and poster-size reproductions of communist-era propaganda photos but each with an added caption. One depicts a peasant woman holding aloft in the breeze a piece of cloth. The caption reads, "You couldn't get laundry detergent, but you could get your brain washed." Another shows a parade of smiling teens waving red flags below these words: "It was a time of happy, shiny people. The shiniest were in the uranium mines."

Near the museum exit stands a portion of the Berlin Wall, still adorned with the graffiti that Westerners scrawled on the free side of that despicable barrier. Among the scribblings are these poignant words large enough that no visitor can miss: "Let me live my life, enjoy freedom, touch the limits, reach the stars, understand the world. That's what I want."

Communism was one of history's most infamous lies. What it wrought stands as a horrible testament to the "planned chaos" of the omnipotent state. The truth demands that its record be documented and displayed. Glenn Spicker's museum does precisely that, for which men and women everywhere should be grateful. ❑

(Editor's note: Readers can sample the museum's offerings by visiting its English-language website, www.muzeumkomunismu.cz/.)

THE FREEMAN
Ideas On Liberty
MARCH 2004

The New World of Blogs

by Tyler Cowen

Imagine a costless or very cheap printing press in the hands of each and every writer. Imagine a world where opinion and commentary bypass the elites and are unregulated by government. Well, we have entered this new world in the last few years. These virtual-reality printing presses, called "blogs," are reshaping the world of publishing.

The word "blog" is a neologism, short for "weblog." A weblog, quite simply, is a website that is updated on a regular basis, often every day. Think of a diary, or an op-ed page, but in cyberspace, and you come close to imagining what blogs are like. The end of this article offers some blog sites for you to visit.

It is disputed who wrote the first blog, but the first systematic, easy-to-use blogger software appeared in 1999. Since that time millions of new blogs have been started. No one knows for sure how many blogs are out there.

There are now blogs of every kind; politics blogs, law blogs, psychology blogs, literary blogs, and science blogs, among many other options. All the major presidential candidates, including George W. Bush, offer blogs for their supporters. Teenage girls write blogs to tell the world who attended their last party. Professors use blogs to report on academic conferences. Salam Pax provided a daily firsthand account of the war in Iraq.

"Why are Weblogs popular?" asks one promoter of blogger software. "I think it's because they have something to say. In a media world that's otherwise leached of opinions and life, there's so much life in them."[1]

Blogs have become very popular very quickly. The leading blogs draw several hundred thousand readers a day. Many readers now get their news from blogs before newspapers, or look to blogs as a substitute for op-ed pages. I use blogs to read reviews of new books, to follow the latest developments in science, and to feel the flavor of current political debates. Blogs, if you read the right ones, also offer a more intellectual and highbrow approach to the news. Would you ever, on cable television, hear a commenter analyze the economics of productivity and budget deficits, as does blogger Brad DeLong (www.j-bradford-delong.net/movable_type/)?

Blogs already have had an impact. They are widely credited with spurring the downfall of *New York Times* editor Howell Raines. It was bloggers who spotted and publicized the biases and discrepancies in various *Times* stories. Bloggers have been a major source of information about Iraq, both during the war and after. More generally, bloggers have outpaced major media on a number of ongoing stories, including the controversies over "weapons of mass destruction" and the development of the

Tyler Cowen (tcowen@gmu.edu) is Holbert C. Harris Professor of Economics at George Mason University.

Schwarzenegger candidacy. Blogs offer an immediacy and an attention to detail that newspapers and TV stations cannot always match.

No doubt, many blogs are terrible or just outright boring. The very virtue of blogs—free entry into the marketplace—means that quality filters will be weak. A bad blog might ramble on about the author's love life, dog, or what traffic was like that day on the freeway. It is easy to visit blogs and come away disillusioned. But the best are innovative, readable, and sharp.

Some blogs offer up the writing of a single individual, while other "group blogs" put forth a collective effort. Some act like portals and point readers to the best of other blogs; www.instapundit.com is one of the best-known blogs of this kind. A good blogger has the skills both of a writer and an editor. Many blogs act as short, daily magazines, offering readers the best and most interesting news in a given area.

Bloggers provide you with a universe of experts on every imaginable topic. The Internet makes experts easier to find, and

BLOGGING FOR FREEDOM

Here are some of the major blogs reflecting a market-oriented and/or classical-liberal point of view:

Virginia Postrel: Author and former editor of *Reason* magazine, Postrel writes on public policy, the arts, and aesthetics, from a broadly libertarian point of view. Go to **www.dynamist.com.**

The Mises blog: This blog is published by the Mises Institute. It offers regular commentary on economic events, economic theory, and sometimes foreign policy. The point of view is strongly free market on policy and strongly Austrian on economic method. The address is **www.mises.org/blog.asp.**

Lynne Kiesling: Kiesling teaches at Northwestern and works with Vernon Smith at George Mason University. Her blog focuses on energy policy, communications, and infrastructure. See **www.knowledgeproblem.com.**

Reason's Hit and Run: From the people who bring you *Reason* magazine, this blog covers politics, current affairs, and culture. Go to **www.reason.com/hitandrun/.**

Arnold Kling: Liberty Fund supports this blog, which focuses on market economics. Visit **http://econlog.econlib.org/.**

Volokh Conspiracy: This group blog, founded by Eugene Volokh and Sasha Volokh, started with a legal focus but has since branched out. The blog now also covers foreign policy, ideas in general, culture, and some economics. Conflict of interest disclaimer: I am one of the co-bloggers here. Visit **www.volokh.com.**

MarginalRevolution: Alex Tabarrok and I founded and write for this market-oriented economics blog. Our blog subtitle is "Small ideas for a much better world." Visit our site, **www.marginalrevolution.com.**

blogs give those experts regular platforms. I commonly read experts on archaeology (www.cronaca.com), the hard sciences (www.futurepundit.com), and contemporary culture (www.2blowhards.com). There is always an expert who knows more than a mere journalist does, and now you can go right to the expert and bypass the journalist.

Efficient and Speedy

The "blogosphere," as it is known, is an efficient and remarkably speedy means of processing and evaluating information. Once a new idea or fact has been posted on a blog, it is digested, analyzed, and evaluated within a matter of hours. Errors of fact or reasoning do not go unpunished. Furthermore the writer has the chance (obligation?) to respond to commentary and criticism. In these regards blogs are more efficient than newspapers. And many blogs offer a "comments" section, where readers can see how other readers have responded to the posted material.

In short, the blogosphere functions as a remarkably decentralized and powerful spontaneous order, to cite a concept from F. A. Hayek. No single person planned the evolution of blogs, but an entire intellectual architecture has arisen to serve millions.

Only rarely is blogging driven by financial incentives. If there is big money in blogging, few people if any have seen it. More likely, a blogger writes to communicate with others, to promote himself, simply for fun, or for some combination of the three. Blogs, however, may serve practical purposes. They have helped people find jobs, make friends, or keep families in touch.

Blogs bypass the biases and restrictions of major media sources. Many readers of *The Freeman* may feel that major newspapers and news stations do not adequately appreciate the virtues of markets and human liberties. The same cannot be said about blogs. Blogs offer all sorts of political and intellectual points of view, but libertarians, conservatives, and market-oriented ideas are especially prominent in the blogosphere. According to most rankings, the top ten blogs include a number of classical-liberal and market-oriented writers. Perhaps the very nature of cyberspace is somehow conducive to a concern with freedom.

If you wish to find out about more blogs, look to the ones you already like. Most will offer a "blogroll" listing other favorite blogs of the writers. Or do a Google search; typing in "anthropology blog," for instance, will bring you to anthropology blogs. The website www.technorati.com lists the most popular blogs at any point. Note that popular is not the same as best. See the box on page 17 for a sample of market-oriented blogs.[2]

New blogs start all the time, and old blogs become inactive. So the list offered in this article will go out of date. And given that blogs form part of a broader spontaneous order, we can expect the very nature of blogging to change over time.

But I should not stop at recommending blog reading. Do you wish to write your own blog? Try www.blogger.com, which is absolutely free. Another, www.typepad.com, offers better features and greater flexibility, although some versions involve a monthly fee.

In the meantime, whether or not you end up reading or writing blogs, take heart. The ideas of freedom have found a new and fertile venue. □

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1. Cited in Matt Welch, "The New Age of Alternative Media," *Columbia Journalism Review*, September/October 2003, pp. 20–26. The Welch article also offers a useful history of early blogging and blogging software.

2. I wish to offer an apology to all my blogger friends who are not covered. The world of blogging, by the way, offers some very clear measures of popularity. It is easy to count how many people visit a blog, and how many people link to that blog.

THE FREEMAN (Ideas On Liberty)
MARCH 2004

Westerns and Property Rights

by Andrew P. Morriss

Several new westerns opened at the box office last fall, including Kevin Costner's *Open Range*, costarring Robert Duvall. The story was a familiar one, with a twist: Costner's Charlie Waite and Duvall's "Boss" Spearman are cowboys trailing a herd north through Montana Territory. They run afoul of a villainous cattle rancher who tries to deny them the cowboys' traditional grazing rights on the "free" range, which is public land. Since the land isn't actually the villain's but public land open to all, Charlie and Boss fight back, leading up to a predictable gun battle. Costner's western, despite lukewarm reviews, received a reasonable reception at the box office, proving there is still an audience for westerns and at least partially achieving Costner's goal of reviving what he called "the great American classic genre personified by John Wayne." Unfortunately, Costner only got part of the history right, missing a chance to show the real story of the open range.

In real life much of the Great Plains was truly open range and the plentiful grass that stretched from the Texas Panhandle to Montana and Dakota Territories offered wonderful grazing after the elimination of the buffalo and the military's removal of the Native American populations. As the railroads stretched west and created a means to transport cattle east to markets, the free-range cattle industry sprang up in the 1870s and 1880s. As homesteaders spread west, however, violence occurred between the two groups as the cattlemen sought to keep homesteaders off "their" range and the homesteaders fenced off streams and plowed up pastures for their crops. The conflict between free-range cattlemen and homesteaders (portrayed memorably in the 1958 western *Shane*) was more common than the "intramural" conflict between cattlemen shown in *Open Range*.

North of Texas much of the Great Plains was federal land. The land that wasn't federally owned was generally in noncontiguous blocks: "checkerboard" sections alternating along railroad lines granted to the companies to subsidize the building of the railroads, sections set aside for specific public purposes such as schools and the like. Someone who wanted to purchase large tracts of land outside Texas could do so only from the federal government, and it would not sell. Federal land for grazing could be acquired only in relatively small tracts through the homestead laws, which required actual occupation and residency. Cattle ranchers could not purchase the land they used.

Western cattlemen thus faced exactly the conditions that today we describe as producing the "tragedy of the commons." Most

Contributing Editor Andrew Morriss (andrew.morriss@case.edu) lives in Cleveland, Ohio, which was once part of the wild west. He wishes he lived further west. If you e-mail him your street address, he'll send you a long article on this topic that includes extensive references to literature on cattlemen.

> *The conversion of open range to farmland imposed a cost on the ranchers (less land for the cattle) without allowing them any corresponding benefit.*

often used to describe environmental problems, the tragedy occurs when unregulated access to a common resource produces overuse. Private property solves the tragedy because each property owner receives the benefits and bears the costs of his actions, forcing the owner to be responsible.

Since they were denied land ownership as a means of solving their common property problems, cattlemen formed range and roundup associations to do the job instead. These associations organized cooperation on the roundups, greatly reducing costs, and wrote and enforced rules which prevented most of the problems that come with the lack of the ability to exclude others. Members were required to contribute bulls, ensuring the herds would continue to grow; contribute labor to the roundups, ensuring that everyone paid their share; and help pay for stock detectives to stop rustlers. All these contributions were proportional to their herd sizes, making the scheme fair. As the associations developed further, they also provided disease control, common facilities at railroad stations (pens and livestock inspectors), and brand registries to help identify cattle ownership.

The cattlemen's associations were not perfect substitutes for land ownership, however. They could do nothing to control nonmembers, as their only sanctions were to threaten expulsion from the association. This can be seen in the legendary cattlemen–sheep-herder battles of the West, which came about because sheep herders had no need of the associations' services and so were immune from the pressures the associations brought to bear on their members. As homesteaders continued to enter the western range, the cattlemen found themselves unable to protect "their" range from the intruders.

The Transition from Ranch to Farm

Farming is often more lucrative than ranching, at least where the soil and water supply justify it. Converting at least some of the Great Plains to farmland from ranchland made a great deal of sense. Converting as much of it as the homesteaders did, and converting it in the small parcels allowed under the homestead laws, did not make sense.

Most important, however, the conversion of open range to farmland imposed a cost on the ranchers (less land for the cattle) without allowing them any corresponding benefit. Frustrated in their attempts to buy the land, the cattlemen of the northern Great Plains saw the land and water they had been using taken away without compensation by the new arrivals.

This problem is captured in *Shane*, an unusual western that allows its villain, the head open-range cattleman William Ryker, to explain to the heroes, homesteader Starrett and gunslinger Shane, why the cattlemen feel entitled to the land. After his offer to buy out Starrett's homestead is rebuffed and Starrett asserts his rights to the land, Ryker explodes.

> Right? You in the right! Look, Starrett. When I come to this country, you weren't much older than your boy there. And we had rough times, me and other men that are mostly dead now. I got a bad shoulder yet from a Cheyenne arrowhead. We *made* this country. Found it and we made it, with blood and empty bellies. The cattle we brought in were hazed off by Indians and rustlers. They don't bother you much anymore because *we* handled 'em. We made a safe range out of this. Some of us died doin' it. We made it. And then people move in who've never had to

Far from being the inevitable clash of the contrasting character of the cattleman and the farmer, the problems between the open-range cattlemen and the homesteaders were the direct result of federal land policies.

> rawhide it through the old days. They fence off my range, and fence me off from water. Some of 'em like you plow ditches, take out irrigation water. And so the creek runs dry sometimes. I've got to move my stock because of it. And you say we have no right to the range. The men that did the work and ran the risks have no rights? I take you for a fair man, Starrett.

In this short passage, Ryker manages to deliver a concise summary of Lockean property-rights theory: the land belongs to the ranchers because they "made" the range.

When Starrett objects that Ryker isn't taking into account the trappers and Indian traders who were there first, Ryker dismisses their claims by the derisive snort: "They weren't ranchers." Starrett then brings out his best argument: "You talk about rights. You think you've got the right to say that nobody else has got any. Well, that ain't the way the government looks at it."

Starrett and the homesteaders may not have had a sophisticated philosophical argument, but they had a winning one. The government didn't recognize the ranchers' property rights and actively sought to undermine them. Not only did the federal government forbid the sale of public land to ranchers, it subsidized the small holders whose fences cut the cattlemen's stock off from water. Far from being the inevitable clash of the contrasting character of the cattleman and the farmer, the problems between the open-range cattlemen and the homesteaders were the direct result of federal land policies.

Range Wars

The conflicts that sprang up on the northern Great Plains were no Hollywood screenplays. Homesteaders shot cattlemen; cattlemen shot homesteaders; vigilantes chased rustlers; and rustlers chased cattle. Most notoriously, in 1892 a group of prominent cattlemen in Wyoming set out to rid themselves of a group of homesteaders in Johnson County. While the cattlemen portrayed the homesteaders as rustlers, the history of the "Johnson County War" suggests the real conflict was over the homesteaders' land and water claims on range the cattlemen considered their own. The conflict continued for years, including passage of repressive legislation allowing the Wyoming Stockgrowers' Association to seize nonmembers' property. Despite their virtually total control of Wyoming's territorial and state governments, the cattlemen could not eradicate the homesteaders because juries routinely refused to convict on rustling charges.

The cattlemen determined that extralegal methods were needed. They assembled a team of gunmen, taking along a doctor and a newspaper reporter for good measure. A special train was hired to transport the raiding party north, and a death list of 100 rustlers and sympathizers was made up. The telegraph wires to Johnson County were cut and the most prominent cattlemen headed for Denver and the nineteenth-century version of "plausible deniability."

Fortunately for the citizens of Johnson County, the leader of the expedition made some critical mistakes. Instead of immediately seizing the local militia arsenal, he allowed the expedition to get bogged down in a siege of a ranch where two suspected rustlers were staying. This allowed the rest of the county to learn about the attack and to arm themselves. Confronted by an armed population, the invaders took refuge in another ranch house. Just as the locals were about to set fire to the house, the U.S. Cavalry rode over the hill, and rescued the invaders. Legal maneuverings by the invaders' defense team kept the matter from ever being resolved in court and none of the invaders was ever punished. Considerable bloodshed was averted only by the bad judgment of the invaders' leadership. The Johnson County War was the logical culmination of the federal land policies that prevented ranchers from acquiring private property in western lands.

The Private Property Alternative

The open range was not the only way to organize western lands, however. Texas, which had been an independent country before it entered the union, had no federal land. All its public land was owned by the state. In need of cash after the Civil War, the Texas state government was willing to sell land in large parcels, allowing Texas ranchers to create the contiguous spreads they needed for their herds. As a result, the Texas panhandle was soon privatized into large ranches, including the famous XIT Ranch, whose brand stood for "Ten in Texas" and referred to the number of counties the XIT's land covered.

The Texas ranches invested in barbed wire (a recent innovation), accurate rifles for their cowboys, improved stock, and internal improvements such as windmills that increased the carrying capacity of their range. The rifles allowed a "shoot to kill" policy on rustlers that resulted in low levels of rustling; the fences allowed the benefits of the expensive bulls the ranchers imported to be kept for themselves.

Most important, because they owned the land, the Texas ranches received the benefits from converting it from ranchland to farmland. When homesteaders came to the Texas panhandle, they bought their farms from the ranches. Their farms were of an appropriate size to survive, located on the best farming land, and laid out to avoid cutting off the remaining range from water. Texas ranchers had an incentive to see the farms succeed—successful farms would drive up the price of the remaining ranchland. As a result, farming and ranching peacefully coexisted in the Texas panhandle while war raged in Wyoming Territory.

There are some powerful lessons from the cattlemen's experience in the West. Unfortunately, these lessons don't make as exciting a movie as the typical story of gunslingers and range wars.

- *Private property rights allow peaceful coexistence of competing land uses.* Texas avoided range wars, not because it was populated by more civilized people but because the existence of private property allowed the cattlemen to receive a share of the benefits of the transition to farming.
- *Customary institutions can substitute for property rights, but governments can destroy customary institutions.* Wyoming's problems didn't arise until the federal government began subsidizing the homesteaders' entry (with "free" land). So long as the only people in Wyoming were cattlemen, the roundup associations were able to prevent the appearance of a "tragedy of the commons." As more and more people who did not care about the threat of expulsion from the association arrived, the power of the customary solution declined.
- *Property rights prevent violence.* Private property is a substitute for violence because it allows contracts between willing parties. Where property rights are absent, as in *Open Range* and Wyoming Territory, the cheapest substitute is often violence.

In his book *The Mysteries of Capital,* Peruvian economist Hernando de Soto points to the development of property rights in the American west as one of the "missing lessons of U.S. history" that explains why the United States has succeeded in growing rich while few Latin American countries have. Those "missing lessons" make a more accurate story than Hollywood's version of how the west was won. □

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Self-Ownership or Suicide Prevention?

The core libertarian principle of self-ownership implies that we have a right to commit suicide: the state has no right to forcibly prevent us from killing ourselves.

The core psychiatric practice of suicide prevention implies that we have no right to kill ourselves: the state—through its mental-health laws and psychiatric agents—has the right to forcibly prevent us from killing ourselves.

That is not all. "Suicide prevention"—a euphemism for incarceration in a mental hospital—is preventive detention, par excellence. From a civil-rights viewpoint, depriving a person of liberty because he *might* commit a crime in the future is anathema. Doing so to prevent a person from perhaps committing an act that is *not a crime* is an outrageous injustice.

Mental-health laws authorize and obligate the psychiatrist to incarcerate his patient if he deems him to be "mentally ill and dangerous to himself or others." Marcia Goin, president of the American Psychiatric Association for 2003, states: "We can make contracts with builders, insurers, and car dealers, but not with patients." (Marcia Goin, "From the President," *Psychiatric News*, July 18, 2003; http://pn.psychiatryonline.org/cgi/content/full/38/14/3.) Goin offered her unqualified rejection of contracting with mental patients in the context of the so-called "no suicide contract." That absurd term refers to the psychiatrist's promising the "suicidal" patient that he will forgo committing him, provided the patient promises that, as long as he is under the psychiatrist's care, he will not kill himself.

Whether such a "contract" is or is not effective in preventing suicide does not concern me here. What concern me, instead, are the psychiatric premise that the patient has no right to kill himself; the psychiatrist's professional duty to prevent the patient from killing himself; and the incompatibility between this psychiatric practice and the libertarian principle of self-ownership.

Both de facto and de jure, once a person enters into a professional relationship with a psychiatrist, he forfeits his right of self-ownership, and the psychiatrist acquires the fiduciary duty of protecting the person—henceforth "mental patient"—from himself (and of protecting others from the patient). Should the psychiatrist, in his judgment, deem the patient to be a danger to himself (or others), he is professionally obligated to initiate violence against him, called "civil commitment" and "suicide prevention." If the psychiatrist fails to do so and the patient injures or kills himself (or others), the psychiatrist can expect to be the defendant in a tort action for medical negligence ("failure to prevent harm to self or others").

There is no evidence that suicide prevention prevents suicide. The rate of suicide

Thomas Szasz (tszasz@aol.com) is professor of psychiatry emeritus at SUNY Upstate Medical University in Syracuse. His latest works are Words to the Wise: A Medical-Philosophical Dictionary *(January 2004) and* Faith in Freedom: Libertarian Principles and Psychiatric Practices *(May 2004), both published by Transaction.*

among psychiatrists is at least two or three times that among the general public. Psychiatrists and psychiatric hospitals are regularly found liable for patient suicides (and for harm to others).

Given these circumstances, why do psychiatrists assume—indeed, demand to shoulder—such a risk? As I show in my book *Fatal Freedom*, therein lies the answer to why psychiatry cannot be reformed and must be abolished. Suffice it to say here that, from its earliest beginnings in the late seventeenth century, psychiatry (formerly "mad-doctoring") was synonymous with the control of the patient by the psychiatrist. It still is.

Psychiatry and the Abolition of Contract

Famed English jurist Sir Henry Sumner Maine (1822–1888) aptly observed: "The movement of the progressive societies has hitherto been a movement *from Status to Contract.*" In other words, in liberal (free) societies the law treats persons as contracting individuals, not as members of status groups (men/women, sane/insane).

Modern psychiatric ethics has declared war on this principle, as Marcia Goin's reaffirmation of the psychiatrist's unyielding commitment to coercion illustrates. She asserts that psychiatrists cannot make contracts with the persons they call "patients." Builders, insurers, and car dealers make contracts with such persons. Why can't psychiatrists make contracts with them? Because contracting implies two (or more) legally equal parties, each putting his cards on the table. It implies mutual obligations, each party having legal power to compel his partner to fulfill the contract or compensate him for failure to do so.

Such mutuality is contrary to psychiatric ethics. Specifically, psychiatrists reject the ethics of commerce in favor of the "loftier" ethics of care. The seller of plumbing services is obligated to deliver only that which his customer has requested and he has promised to provide. The seller of psychiatric services is obligated to deliver something more: he must protect the customer from himself, even at the cost of depriving him of liberty.

In contrast to such control-command relationship between psychiatrist and patient, modern psychotherapy, exemplified by psychoanalysis, was characterized by a cooperative-contractual relationship between therapist and client. Yet psychoanalysts never emphasized this essential element of the enterprise. Worse, the integrity of the analytic contract was, almost from the start, eagerly compromised by Freud and his followers. In one breath Freud declared, "With the neurotics, then, we make our pact: complete candor on one side and strict discretion on the other." In the next breath he took it all back: "I make use of his [the patient's] communication without asking his consent, since I cannot allow that psychoanalytic technique has any right to claim the protection of medical discretion."

A contract is an agreement equally binding on both parties. Psychiatrists reject contracting with patients. They refuse to be bound by agreement. Instead they claim, and the law grants them, the power to impose unwanted (suicide prevention) "services" on patients, whenever they, the psychiatrists, decide that depriving the patient of liberty serves "his best interests."

Of all the complex issues of social policy that we face, probably the most vexing—and undoubtedly the most neglected—is the conflict between libertarian principles and psychiatric practices. □

THE FREEMAN
Ideas On Liberty
MARCH 2004

Watering the Tree

by Russell Madden

Though my father is approaching 80 and is no longer able to do as much outdoors, a legacy of his retirement years is the orchard behind my childhood home. After my dad ended his trucking career, he took to heart an activity I would not previously have supposed to be of interest to him. His newfound hobby involved selecting a wide variety of fruit trees and nurturing them to maturity.

My dad carefully sifted through the various catalogs he received, trying to determine what mix of saplings he wanted to purchase. While I was away at graduate school and, later, working, he planted a number of different types of trees: apples of various flavors; persimmons suitable to midwestern winters; even Asian pears. Each spring and summer he sprayed the growing crop to ward off the blights and pests that love to infest what people desire to consume.

Spring in Iowa is often quite wet. (Anyone who remembers the Great Flood of '93 can attest to that.) But as many in similar climates pronounce with grave wisdom, wait a day or two and the weather will change. One summer after my father had purchased a new apple tree, the plentiful rain that visited earlier in the season vanished into the nether world. Wherever that precipitation fell, it did not fall on central Iowa.

Russell Madden (rdmadden@earthlink.net) teaches writing at Kirkwood Community College in Cedar Rapids and is a freelance writer.

Not wanting to see his investment or his time go to waste, my dad set up the drip hose around the latest addition to his horticultural flock. With the extra attention he devoted to the tree, he hoped it would survive long enough to produce fruit. As the mini-drought progressed, the lush grass surrounding the trees faded and dried. Undeterred, the newbie apple continued to sprout new leaves and retain its verdant color.

All appeared to be going well.

As is commonplace in the wide plains of tornado country, a thunderstorm mounded high one night. The dry spell suffered a modest break with the arrival of lightning and rain and wind. While any rain was welcomed, the amount that reached the ground barely made a dent in the deficit.

The morning after the blow, my dad went out to inspect the orchard. To his considerable dismay, the young tree he had lavished such effort on had tumbled to the ground, its foliage already shriveling on the branches.

Only after observing the flattened tree stretched out in the dormant grass, its long, stringy roots dripping clumps of dirt, did my father realize his mistake. He had kept the drip hose delivering a constant supply of life-sustaining water to help the delicate plant settle into its new abode, a transition that many plants do not handle well. In doing so, he had, indeed, assisted the tree in retaining its leaves and growing throughout its young existence.

The intellectual and emotional foundations required to exist in the world must—if a person is to succeed as a whole and undamaged individual—come from within.

But with that steady drip-drip of plentiful water nourishing it, the apple tree had extended its roots horizontally to follow the easy path of the water spreading through the topsoil. The other trees—some not much larger than the latest arrival—had not been quite so pampered and protected from the drought afflicting Iowa that summer. While they, too, had experienced the same fierce winds as the tree selected for special notice, they had, without exception, survived the strong gusts whipping their branches and straining their trunks.

Since they had never experienced the same caretaking as the youngster, the other fruit trees had driven their roots down, not out, until they reached the deeper levels of moisture that had burned out of the shallower dirt. Some of their leaves had indeed suffered as a result of their redirected efforts. Much of their fruit, too, proved to be smaller and less lush. But they had withstood the stresses of the storm and survived to the dawn, ruffled by the unpleasant conditions, yes, but literally unbowed.

Would that more parents and politicians and all the rest learn the lessons of this unfortunate set of circumstances and alter their behavior while there is yet time.

The impulse to shelter that which we hold dear is natural enough. Most of us gain no pleasure witnessing the hardships of those we love. Beyond that, the afflictions of strangers often remind us that misery and bad times may visit any of us. The future is a book we can never read until we hold its covers in our hands.

The Wish to Help

Parents want to spare their children real and imagined troubles. Compassionate people hear stories of heartbreak and empathetically wish to assist—somehow—those enduring life's woes. Politicians—some at least—truly believe they can and should help the needy and the unfortunate. But often the best thing such well-intentioned folks can do for those struggling with life's challenges is to refrain from doing so.

While of course context is critical in reaching a proper decision not to act, many parents do their offspring no favors by insisting on keeping the world at bay. Whether the negative event is the teasing and name-calling endemic to childhood; exposure to such supposed wickedness as the word "gun," let alone the real objects; taking tumbles on bikes; climbing tall trees; watching the evening news; grieving over a dead pet; reading upsetting books or viewing challenging movies, children surrounded by metaphorical walls will be at a loss when those artificial barriers are breached, as they inevitably will be.

The intellectual and emotional foundations required to exist in the world must—if a person is to succeed as a whole and undamaged individual—come from within. Parents who do not allow—let alone encourage—their children to send roots wandering through the dry soil toward more secure resources are actually damaging their ability to weather and withstand the unpredictable.

Citizens and politicians who seek to soften the problems associated with foolish, ignorant, or regrettable choices and actions are, likewise, only contributing to the potential destruction of those they hope to support. At best, those efforts weaken people's ability to discover how to handle bad consequences.

No. Suffering is not noble. Suffering is merely a fact of life that must be acknowledged and dealt with. Most of us would decry the abrupt thrusting of zoo-raised animals into the wilderness to fend for themselves. People deserve at least as much consideration.

Though some would call those of us who hold this philosophy "selfish" or mean-spirited or thoughtless or any of the other terms designed to intimidate us into acceding to their plans for cradle-to-grave care, the very behavior they condemn reflects our respect for the lives, the minds, the dignity of our fellow human beings.

Whether in the form of well-meaning laws or regulations, of generous loans or grants, or of the million and one legal mandates that endeavor to end hurtful discrimination or hatred or racism, doting too much on the "weak," catering too much to the "helpless," or favoring too much those viewed as "victims" will accomplish little other than to create people who are weak or helpless or victims.

There is a time to water that tree.

And there is a time simply to walk away. □

On an airplane traveling to Los Angeles, I happened to be seated next to a typically gregarious high-school-aged girl and her mother. Undeterred by the fact that I was reading, the girl told me she was a senior on her way to visit a prospective college. She "noticed the big book I was reading," told me that—quite a coincidence—she too liked to read, and wanted to know what it was. I told her it was *The Wealth and Poverty of Nations* by David Landes. Oh; was I a teacher? I was a philosophy professor. She said that was another remarkable coincidence because she was really interested in philosophy and economics and stuff and had taken the history-of-economics class at her high school, which was for like gifted students and everything.

"Really," I said. Apparently deciding to impress me with what she had learned in her history-of-economics class for gifted students, she continued: Yeah. It started with Adam Smith, who was a capitalist, and showed how he got everything wrong to begin with, and how pretty much everyone after him did too, until this guy named Keys—"Keynes?" I asked—yeah, Maynard Keys, finally figured everything out and saved America. "Saved America from what?" I asked. From the Big Depression, which was caused by Smith and the invisible hand and everything. "Isn't that right?" she asked, smiling proudly at her mastery of the subject. "Well, no, that's pretty much wrong from start to finish" I said, and I gave her a fifteen-minute mini-lecture during which her smile gradually deflated into downright irritation that I should be so rude as to take her seriously and treat her like an adult.

My guess is that she was thinking that if I were a good teacher I would realize that it's the effort that counts, and she was, after all, showing real interest and trying real hard and all. That was pretty much the end of our conversation; when I was done, she said "Huh. Interesting" and turned to talk to her mother about how beautiful the campus was supposed to be where they were visiting. That was the product of a "gifted" class? What on earth could they be teaching in the regular classes? I fear for our future.

—James Otteson
University of Alabama

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Let Us Not Speak Falsely Now

by Gene Callahan and Bob Murphy

One of the most difficult issues facing those arguing for a free society is the bias built into the way we speak. When the very words people use create a prejudice in favor of government intervention, supporters of freedom must first alert their audience to this pernicious influence, and only then can the argument about the matter at hand begin.

Therefore, it is vital to be able to recognize the common ways that everyday speech distorts arguments about freedom versus intervention. To that end, we offer a list of some of the most frequent "mind-benders" we've come across.

One firm that has often been in the sights of market critics is Wal-Mart. A common complaint is that it "drives" mom-and-pop stores out of business. In fact, what happens is that Wal-Mart opens a store and consumers choose to patronize it rather than the smaller stores they had been using. Of course, the consumers do not "force" the mom-and-pop stores out of business in any meaningful sense. (Indeed, the mom-and-pop stores are perfectly free to stay in business if they want; but most choose to close after their customers have abandoned them.) However, to the extent that anyone should be "held responsible" for their demise, it is the consumers and not Wal-Mart.

Gene Callahan (gcallah@erols.com) is the author of Economics for Real People *(Mises Institute, 2002). Bob Murphy (robert_p_murphy@yahoo.com) teaches economics at Hillsdale College.*

The *New York Times* of August 14, 2003, reports that "community opposition to building Wal-Mart stores has been vociferous." It is no doubt true that there are many people who object to Wal-Mart's opening a store in their area. But what does it mean to call this "community opposition"? Clearly, if no one in a community wanted Wal-Mart in town, Wal-Mart would not dream of building there. That's not because of altruism on Wal-Mart's part, but because it only wants to build stores in places where they will have shoppers.

Generally speaking, many people, namely those who will shop and work there, welcome a new Wal-Mart. The opposition to new stores comes mostly from two groups: those who own stores with which Wal-Mart will compete and upper-income people who prefer fancy boutiques and quaint country stores to Wal-Mart's low prices. To call these special-interest groups "the community" severely distorts reality.

Turning our attention from Wal-Mart, we sometimes hear the claim that, while government subsidies for particular industries may be inefficient for the overall economy, at least they "protect jobs." For example, the PBS television special *The Commanding Heights* noted: "Seventy-five percent of Britain's coal mines were losing money. It took government subsidies of $3 billion a year to keep them going." But "[t]he union leaders argued that the government subsidies were money well spent if they kept

180,000 miners at work and able to feed their families."

As radical socialist Ken Capstick said in the program, "We were faced with an enemy, and that enemy was out to destroy our livelihoods. . . . Grimethorpe [one of the mines] had considerable reserves of coal when it was closed, plenty of work for those miners to continue to do to keep their families."

Capstick is confused. It was not the mines but the subsidies that were allowing miners "to continue . . . to keep their families." The mines, without the money extracted from British taxpayers, would not have enabled anyone to support a family. Simply because there is more coal in them does not mean it makes sense to keep extracting it—the huge losses indicated that the resources necessary to do so were more useful elsewhere. The acid test is this: If the mines had simply been turned over to the miners' union, *for free*, the union itself would have had to shut them down. It would have been impossible and nonsensical for union members to subsidize their own "jobs." They were, in a sense, not workers, but welfare recipients, albeit ones who happened to have had to perform certain tasks each day to receive their welfare checks.

If one thinks of a job as a useful service performed for others in order to receive services from others in return, then subsidies don't really save jobs at all. Rather, they allow people to persist in performing actions that are now *not* worth the wages being asked, in the opinion of the rest of society. In a free market it would not be profitable for a firm to hire hundreds of people to dig up the beaches looking for loose change. If the government subsidized this industry, it could certainly "create jobs," but only in the sense that it could motivate a group of people to accept paychecks. The labor, shovels, and metal detectors used in the industry would still represent wasted resources that could have been devoted elsewhere.

Income Distribution

"Income distribution" is another fishy phrase that one often hears. It implies that there is a big pile of income sitting around somewhere awaiting someone's decision on how to hand it out. But in a market society income distribution is not a different process from income creation. If you build a piece of software for which someone pays you $1,000, the income you receive was not first created and then later distributed. No, you received the income because you created it. Although in a more complex production scheme this process is obscured, it still remains the case that each of the factors of production for a product tends to receive the portion of the proceeds from the sale of the product that it was responsible for producing.

To think that income arises on its own, with no one in particular regarding it as *his* income, and then sits waiting for someone to distribute it, is to completely misconstrue the market process. To see this most clearly, suppose the government imposed a policy of complete egalitarianism, and "redistributed" income so that everyone enjoyed the same level of consumption, regardless of his or her contribution to production. It is obvious that in this scenario—where brain surgeons had the same standard of living as grocery cashiers—fewer people would endure the rigors of medical school. The "total income" to be "redistributed" would shrink to virtually zero.

On the topic of income, a curious word frequently bandied about is "deprived." For instance, the poor are described as "our most deprived." But when we consult our *Oxford American Dictionary*, it defines "deprive" as meaning "to take a thing away from, to prevent from using or enjoying." So who, exactly, has been taking things away from the poor? Who has been preventing them from using or enjoying things, except in the same way everyone else is enjoined from using things that are not theirs without asking the owner first? It is true that the poor have fewer things than others, but who has been depriving them—other than the government, which takes away 15 percent of their earnings for Social Security and Medicare, and prevents them from taking jobs paying below the minimum wage?

Bogus Deregulation

Yet another weasel word making the rounds is "deregulation." In the majority of cases, whether it's in banking, electricity, or telecommunications, what really occurs is not deregulation at all. Instead, a *new* regulatory regime is substituted for an existing one. Rather than calling it *de*regulation, therefore, it would be more appropriate to call it *re*-regulation.

It is somewhat tragic that the case for free markets is often weakened by "free marketers" who get behind one of these re-regulation schemes. The new regulations inevitably produce unintended consequences, which are used by interventionists to discredit "market fundamentalism." For example, when California electricity markets were re-regulated, allowing the wholesale price of electricity to vary while the retail price was still controlled, the result was, quite logically, a series of shortages resulting in blackouts. To someone who understands the market process, it was clear that the shortages were due to a *failure* to truly deregulate the electricity market. But because the re-regulation was sold as deregulation, interventionists could claim that a free market for electricity had been tried and clearly failed.

While we're at it, may we question the accuracy of the word "regulation" itself? If the issue is phrased in this way, people naturally will favor regulation. After all, who wants an "unregulated," out-of-control electricity industry? (One imagines thousands of megawatt hours being shipped to a spinster's home, while the lights go out in a hospital.) Of course, what the advocate of "regulation" really means is that the *government* should impose its own set of directives to counteract private regulation through the market.

We should also keep in mind that the only way government regulation is achieved is through the threat of violence; that is, if the power producers fail to heed the commands of government regulators, then armed men will literally come to their houses and put them in a dungeon (or "prison" as we prefer to call it). Looking at things this way, it would be perfectly accurate to say that anyone who proposes to "regulate" the electricity market is proposing to threaten producers. But politicians would have a harder time passing "Threat Bills" or "The Electricity Violence Act" than a "regulation" proposal.

In discussions of international trade, we frequently encounter the loaded phrases "export jobs," "fair trade," and "dumping." The first term, on the face of it, is simply nonsensical: *Goods* are exported between countries, not jobs. Even in the ostensibly worst-case scenario, where the same firm cuts manufacturing jobs in the United States and "ships" them to Mexico, what is really happening is that the firm has decided to reduce its purchases of American labor and increase its purchases of Mexican labor. If a consumer who habitually buys California wine decides to switch to French wine, he has not "exported" or "shipped" his business from the United States to France. On the contrary, we would say that he is now *importing wine* (not "his business") from France.

The second term, "fair trade," is at least coherent. However, this phrase too is a poor one, for the simple reason that the person who says *fair trade* really means *unfair* trade. President Bush recently said that he was committed to free trade, but at the same time he was committed to "fair trade."

What does Bush mean by this? He means that, in contrast to true free trade, the United States will *not* eliminate all tariffs on imported goods. Instead, Bush, the so-called free trader, will maintain taxes on foreign goods that enter this country, in order to promote the competitiveness of domestic goods. Thus if a foreign firm has lower costs and can thereby make a car for less than an American firm, the federal government will step in and make the foreign car artificially more expensive. (It may also give subsidies to the American firm, which means that it forces taxpayers to give more money to the firm than they would give voluntarily.) *This* is what President Bush means by "fair trade": Favored industries get subsidies while their competitors are given an artificial handicap. In the context of a baseball game, "fairness" in this sense would mean giving the home team an extra five runs and allowing the visitors only two strikes before an out.

What Gets Dumped?

"Dumping" raises the specter of other nations getting rid of a bunch of unwanted things by shipping them to the United States. South Korea, let's say, has a few thousand broken-down refrigerators rusting in fields, so it ships them over to here to get rid of them. Now, what are we going to do with this junk?

Of course, "dumping" is nothing like this. It simply means that some foreign firm is selling goods "too cheaply" in someone else's view. (That "someone else" is almost always a domestic competitor.) Often, the charge is backed by evidence that the foreign firm is selling "below cost." But that is a legitimate business practice. For example, if a firm overestimated demand and produced too much of a good, selling below cost may be the best way for it to limit its losses. In any event, the term "dumping" is misleading, inasmuch as the dumpees happily purchase the inexpensive goods that the dumpers are selling. If no one wants the dumped goods, the dumping country can't force American consumers to accept them (nor can they deposit them in someone's back yard in the middle of the night).

When it comes to the profit-hungry capitalist pig, there is perhaps no easier target than the "corporate raider" whose livelihood consists of seeking out firms that are vulnerable to "hostile takeovers." These are firms where the market value of the company on Wall Street (the stock price times the number of shares) is lower than the market value of the net assets of the company, at least as estimated by the raider. In this situation the heartless corporate raider (epitomized by Danny DeVito in *Other People's Money* and Michael Douglas in *Wall Street*) executes his hostile takeover, in which he buys enough shares to gain full control of the company, then fires everybody and sells off the physical assets to the highest bidders. Often the family that founded the company and whose members put 20 years of their lives into it are left with nothing but memories and a town full of unemployed workers.

But is this description really accurate? First let's deal with the term "corporate raider." In what sense is the fictitious Gordon Gekko a "raider"? He is not attacking the company; he is attempting to purchase it. Can he seize the shares and hence voting rights of the previous owners? No, he has to pay them enough so that they voluntarily sell their shares.

This leads to the next term: In what sense is Gekko's purchase of a company a "hostile takeover"? The shareholders themselves are certainly happy about the deal: That's why they agree to it! What a "hostile takeover" really means is that the *management* of the company and perhaps some of the minority shareholders *disagree* with the decisions made, not simply by Gekko, but by *the rest of the shareholders*. After all, if at least 51 percent of the shareholders disagree with the schemes of the so-called corporate raider, then he is utterly powerless to "break up the company." It is only because of the (relative) mismanagement of the company in the first place that its assets can be more profitably transferred to *other* companies (with better management). The corporate raider is indeed performing a useful service: He liquidates companies that are wasting scarce resources (relative to the uses other firms are making of such resources) when the existing management either will not or cannot see that this is the most profitable decision.

Other classic examples of loaded language are the terms "underpaid" and "overworked." We read countless stories of underpaid workers, or young mothers in the labor force who are overworked. What exactly does this mean? Are these people being forced into slave labor camps? No, they willingly sell their labor in exchange for wages. Did the overworked employees sign contracts agreeing to a certain number of hours per week and then suddenly the employer changed the rules? No, this isn't usually the issue, because then the workers would have a breached contract and could sue. Perhaps the workers are "underpaid" because employers don't pay them the full value of their product? Again, no, this can't be true in general, because in a competitive industry, employers will have to pay wages roughly equal to the marginal product of labor, or else lose their employees to other, higher-paying firms.

All the critic means with such terms is that he or she believes it would be a better world if hard-working people had more money, or if they could get paid the same amount while working less. Yes, we agree: It would be a better world if labor were more productive. (This is why we are in favor of capital accumulation.) We also agree that it would be better if a given batch of consumption goods could be produced with less labor. Unfortunately, our wishes don't translate into technological reality. In a competitive market (one free of government and violent union distortion), workers are paid in accordance with their marginal productivity (at least as far as entrepreneurs can correctly estimate it). Rather than call someone "underpaid" we could just as easily label him "underproducing."

We could go on citing more examples, but you get the idea. All too often a bias toward state intervention in the economy has been embedded in the way we talk. Unless we can clear away the fog of faulty language, those we are trying to convince will never see the true nature of interventionism. □

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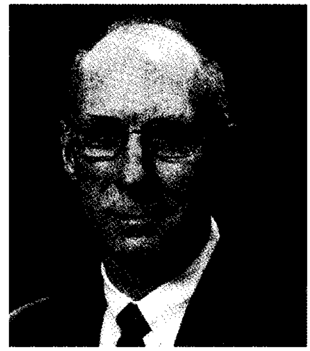

Truman's Attempt to Seize the Steel Industry

In U.S. history many of the most drastic incursions on private property rights have sprung from the conjunction of a threatened work stoppage, owing to a union-management dispute, and the government's desire to expedite a war-production program. Such a conjunction underlay the government's nationalization of the railroads, the telegraph lines, and the Smith & Wesson Company during World War I, and the railroads, the coal mines, the midwest trucking operators, and many other companies during World War II. The conjunction occurred again during the Korean War, but on that occasion the government failed in its attempt to seize the steel industry.

During the Korean War the government imposed controls on raw materials, production, shipping, credit, wages, and prices. When the wage-price controls created a collective-bargaining impasse in the steel industry, threatening a nationwide strike, President Harry S Truman ordered the secretary of commerce on April 8, 1952, to seize and operate most of the country's steel mills for the ostensible purpose of maintaining production of critical munitions.

Owners of the seized properties obtained a court injunction against the seizure, and an appeal of that injunction to the U.S. Supreme Court gave rise to one of the "great cases" in constitutional law, *Youngstown Sheet & Tube Co. et al. v. Sawyer*.[1] Although the Court found the President's actions to be unconstitutional, its decision did not signify a triumph of private rights or a significant check on the government's exercise of de facto emergency powers.

By 1952 Truman had become an unpopular president, even among Democrats, and his attempted seizure evinced a power struggle with a hostile Congress. He had alternative ways to proceed. Although no current statute authorized him to nationalize the steel industry, he had authority under the Taft-Hartley Act to order an 80-day "cooling-off period," during which the union-management dispute might have been settled without a strike. The pro-union President chose not to issue such an order, however, because he opposed the Taft-Hartley Act, which Congress had passed over his veto in 1947. He did not ask Congress to authorize his seizure of the steel industry.

Instead, Truman rested his seizure order on legally vague national-emergency grounds, citing his inherent powers as president and as commander in chief of the armed forces.[2] Afterward, he and his official spokesman sought clumsily "to transform the steel crisis from a particular labor dispute into a broader battle against 'big business,'" a rendering that had little resonance.[3]

Why did Truman proceed on such flimsy legal grounds? Although historians have advanced various explanations related to the administration's political calculations,[4] few writers seem to have noted another possibility: The President had seized many industrial properties in labor disputes during past

Robert Higgs (rhiggs@independent.org) is senior fellow at the Independent Institute (www.independent.org), editor of The Independent Review, *and author of* Crisis and Leviathan.

"national emergencies," and therefore he probably did not worry about getting away with another seizure. Between April 17, 1945, and August 27, 1946, Truman had seized 28 other industrial properties—sometimes entire industries, such as the railroads and the meat packers—in labor disputes.[5] High-handedness might have become second nature for Truman. Historian Maeva Marcus notes, "In view of the Supreme Court's construction of presidential power during wartime, Truman and the White House staff were confident that the courts would uphold the seizure."[6]

The composition of the Supreme Court might have encouraged such confidence. In a recent recollection of *Youngstown*, Chief Justice William H. Rehnquist observes that "all of the nine Justices who heard the case had been appointed by Democratic presidents—five by Roosevelt and four by Truman—and yet by a vote of six to three they ruled against Truman's authority to seize the mills."[7] Roosevelt and Truman, however, had distinctly different followings. Four of the six majority votes came from Roosevelt appointees; two of the three dissents came from Truman appointees.

Justice Hugo Black's majority opinion, which was really a ruling on constitutional separation of powers rather than on emergency or inherent presidential powers, found intolerable the president's failure to cite specific legislative authority for his action. On emergency powers, however, the justices' seven opinions—one for each for the six justices in the majority plus one for the three dissenters—spoke more in favor than in opposition. The three dissenters argued that "a [presidential] power of seizure has been accepted throughout our history" (p. 700). Justice Tom Clark, who supported the majority result but not the reasoning of Justice Black's opinion, agreed (p. 662). Justice Robert Jackson, in a concurring opinion, emphasized "the ease, expedition and safety with which Congress can grant and has granted large emergency powers" (p. 653). Only two justices (Black and Douglas) explicitly rejected the claim of inherent presidential power to seize the industry in the absence of congressional authorization.[8]

The outcome: The steel seizure itself was forbidden, but in view of the justices' reasoning and the fragmentation of their opinions, the vulnerability of private property rights to emergency suspension remained as great as before—which is to say, very vulnerable indeed, as subsequent events have demonstrated repeatedly.[9] In *Youngstown*, as in many other cases, the Court read the Constitution not as a bulwark against government oppression of private citizens, but rather as the institutional ground rules according to which high officials in the three branches of government conduct their internecine struggles for supremacy over civil society. □

1. 343 U.S. 579 (1952). The defendant Charles Sawyer was the secretary of commerce.
2. Executive Order 10340 is reproduced in the case decision, where Truman's grounds for issuing the order appear on p. 591.
3. Maeva Marcus, *Truman and the Steel Seizure Case: The Limits of Presidential Power* (New York: Columbia University Press, 1977), p. 99.
4. On the political maneuvering, see Marcus, pp. 58–82.
5. My count from the compilation in *Youngstown*, pp. 624–27.
6. Marcus, p. 102. See also pp. 178–94, and Paul L. Murphy, *The Constitution in Crisis Times, 1918–1969* (New York: Harper & Row, 1972), p. 289.
7. Remarks of the Chief Justice, Dedication of the Robert H. Jackson Center, Jamestown, New York, May 16, 2003, at www.supremecourtus.gov/publicinfo/sp_05-16-03.html.
8. Marcus, p. 216; and Alan I. Bigel, *The Supreme Court on Emergency Powers, Foreign Affairs, and Protection of Civil Liberties, 1935–1975* (Lanham, Md.: University Press of America, 1986), pp. 135–50.
9. For examples, see Robert Higgs and Charlotte Twight, "Economic Warfare and Private Property Rights: Recent Episodes and Their Constitutionality," *Journal of Private Enterprise*, Fall 1987, pp. 9–14.

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Deficits Do Matter

by Hans F. Sennholz

Editor's Note: With the federal deficit expected to reach $500 billion or more this fiscal year, Congress on a spending binge unequalled in recent times, and the President without a veto pen, it's a good time to revisit this FEE Timely Classic *on budget deficits.*

Politicians and officials in high places are telling us that government debt does not matter; after all, we owe it to ourselves. As long as government borrows funds internally and expenditures are financed from internal sources, so the notion goes, no real cost is incurred. Interest payment on debt merely represents transfers from taxpayers to bondholders. Debt to foreigners, by contrast, is seen as a wholly different matter because it necessitates interest payments to outsiders. It is analogous to private debt.

The recurrent notion that "we owe it to ourselves" springs from the doctrines of mercantilism. It was very popular with European monarchs during the sixteenth, seventeenth, and eighteenth centuries because it placed them in the center of economic life and made them the promoters and guardians of national prosperity. Kings and princes who looked upon the economic lives of their subjects as mere extensions of their own economic activities viewed their debts as both accounts payable and accounts receivable. After all, if the subjects belong to his lordship, also their property is his. The debt he may owe them he owes to himself.

The so-called Keynesian revolution during the 1930s revived the doctrine and promoted it to a great principle of economic knowledge. Economists throughout the Western world accepted it almost universally. And yet, it is as fallacious today as it was when the kings and their ministers proclaimed it. It is the rationale of spendthrift governments ever eager to run into debt.

The federal government debt now exceeds $2 trillion and is expected to reach the $3 trillion mark by the end of the decade. We do not owe these sums to ourselves, the U.S. government owes them to individual savers and investors. Surely, in a command system such as communism or fascism, government owns and controls everything and everyone and, therefore, may be said to owe it and simultaneously own it all. But in our free order, individuals do have rights and may own property. They may own treasury bills, notes, and bonds and expect to be paid; the fact that they, too, may be taxpayers is irrelevant for the claim. They expect to be reimbursed by the debtor, the government, which in turn depends on taxpayers for payment. It does matter to every individual whether he

Hans Sennholz served as president of the Foundation for Economic Education from 1992 to 1997. At the time of his retirement, FEE's Board of Trustees honored him with the title president emeritus. He was chairman of the department of economics at Grove City College for many years. This article is reprinted from the December 1986 issue of The Freeman.

owns such obligations or merely owes taxes that service the debt.

The core of the fallacy lies in the holistic way of equating individual action with community action as a whole. If individuals were part and parcel of the collective whole and personal property an integral part of government property, it would not matter how the credits and debits are listed; they all would balance out. But in our free order, private property is not government property and government property is not private property. This is true no matter whether the individual owner is a native or foreigner. The law protects both from government infringement and transgression.

Deficits Curtail Investments and Are Tax Liens

Government debt usually signals the consumption of individual savings and economic resources. It is a rare exception for government to invest its funds productively, applying property for future income or benefits. Politics tends to favor present use and enjoyment at the expense of the future. A huge debt signals huge consumption of economic resources for political ends, incurred in the past at the expense of the future. It speaks of factories not built, stores not opened, businesses not started, and jobs not created.

Deficits consume funds that otherwise would be available for private investment; they represent a direct transfer from investment to consumption. The deficits of the U.S. government curtail the rate of economic expansion, keep productivity and labor income lower than they otherwise would be, impede international competitiveness, and cause American levels of living to fall relative to those in other countries where people save and invest more.

It may be argued that other governments throughout the world incur similar deficits and, therefore, exert similarly restrictive effects on their countries. But such an argument is badly misleading because the savings rate is much higher in many other countries. Where the investment rate exceeds 20 to 30 percent of income, the impact of a 5 percent deficit is less adverse on investment than in the U.S. where the savings rate barely reaches 5 percent. Americans cannot afford any further reduction in investment through government deficits.

Deficits and debts also signal future tax exactions. Having incurred the debt in the past, government, in order to repay the funds or just pay the interest, must levy taxes in the future. In essence, therefore, a government debt is a government claim against private property—an unpaid tax bill so to speak—that will fall due in the future. Like all other business taxes, it is bound to depress labor productivity and the value of productive property.

To most people government spending is a panacea for all economic evils and difficulties, a cure-all for human woes. Where economic stagnation impedes progress and prosperity, government is expected to stimulate through deficit spending. Where there is unemployment, government is expected to supplement private demand and thus create jobs. Where there is poverty it is expected to provide affluence through more spending and debt. But nature forgives no debt and grants no benefit without cost.

There can be no beneficiary of government largess without a victim of exaction. Government cannot pile up debt without ever paying it off; all government expenditures must ultimately be paid out of tax revenues or be repudiated through inflation, which is merely another form of taxation. Either immediately or ultimately every dollar of government spending is taken out of the pockets of taxpayers. When seen in this light, the supposed benefits of government spending are rather questionable. To build a pyramid of Federal debt is to delay the inevitable and pay interest thereon.

Inflation Reduces Debt

Politicians point out that over the decades the Federal debt has actually declined in terms of purchasing power as well as relative value. If growing budgetary deficits are accompanied by shrinking real debt and rising ability to pay the debt, the happy spenders may indeed be right that Federal debt no longer matters.

True, the Federal debt has actually declined both in purchasing power and relative value. But this decline in itself is a great evil that is spawning many other evils. Most of it is the handiwork of inflation, the willful policy of currency debauchery, which enriches one class of people at the expense of another. It deprives creditors of their rightful claims and enriches the debtors, primarily politicians and government officials who incur the debt and place it on the people. It breeds economic and political conflict as it pits the economic interest of one social class against another, jeopardizing peaceful social cooperation and endangering the democratic process. Surely, debt and depreciation do matter.

Depreciation of debt by inflation is repudiation pure and simple. It is deceit, wicked and desperate; its consequences can never be foreseen. When deceit has been practiced in matters where all should be fair, confidence cannot be easily restored. In financial terms, interest rates signal the dangers of repudiation; they cannot be expected to return to normal as long as deceit can be expected. In this sense, the deceiver is bound to pay a price for his evil ways.

The rising burden of interest on the Federal debt illustrates the point. In fiscal year 1986 the U.S. government is estimated to pay $196.095 billion in interest on its debt; in 1987 it is scheduled to pay $206.855 billion. In terms of Federal revenue the interest is expected to consume some 25 percent of estimated receipts, in terms of gross national product some 4.5 percent, which is the highest in U.S. history. Even in 1945 when the Federal debt amounted to 133 percent of GNP, the burden of interest consumed less than 10 percent of net receipts and barely 2 percent of GNP. If government expenditures on goods and services were deleted from GNP figures because government revenue merely consists of exactions from private production, the interest burden on every American would be seen to be even greater. Surely, debt and interest do matter.

Deficits Disrupt Foreign Trade

Federal budget deficits cause interest rates to be higher than they otherwise would be, which may induce the American people to save more and foreigners to move funds into the United States. The foreign investments alleviate the savings shortage, permitting the federal government to continue the deficit spending and the American people to maintain their levels of living. But the foreign investments also serve to drive up the value of the dollar, which causes American goods prices to rise in international markets and American firms to become noncompetitive. In other words, the inflow of foreign capital leads to an overvalued dollar, which leads to more imports of foreign goods and to what is commonly called balance-of-trade deficits. The imports, in turn, keep the price inflation low but also hamper American competitiveness, depressing competing industries and causing the loss of jobs in those industries.

If the budget deficits continue, American competitiveness may be damaged permanently. The consumption of capital in the United States and the formation of capital abroad may necessitate permanent adjustments in patterns of production and international trade. Capital-intensive industries may contract in the United States but expand wherever capital continues to be formed. American wage rates may fall while some foreign rates continue to rise.

As budget deficits continue, the U.S. dollar must ultimately fall not only in purchasing power but also in the money markets of the world. When foreign investors finally conclude that they have enough dollar liquidity and enough investments in the United States, the dollar must fall. In fact, it may plummet when foreigners lose confidence in U.S. economic and monetary policy, when willful dollar depreciation inflicts painful losses on their dollar investments, and causes them to liquidate rather than invest. When foreigners become dollar sellers rather than dollar buyers the international situation is bound to change. The American dollar will fall, American competitiveness will improve, the flood of imports will cease, competing American industries may relax, but goods prices will soar. After all, if the rising dollar stimulates foreign imports and investments, a falling dollar tends to bring forth the opposite. Smaller supplies signal higher prices. Moreover, as foreign imports decline the American firms that compete with imports can now, in turn, raise their prices. In the end, large Federal deficits are bound to generate serious inflationary pressures.

Even Keynesians Object

Large budget deficits usually induce monetary authorities to engage in massive credit expansion in order to finance the deficits. They conduct what Keynesian economists call "an infusion of aggregate demand" which in time is said to add to inflationary pressures. The inflation effects are said to be rather slow, though, given idle plant and equipment and a high unemployment rate. Nevertheless, Keynesian economists recommend that budget deficits should be avoided as the economy approaches full employment. Federal deficits, Keynesians reassure us, are the appropriate remedy for recessions; they are inflationary at other times. If they are already very large at the beginning of a recession, public policymakers may be reluctant to pursue yet larger deficits during the recession. They may be reluctant to prescribe Keynesian remedies so that, according to Keynesians, recessions will be deeper and larger than they otherwise would be.

One may disagree completely with the Keynesian rationale, and yet agree with the conclusion that government budgets should be balanced. In fact, they should be balanced all the time, not just during periods of "full employment," which may be slow in coming. Government deficits consume economic substance and wealth; by their very nature they depress economic activity. The stimulation that may be observed in the wake of deficit spending is the result of willful currency and credit creation; it is the effect of the injection of monetary funds that lower interest rates and misguide businessmen in their investment decisions. When interest rates are lower than market rates and goods prices are made to rise faster than wage rates and fringe costs, the demand for labor tends to rise and unemployment may fall. This morsel of economic knowledge constitutes the secret ingredient of the Keynesian recipe.

Keynesian deficit spending during recessions is destined to fail whenever goods prices don't rise faster than labor costs. Workers and their trade unions may see through the inflation machination and readjust their demands to the willful depreciation, demanding cost-of-living clauses and other compensation adjustments to offset the inflation losses. When the workers no longer can be made to suffer reductions in real income the Keynesian recipe loses its power. Moreover, when deficit spending is given in large doses in recessions after large deficits were suffered in a boom period, deficits may turn into a prescription for deep depression and mass unemployment. A 20 percent inflation rate may cause a 20 percent unemployment rate because productive capital may no longer function; it may join other assets in the flight into inflation hedges.

Deficit spending is the mother of debt, which is the prolific mother of folly and despair. A small debt may be cleared off in a little time, whereas a large debt may never be repaid. A debtor who owes a great deal may despair of ever being able to pay and, therefore, may be tempted to default. As the U.S. government debt soars past the $2 trillion mark, the possibility of default looms ever larger. □

CAPITAL LETTERS

Don't Let the Court Off the Hook

To the Editor:

As a former wartime draftee—the Korean War—I'm of two minds re Aeon J. Skoble's "Neither Slavery Nor Involuntary Servitude" piece in your September issue ("It Just Ain't So!). No question, he did a very good job of picking apart the operational flaws inherent in any draft.

But where I found him woefully deficient (especially considering the wonderful title of the piece!) was in how quickly he backed off from belaboring those two atrocious Supreme Court decisions designed back before 1920 to make military conscription look acceptable. I mean really, how can we libertarians hope to teach young people the rightness of our cause if we roll over so easily?

—John Simons
Sheffield, Vermont

Aeon Skoble replies:

John Simons takes me to task for "how quickly [I] backed off from belaboring those two atrocious Supreme Court decisions" that failed to understand conscription from the point of view of the Thirteenth Amendment. But there's nothing to belabor. My point was that it doesn't matter, *legally*, whether *I* think that since conscription is involuntary servitude it ought to be forbidden by the Thirteenth Amendment—it only matters whether the Supreme Court thinks so. What does matter is my contention that *regardless* of the Supreme Court's ruling, conscription is bad public policy. So I concentrated instead on replying to the flawed reasoning of contemporary academics and legislators who are in a position to drum up support for new policies. It would be important to refute the reasoning in *Butler* and *Arver* if I were preparing a brief for a court challenge to those decisions. But that's not what is before us. What is before us are grandstanding politicians, backed up by some mistaken academic theories, proposing new laws that are irrational on several grounds. It is that reasoning to which I was responding. Simons wonders how we can "hope to teach young people the rightness of our cause if we roll over so easily?" I certainly wasn't rolling over easily—I thought I was fairly strident—but there's no point in pretending that Supreme Court decisions are other than what they are.

No Common Good?

To the Editor:

Professor Harold B. Jones, Jr.'s cursory dismissal of the idea of a "common good" deserves far more thought. (Review of *The Collapse of the Common Good* by Philip K. Howard, September 2003.) Relying as he seems to on individualism, of course, is a familiar theme for libertarians, but it seems to neglect matters of criminal law, constitutions, common law, natural law, and just plain common sense. While the author he reviews might have erred in his concept of the common good, e.g., in favor of collectivism, socialistic or bureaucratic solutions, gargantuan government, and so forth, the real debate should maintain respect for the common good while deciding just how far government should go. At times, this may even overlap what Jones might happen to consider the "well-being of the individuals of whom the commonality is composed." (E.g., does he mean, "To each according to his needs?") Otherwise, Jones will subject us to anarchy, another familiar pillar of libertarians which they've never entirely justified.

Jones's idea of "justice" or "fairness to particular parties" is no easy paradigm. Both sides in court are seldom equally happy, so on what basis is it to be decided? His very mention of "fairness" and "justice" introduces an element above mere individualism.

Of course, rejecting the "common good" is a standard tactic for new movements—e.g., feminism, which considers it anathema—but it's always a bit hypocritical since they also enjoy the benefits of civil society, courtesy, gentlemen, right law and order, family, property law, various *ordered* freedoms, security from predators, etc., all commensurate with the common good. That individuals benefit from the common good in many ways (a sort of trickle-down phenomenon) should be a given.

—W. EDWARD CHYNOWETH
Sanger, Calif.

Harold Jones, Jr., replies:

The "common good" is of necessity the good that is actually enjoyed by particular persons. There is no higher entity from which it can, in Mr. Chynoweth's words, "trickle down." It exists only to the extent that it bubbles up in the experience of concrete individuals.

A sense of "justice" is a part of this experience. It arises from the conviction that the law will be consistent in its defense of reasonable conduct. This does not mean that every party to every lawsuit will leave the court rejoicing. It means rather that third parties can look at the decision and reliably find either encouragement or warning with regard to whatever it is they may be planning. It means that laws can be trusted, in the words of Justice Holmes, as "prophecies of what the courts will do."

The Collapse of the Common Good describes a society in which this has ceased to be the case. Its author fails to see that the ills he deplores are the result of what he suggests as a remedy. They are the result of government by men rather than by law. They are the result of precisely the fact that those whom Mr. Howard refers to as "people with responsibility" (bureaucrats) are permitted to impose their will on others "just because it seems right" (to the bureaucrat). The "plain common sense" to which Mr. Chynoweth makes his appeal says that any "good" forced upon the individuals concerned is not "common," and it is unlikely to be experienced as "good."

The level of social cooperation is highest when the government is restricted to guarding the borders, minding the infrastructure, and protecting the unoffending citizen. Under such a system, individuals can be confident about the rewards of honest effort. Each seeks his or her own good by providing something others regard as valuable. Any "debate," as Mr. Chynoweth puts it, "over just how far government should go" is ultimately a debate over whose interests are to be encouraged and whose are to be sacrificed. When that debate is taken seriously, people seek to advance themselves not by providing a service but by having the law declare they are entitled to something at the expense of their neighbors. It is then only a short step to Hobbes's description of the struggle of "every man against every man," and to the social collapse of which Philip Howard writes.

Nature Conservancy Is Not Benign

To the Editor:

Re Arthur Williams's letter on the Nature Conservancy (TNC) in your October 2003 issue: TNC is not the benign organization that Mr. Williams holds it out to be. It lives not on individual donations but on corporate grants and federal tax dollars—more than $32 million between 1995 and 2000. Your readers may want to read the *Washington Post*'s investigative series on TNC, peruse some of the TNC-related postings on www.propertyrightsresearch.org and www.eco.freedom.org (instructive is the article "Nature Conservancy—Fraud and Theft"), and read "Nature's Landlord," published by *Range Magazine.*

The TNC may not engage in the terrorist activities used by Earth First, but it is advancing the same environmentalist goal—evict humans from broad areas of the country (a.k.a. The Wildlands Project) and prevent the productive use of land.

The ongoing revelations about TNC's modus operandi bring to mind Lord Acton's observation on power and corruption.

—JOHN D'ALOIA JR.
St. Marys, Kansas

No Tears for Drug Companies, Please

To the Editor:

I always enjoy the articles in *The Freeman: Ideas on Liberty*. As a physician, I wish to comment on Doug Bandow's article, "Healers Under Siege," in the November 2003 issue.

In the article, the author paints the drug companies as underdogs—under siege. The reality is these companies have had their "foot in the door" at the Food and Drug Administration (FDA) for about 100 years. The Bureau of Chemistry, later renamed the FDA, was formed in 1906. Recent studies showed that over 50 percent of FDA employees were consultants for or in some way had worked for drug companies before or after their tenure at the FDA. This is a shocking case of the "revolving door" between a government agency and the industry it is supposed to regulate.

The legal "drug culture" in America, the product of excellent public relations and FDA rules, is not improving the health of the American people. That is a major reason health-care costs are rising so fast. Drugs are excellent for short-term trauma medicine. However, many drugs are toxic, and long-term they damage the body.

A recent study by the American Medical Association found that side effects of pharmaceuticals killed about 192,000 people each year, just in hospitals. This makes pharmaceuticals the fourth leading cause of death in America. There is definitely trouble in paradise, and the cost explosion in health care is but a symptom. Drug manufacturers lobby hard to defeat any proposals that would allow alternative products on the market that are far safer and less costly. The drug industry is part of a medical cartel held in place by licensing laws, hundreds of other anti-consumer laws, and the FDA, which has legislative, executive, and judicial powers all rolled into one.

For this reason, I grow weary of articles praising or feeling sorry for the drug industry. The reality of the legal drug culture is a classic case of government regulation gone awry.

—Lawrence Wilson, MD
via e-mail

Doug Bandow replies:

There's no doubt that drug makers work hard to game the regulatory process, but that's hardly a surprise when Washington asserts its control over the approval of new medicines. Government control is no more justified there than elsewhere in the health-care system—such as limiting competition with MDs by other medical professionals. And while drugs should not be viewed as the only remedy for disease and injury, their benefits can be enormous.

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BOOKS

Economics as Ideology: Keynes, Laski, Hayek, and the Creation of Contemporary Politics

by Kenneth R. Hoover

Rowman and Littlefield • 2003 • 328 pages • $75.00 hardcover; $27.95 paperback

Reviewed by Richard M. Ebeling

Why do people hold the views that they do, including and especially their political and ideological views? That question has generated a vast library of what has generally come to be called "psychobabble," wherein the author attempts to "deconstruct" his biographical subject and demonstrate why the subject's upbringing and social circumstances made him the way he was, including his ideas about the social, political, and economic world in which he lived.

A recent contribution to this genre is Kenneth R. Hoover's *Economics as Ideology*. A political science professor at Western Washington University, Hoover wants to find out what made Harold Laski a socialist, F. A. Hayek a proponent of free-market liberalism, and John Maynard Keynes, well, a Keynesian.

Laski was one of the most prominent and influential advocates of socialism in Great Britain in the decades from World War I to the early 1950s. His writings and political activities helped move his country in the direction of central planning and the welfare state. Hoover concludes that Laski's ideology and politics were driven by a falling out with his businessman father and the Orthodox Judaism of his family. His whole life was supposedly a revolt against the chains and apparent social insensitivity of religious and cultural conservatism.

Keynes was the product of a British intellectual elite and a generation at the beginning of the twentieth century that was determined to break free of Victorian morality. A focus on the pleasures of the moment and a probabilistic theory of uncertainty concerning the future resulted in Keynes discounting many of the long-run consequences from short-run policies. In Hoover's account, his homosexual adventures as a young man and his failure to father children after he married also made him think a lot less about the future impact of present policies.

Hayek, on the other hand, resented the rules and regulations that come with greater government control of social and economic affairs because of a bad marriage he entered into when he was a young man and a difficult divorce immediately after World War II. Untangling himself from an unwanted marriage, according to Hoover, supposedly is the key to understanding Hayek's desire for a society with fewer restraints on the choices of individuals.

The difficulty with taking all such psycho-ideological analyses seriously is that they can be used to explain almost anything, and therefore explain nothing. There have been Jews who renounced their religious and cultural ancestry and became classical liberals. There have been free-spirited homosexuals who became social and political conservatives. And there have been people trapped in bad marriages and difficult divorces who became radical socialists.

An equally crucial weakness in Hoover's book is his failure to come to grips with many of the important issues and arguments that separated these three protagonists in the decades between the two world wars. He gives the clearest analysis when critically evaluating Laski. He shows that Laski could not reconcile a desire for participatory democracy and greater human freedom with his ideal of economic planning. Hoover points out that as the years went by, the argument for centralized government control increasingly replaced Laski's defense of personal liberty. And he explains that Laski never attempted to seriously grapple with the practical difficulties of centrally planning the production and consumption activities of tens of millions of people.

But in many ways Hoover's discussion of

Laski is a sideshow to his central purpose: to argue that Keynes and his political-economic views represented the level-headed and moderate course that was relevant in the 1920s and 1930s, and is still important and relevant today. In making this case, Hayek becomes a foil, the extreme "right-wing" opponent of reasonable government action, blinded by a near-irrational hatred of political power applied for good social purposes.

Through all the details of Keynes's and Hayek's personal lives and academic activities in the period between the wars, Hoover devotes practically no time to an exposition of their competing theories of what caused the Great Depression or how to get out of it. Hayek is merely portrayed as the advocate of "do-nothingism" in an epoch of massive unemployment, while Keynes was designing practical policies to save society from want and waste.

The shallowness of Hoover's understanding comes out most clearly in his discussion of Hayek's critique of socialist planning. Hayek argued that the division of knowledge that inevitably accompanies the division of labor precludes any group of central planners from being able to integrate all the information required for central planning to succeed. Only the system of competitively generated market prices can coordinate the activities of multitudes of interdependent human beings.

Without any detailed discussion of the types and qualities of the knowledge used in a market society (which Hayek spent a good deal of time explaining in many of his writings), Hoover merely asserts that he sees no reason for thinking that most if not all such knowledge and information could not be absorbed and used by intelligent regulators and planners. And he conveys an unbelievably naïve conception of democracy as a forum for inclusive social participation, which suggests a total unawareness of the Public Choice literature about the actual special-interest-group workings of the political process.

In a nutshell, Hoover's book is another rear-guard action by one who wishes to rationalize the continuation of the interventionist-welfare state and the presumed ability of an intellectual elite to guide the economic affairs of others—all for their own good, of course. □

Richard Ebeling is president of FEE.

Capitalism and Commerce: Conceptual Foundations of Free Enterprise

by Edward W. Younkins

Lexington Books • 2002 • 384 pages • $80.00 hardcover; $26.95 paperback (Rowman and Littlefield)

Reviewed by Tibor R. Machan

As readers of this publication are likely to be well aware, capitalism and commerce aren't very popular with most intellectuals and academics. One cannot dispute the generalization that the bulk of textbook authors and writers of scholarly works, not to mention college and university teachers in the field of business ethics, are mainly business bashers.

One harmful result of this sorry situation is that over the last several decades—during which college students have increasingly taken courses in business ethics—the topic has been taught mostly by those who are hostile to both capitalism and commerce. The major journals in the field are filled with critiques of all aspects of free-market capitalism and the kinds of commerce it makes possible.

This work is rare, then, for placing on the record a straightforward, accessible explanation of the nature of capitalism and the moral and conceptual foundations in support of the commerce that takes place in such a system. The book is eminently suitable for use in an introductory or intermediate course on business and society, business ethics, or the philosophy of economics.

The author, a professor of accounting at Wheeling Jesuit University, begins by noting that freedom—as understood in the classical-liberal tradition that unleashed capitalism all across the globe—is not primarily a means to spur wealth production, as most classical and neo-classical economists since Adam Smith have understood it. Rather, it is a prerequisite of morally significant conduct itself.

If what you do is coercively imposed on you—as per the zillions of government regulatory and tax measures of the welfare state—there is no moral significance to your actions. Only to the extent that such coercive force is escapable and human beings are able to act on their own volition is their conduct morally significant. This is when we can be justifiably either credited or blamed for what we do. More precisely, only when we act freely are we able to exercise moral judgment. And, by extension, only in a capitalist economic system can there be a moral dimension to economic life—which means, significantly, that there is no such thing as generosity, compassion, or charity without liberty.

In Part I Younkins discusses the basic framework of a capitalist economy ("Individuals, Communities, and the State"). In Part II ("Ownership") he covers the right to private property and its implications for various areas of capitalism, such as contract, work, labor unions, corporations and business in general. Part III deals with what Younkins dubs "Progress," namely, entrepreneurship and technology. Part IV turns to the legal infrastructure required for the capitalist system to operate both justly and efficiently. Then in Part V Younkins faces the critics ("Obstacles to a free society"); for me this was the most interesting and stimulating section of the book. Finally, in Part VI, the author summarizes his thesis and assesses the prospects for the system he has so aptly described and supported with an impressive array of sound arguments.

The book is not only a fine way for anyone to get a good grasp of the moral case for capitalism—a case in constant need of reiteration since even its most prominent defenders, academic economists, do not appreciate it much. It also provides a wealth of information on what literature is available for developing one's understanding of the myriad topics related to the main theme. There's a rich bibliography following each chapter, as well as a useful Appendix, "A Reader's Guide to Free-Market Organizations and Periodicals."

Now if there were also an effective marketing campaign to get this work to outshine all the business-bashing competitors that continue to pollute millions of young minds about the nature of freedom and the free-market system. Certainly Professor Younkins has given us a fine product with which to undertake such an effort. □

Contributing Editor Tibor Machan (Machan@chapman.edu) is a professor at the Argyros School of Business and Economics at Chapman University.

Nothing Is Sacred: Economic Ideas for the New Millennium

by Robert J. Barro

MIT Press • 2002 • 184 pages • $27.95 hardcover; $16.95 paperback

Reviewed by David L. Littmann

Considering the vast number of economists trained in leftist universities and fed socialist soup, it's refreshing to encounter some who found truth or who got mugged by economic reality. Economists Walter Williams and Thomas Sowell overcame the odds, made distinguished careers for themselves, and contributed immensely to the education of others through their writings, lectures, and fortitude.

Robert J. Barro is another such person. A noted Harvard professor, economic consultant, and author, Barro also admits to having experienced this deep-seated university tilt. He, too, matured beyond the conventional wisdom doled out on most campuses throughout the 1950–1990 era. How did he manage to emerge from socialist swamps? He lists two causes of his intellectual transformation:

First, he deployed economic reasoning to combat widely held beliefs—which accounts for the wonderfully defiant title of his book. Second, he managed to get to the University of Chicago between 1972 and 1975 and learn how serious economic and financial debates are conducted.

Clearly, the Chicago-school experiences produced the kind of enlightenment and research that eventually won Nobel Prize recognition for many of his colleagues. Fittingly, the interaction he enjoyed with luminaries like Milton Friedman, George Stigler, Gary Becker, and Robert Lucas became grist for Barro's first chapter, which contains various thoughts, anecdotes, and analyses. He also sketches there an entertaining set of reflections on "Bono, the Rock Star as Amateur Economist," a sharp essay on "Al Gore in the Balance," and a thought-provoking lesson on Joe DiMaggio's career.

Barro's second chapter is a no-nonsense series of short discussions dealing with the "Economics of Social Issues." This is a virtual catalog of all the toughies in today's world of legal and psychological sensibilities, from the economics of beauty, abortion, and crime, to drugs, Napster, and meritocracy in higher education. The breadth of his subject matter might be disconcerting were it not that Barro hits each with the common denominator of economic logic. Indeed, it's this logic that makes the whole book worthwhile.

Barro seeks to bind himself and his audience to the power of economic reasoning, rather than bowing to the political expedience of "PC" graces. This is especially laudable for a Harvard academician. He discusses how his economic diligence and focus occasionally make him the outsider or even pariah on campus. But this is refreshing and helps clarify what is happening here and abroad.

And indeed, Barro uses his third chapter to illustrate successes and failures in the areas of economic growth, democracy, and international affairs. He superbly elucidates the several growth-enhancing agents that governments around the world need to embrace to promote prosperity. These passages are must-reading for most consultants, administrations, and legislators because Barro is offering key, unvarnished truths about incentives that are essential to any well-functioning economic system. In this connection, readers will also appreciate Barro's pithy insights regarding the myopic, fraudulent, or self-serving motivations of leftists. He notes, for example, that admirers of Chile's late Marxist president Salvador Allende harbor great animosity toward that country's economic reforms because they demonstrate the superiority of free-market capitalism over socialism.

Barro's concluding chapter focuses on monetary and fiscal policies, and macroeconomics. Again, the reader is both informed and entertained. For example, citing studies on the topical question of federal budget deficits and mounting public debt, he cuts to the chase and identifies the culprit: undisciplined spending by government officials. He notes that in cases of successful budget reform, 73 percent of deficit reduction involved less spending, while for the failures, only 44 percent took this form. He explains that spending cuts are most successful in removing deficits because they are more permanent. They endure "because they tackle the two items of the budget, government wages and welfare programs, which have the strongest tendency to automatically increase."

If there is a weakness or inconsistency in Barro's book it is the author's occasional hesitation or pussyfooting on issues where you would expect him to be swinging for a home run. For example, Barro's treatment of the International Monetary Fund and West Germany's disastrous monetary accommodation during the East German economic merger suggest a shying away from the "Nothing Is Sacred" theme, possibly because of his prominence in consulting circles and his collegial association with so many notable economists who hold key posts at international agencies and in governments across the globe.

That, however, is only a minor irritation in an excellent and recommended book. □

David Littmann is chief economist for Comerica Bank.

Free Trade Today

by Jagdish Bhagwati

Princeton University Press • 2002 • 128 pages • $35.00 hardcover; $14.95 paperback

Reviewed by Victor A. Matheson

In no other area is the gulf of opinion between economists and the general public wider than in the field of free trade. While economists nearly unanimously embrace the idea that free trade increases choices, lowers prices, and raises real incomes for citizens in the countries involved, a significant percentage of the general public endorses all sorts of protectionist policies, including tariffs, export subsidies, and import quotas. Economists face an uphill battle in convincing a skeptical public of the merits of free trade for one simple reason: free trade does not benefit everyone equally. Furthermore, the losses from free trade, such as unemployment caused by factories moving overseas, are more obvious to the casual observer than the myriad real but hidden benefits, such as better products, lower prices, and higher exports.

Picking up the banner of economic freedom in international trade is Jagdish Bhagwati, a Columbia University professor widely considered by academic economists to be the world's foremost spokesman for free trade and a likely future winner of the Nobel Prize in economics. In his newest book, *Free Trade Today*, he attempts, with a great deal of success, to bridge the gap between perception and reality in international trade.

This short and eminently readable book is based on three lectures he gave at the Stockholm School of Economics in the late 1990s. The book is divided into an examination of the historical case for free trade, a look at the current objections voiced by the motley assortment of protesters at any international economics meeting nowadays, and suggestions about how to achieve the goal of increased international economic cooperation in today's political climate.

The book is most successful in addressing the current crop of threats to free trade. The general reader's attention may stray during the first chapter where Bhagwati examines the protectionist arguments of economists from the distant past. Indeed, for the first 45 pages the book reads much more like a history-of-economic-thought textbook rather than a forward-looking policy statement.

The remaining two chapters, however, are gems. When Bhagwati reaches the modern day he masterfully dispels each and every protectionist argument, from labor standards to environmental issues, point by point. What's more, he does not dismiss these concerns as unimportant in the light of market efficiency. Rather he explains how workers in poor and rich nations alike benefit, and the environment improves, from a free flow of goods and services across borders.

Those in sympathy with low-paid foreign workers will appreciate Bhagwati's concern for the world's poor. He convincingly argues that demonstrators who picket multinational corporations, which they accuse of exploiting third-world workers, do a disservice to those on whose behalf they protest. How else are poor countries to develop if they cannot import goods and capital from technologically advanced nations? If investment is scared off, the result will be increasing poverty for those countries, even as the protesters are basking in the glow of self-righteousness.

Professor Bhagwati warns against regional free-trade agreements such as the European Union, NAFTA, and Mercosur, arguing that these alliances too often simply lead the countries involved to raise trade barriers against countries outside of the region. They also tend to distract attention from the far more important cause of lowering worldwide tariffs and trade barriers.

This book can be read either as a concise refresher on free trade for those well versed in the subject or as an excellent introduction to the field. Either way, *Free Trade Today* makes an outstanding addition to the library of any advocate of the free market. □

Victor A. Matheson is an assistant professor of economics at Williams College.

THE FREEMAN (Ideas On Liberty)
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How Did We Get Here?

The late Alabama governor George Wallace once said, "There's not a dime's worth of difference between Republicans and Democrats." Both Republicans and Democrats agree on taking our money. Where they differ is what to spend it on. A Democrat like Senator Edward Kennedy agrees to take our earnings and give them to cities and poor people. A Republican like Senator Elizabeth Dole agrees to take our earnings and give them to farmers and failing businesses.

Republicans have dominated both houses of Congress since 1995, a year when federal spending was $1.5 trillion. Less than a decade later federal spending in 2002 was over $2.1 trillion, a 37 percent increase. Some politicians might argue that the war on terrorism has been responsible for the massive spending increase. That's nonsense! According to a recent report titled "Most New Spending since 2001 Unrelated to the War on Terrorism" by Brian Riedl, a research fellow at the Heritage Foundation, over half of all new spending since 2001 has been unrelated to defense and the 9/11 attacks. Just from 2001 through 2003, federal spending increased $296 billion, of which: $100 billion (34 percent) went to national defense and $32 billion (11 percent) went to 9/11 costs, such as homeland security, international aid, and rebuilding damage done by the attacks. About $164 billion (55 percent) went to spending completely unrelated to either defense or terrorist attacks. Most of the spending represents government taking the earnings of one American and giving it to another American. Such acts are little more than legalized theft. How did legalized theft become so acceptable, considering that it is not part of our history? Let's look at some of that history.

Walter Williams is the John M. Olin Distinguished Professor of Economics at George Mason University in Fairfax, Virginia.

In 1794 James Madison, the acknowledged father of our Constitution, wrote disapprovingly of a $15,000 appropriation for French refugees saying, "I cannot undertake to lay my finger on that article of the Constitution which granted a right to Congress of expending, on objects of benevolence, the money of their constituents." This vision was restated even more forcefully on the floor of the House of Representatives two years later by William Giles of Virginia, who condemned a relief measure for fire victims. Giles insisted that it was neither the purpose nor the right of Congress to "attend to what generosity and humanity require, but to what the Constitution and their duty require."

In 1854 President Franklin Pierce vetoed a bill intended to help the mentally ill championed by the renowned nineteenth-century social reformer Dorothea Dix. In the face of scathing criticism, President Pierce said, "I cannot find any authority in the Constitution for public charity." To approve such spending, he added, "would be contrary to the letter and the spirit of the Constitution and subversive to the whole theory upon which the Union of these States is founded."

President Grover Cleveland was the king of the veto. He vetoed literally hundreds of congressional spending bills during his two terms as president in the late 1800s. His reason, as he often said: "I can find no warrant for such an appropriation in the Constitution."

Many Americans erroneously believe that the Constitution's "general welfare" clause serves as justification for congressional spending on anything that can muster a majority vote. That surely wasn't the vision of the Framers. In 1798 Thomas Jefferson wrote: "Congress has not unlimited powers to provide for the general welfare, but only those specifically enumerated." "Specifically enumerated" referred to the listing of congressional powers found in Article I, Section 8, of the Constitution. James Madison elaborated on this limitation in a letter to James Robertson: "[W]ith respect to the two words "general welfare," I have always regarded them as qualified by the detail of powers connected with them. To take them in a literal and unlimited sense would be a metamorphosis of the Constitution into a character which there is a host of proofs was not contemplated by its creators."

Founders' Nightmare

Thomas Paine said, "Invention is continually exercised to furnish new pretenses for revenue and taxation. It watches prosperity as its prey and permits none to escape without a tribute." That observation might be a beginning to understanding today's level of federal exaction that would have appeared as a nightmare to the nation's Founders.

It's tempting to blame politicians for the trashing of the Constitution, but politicians don't bear anywhere near the bulk of the blame; it's the American people who are at fault. Politicians are elected to office on the promise that they will deliver to one group of Americans the earnings that belong to another group of Americans or that they will confer a special privilege on one group that will be denied another. A politician who disavows this practice will not be elected, or if elected he will be run out of office.

The reason is simple. If a politician doesn't use his office to deliver other Americans' earnings to his constituency, it doesn't mean his constituency will pay lower federal taxes. It only means another state's citizens will enjoy the loot. Thus when legalized theft becomes routine, it pays for everyone to participate. Those not participating will end up as losers. While becoming a recipient of stolen property is optimal for the individual, it spells devastation for the nation as a whole.

What liberty-loving people might do about this will be the subject of my next article. □