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FEATURES

Ludwig von Mises

Carl Menger

COLUMNS

DEPARTMENTS

IDEAS ON LIBERTY

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PERSPECTIVE

Is Socialism Good in Theory?

Socialism has been mortally discredited on economic grounds, thanks to Ludwig von Mises, F. A. Hayek, and history. But for many people it has not been discredited on moral grounds. You can tell this by how often people say that while socialism doesn't work in practice, it is good in theory.

Strange notion—that a theory which doesn't work in the world can somehow still be good. Where else is it to be judged? One would think that a theory whose consistent realization requires gulags and secret police would be morally disqualified even if it "worked."

I guess the people who say socialism is good in theory really mean they *regret* that it doesn't work without the attendant unpleasantness. Why should that be regrettable? The typical answer is that in socialist theory people are not acquisitive or self-regarding; they are more concerned about others. The regret about socialism turns out to be a regret about human nature.

Leaving aside the facts that the taint on self-interest is assumed not established and that one prospers under capitalism by competitively attending to others, is this a valid statement about socialism? Originally socialism promised a superabundance of goods—so much of everything that no one would have to do without anything. Sharing would be unnecessary because scarcity would be abolished. Wasn't that an appeal to acquisitiveness, even gluttony? To be sure, socialism's miserable record has compelled its advocates lately to discover the "age of limits," but that is only to make a virtue of necessity.

Socialism of course did promise to reconstruct humanity, but the message was always mixed. It promised to subordinate the individual to society while liberating him to be fully himself—free of the necessity to make a living. Leon Trotsky wrote that "Communist man . . . will become immeasurably stronger, wiser and subtler; his body will become more harmonized, his movements more rhythmic, his voice more musical. The forms of life will become dynamically dramatic. The average human type will rise to the heights of an Aristotle, a Goethe, or a Marx." But the *nice* Bolshevik also said, "In a country where the sole employer is the State, opposition means death by slow starvation. The old principle: who does not work shall not eat, has been replaced by a new one: who does not obey shall not eat."

Was the new Socialist Man to be a self-centered achiever or group-centered worker bee? It was never clear how both could be accomplished.

Maybe all that people mean when they lament socialism's impracticality is that the theory held out hope for an end to material inequality. As intellectual historian Ralph Raico reminds us, it didn't exactly do that. Marx promised only "to each according to his *needs*." He never said we all have the *same* needs. Besides, it is capitalism not socialism that has achieved essential material equality. (See Donald Boudreaux, "Equality and Capitalism," September 2002, www.fee.org/vnews.php?nid=5201.)

The ugliness of socialist theory now comes into focus. Under individualist and capitalist theory (and practice) each person is free to determine his own needs and, through the division of labor and voluntary exchange, to produce what's required to satisfy them. (As the old Spanish proverb puts it, "Take what you want and pay for it.") Under socialist theory the individual's needs are determined and satisfied collectively. Dissent and venturing out on one's own are not options. As Trotsky acknowledged, everyone is an employee and tenant of the collective—that is, the state.

It's a mystery why anyone would find that theory beautiful or regret that it doesn't work in practice.

* * *

The antitrust folks at the Federal Trade Commission are at it again, this time trying to stop a merger in the "superpremium" ice-cream market. George Leef debunks the government's latest anticompetitive mischief.

All around the country imaginative businessmen are turning now-useless landfills into useful golf courses. Why, Scott McPherson asks, didn't the bureaucrats think of that?

Owners of businesses everywhere are victimized by ruinous state regulations and taxes. Steven Greenhut reports that in California they are doing something about it.

To hear the American Lung Association tell it, the air we breathe is killing us. But Roy Cordato demonstrates that those reports are flawed.

Governments throughout the West are on a collision course with reality, thanks to their politicized pension systems. Norman Barry describes the wreck in our future.

For nearly 70 years, saving has been regarded in some quarters as socially destructive. Arthur Foulkes shows how wrong that view is.

The term "Austrian economics" often is found in this magazine. We thought it was a good time to reprint Henry Hazlitt's classic essay on exactly what it is. Part one appears this month.

If a collectivist cannot refute individualism, he may try to build a straw man in order to knock it down. According to Tibor Machan, that summarizes much of contemporary political theory.

The federal government years ago set out to equalize funding for male and female sports in schools. It created a textbook case of the Law of Unintended Consequences, Larry Schweikart writes.

Here's what our columnists have cooked up: Richard Ebeling honors Ludwig von Mises, who died 30 years ago this month. Lawrence Reed eulogizes a man of character. Thomas Szasz says beware of drug "reformers." Stephen Davies solves the mystery of China. Russell Roberts examines the claim that medical care cannot be left to the marketplace. And Richard Gordon, hearing claims that deregulation caused the August blackout, objects, "It Just Ain't So!"

The book reviewers grapple with World War I, the bloody twentieth century, capitalism, and the globalization of culture.

—Sheldon Richman

by Richard M. Ebeling

IDEAS ON LIBERTY
OCTOBER 2003

Ludwig von Mises: A Voice for Freedom and Principle

October 10 marks 30 years since the death of Austrian economist Ludwig von Mises. (He passed away at age 92.) For more than six decades in the twentieth century Mises was one of the leading voices for individual freedom and the market economy. During a time when socialist and interventionist ideas and policies seemed to be the almost inescapable wave of the future, he consistently and uncompromisingly defended human liberty, private property, the free market, and limited government.

Ludwig von Mises was an original scholar, an insightful policy analyst, and an influential teacher in both Europe and the United States. Without exaggeration, his books, essays, lectures, and personal impact on others were crucial in stemming the intellectual trends toward various forms of collectivism during the last 100 years. Mises's most famous protégé, the Austrian economist and Nobel laureate F. A. Hayek, once said, "There is no single man to whom I owe more intellectually. . . . He certainly had more influence on my outlook of economics than any other man."

Mises was born in Lemberg (now Lvov) in the old Austro-Hungarian Empire on September 29, 1881. He attended the University of Vienna and earned a doctoral degree in jurisprudence in 1906, with an emphasis on economics. He made his living, however, not in academia but in the world of public policy, in the role of economic analyst for the Vienna Chamber of Commerce, Crafts, and Industry, a position he held from 1909 until 1934.

In the Austria between the two world wars he was a leading figure in bringing the Great Austrian Inflation to a halt and assisted in reorganizing the Austrian National Bank on a non-inflationary, gold-backed basis. He was an influential voice in preventing the Austrian socialists from nationalizing commerce and industry and was in charge of a department of the League of Nations' Reparations Commission in Austria. During these years Mises also founded the Austrian Institute for Business Cycle Research, taught a highly acclaimed seminar each term at the University of Vienna, was the Austrian representative of the European Free Trade Association, and led a world-renowned private seminar for Austrian and visiting scholars at his office at the Chamber of Commerce.

But his international recognition during these years and the remainder of his life was the result of his profoundly important contributions to economics and social philosophy. Even before World War I he developed what became known as the Austrian theory of money and the business cycle in *The Theory of Money and Credit* (1912); he showed that inflations and depressions had their origin in government mismanagement of the monetary and banking systems.

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But Mises's most famous contribution in the period immediately following World War I was his demonstration, in his 1920 article "Economic Calculation in the Socialist Commonwealth" and in his treatise *Socialism: An Economic and Sociological Analysis* (1922), that socialist central planning was inherently unworkable for any rational use and allocation of the goods and resources in society. The abolition of private property, the elimination of monetary transactions, and the end of market-based competition meant the loss of the price system. But market-generated prices were the essential social tools by which all the goods and services, resources, and capital could be reduced to a relatively simple and useable common denominator for purposes of economic calculation by consumers, producers, and resources owners.

In his 1927 work, *Liberalism*, Mises defended the institutions and workings of the free-market economy. He warned of the inherent contradictions and inevitable distortions resulting from various types of government regulation in *Critique of Interventionism* (1929). And he defended the logic and essential value of economic theory for sound thinking about economic policy in *Epistemological Problems of Economics* (1933).

Magnum Opus

But his greatest contribution, in which he synthesized all these earlier works into a comprehensive vision and logic of freedom and the market economy, was *Human Action: A Treatise on Economics* (1949). Here the reader finds a detailed and well-grounded conception of man, human nature, and society. Mises formulates a theory of social cooperation arising from the benefits from division of labor. He explains the institutional prerequisites for freedom and prosperity, and the workings of the market process, competition, the price system, and the role of the creative entrepreneur. He also restates in a refined exposition his criticisms of socialism, interventionism, and government monetary and fiscal policies.

In his review Hayek said the book "ranges from the most general philosophical problems raised by all scientific study of human action to the major problems of economic policy of our own time."

Mises elaborated further on many of these themes in a number of other books, including *Planning for Freedom* (1952), *Theory and History* (1957), and *The Ultimate Foundation of Economic Science* (1962).

All these works were written at a time when freedom and the free society appeared destined for defeat, reduced to a soon-to-be-forgotten chapter of human history. Especially after Mises moved to the United States in 1940 during World War II, socialism, interventionism, and Keynesian economics all seemed to be heading for triumph throughout the world. Voices like Mises's were increasingly marginalized and often ignored.

But while many chose to remain silent or compromised their classical-liberal views for acceptance or recognition in academic and public-policy circles, Ludwig von Mises did not. He did not consider logic, truth, and right to be matters of mere "opinion." These were invariant elements in the world and for man. Illogic, deceptions, and error all finally led to outcomes quite different from what had been hoped for or promised. And many policies emanating from such misguided thinking resulted in disasters for millions of people. Each of us as members of a common humanity, he argued, were called on to speak up and work to stop the tide of socialist and interventionist destruction.

Now that the twentieth century has ended, it is clearer than ever before that Ludwig von Mises, during those darkest decades of collectivism, understood and explained far better than most the dangers that humanity faced and the path to human freedom and economic progress. Our task in the 21st century is to take his legacy of ideas and see that the next hundred years is better than the last. ☐

Deregulation Caused the Great Blackout of 2003?

It Just Ain't So!

As I sat in New York during the blackout, I wondered who would succeed at producing the first predictable polemics blaming "deregulation." Every crisis unsurprisingly is used to further the agendas of anyone remotely concerned. Every interest group claimed that had its agenda been accepted the crisis could have been avoided. The Northeast power outage followed true to form. Blaming deregulation apparently began while my power was still out.

Blaming anything may be totally wrong. However electricity is generated and transmitted, a complex system must exist. Nothing can be made foolproof, and it will be unclear, at least until the investigations cease, whether the causes were readily predictable and easily corrected, according to a cost criterion. The possibility remains that the blackout could not have been prevented.

Even if a prevention strategy were available, the failure to adopt it is not clearly due to neglect of the many alternatives that might have been adopted. What is involved is a long-standing crisis in electric power that the so-called deregulation process sought to remedy. To the extent the effort failed, it was precisely because deregulation was a fraudulent description.

The situation has a long history. In the early decades of the twentieth century, the electric-power industry urged the states to institute regulation. The system worked to the satisfaction of companies, customers, and the regulators until the early 1970s. Stable fuel prices and improved technology allowed selling prices to fall (from 2.71 cents per kilowatt hour in 1926 to 1.59 cents in 1970) despite inflation.

The 1970s brought the unhappy combination of rising fuel costs, soaring construction costs, lessened technical progress, and increased environmental requirements. Suddenly, the regulators had the new task of adjusting to upward pressures on rates. They acted with, at best, equivocation and, at worst, with disastrous expedients. Several states, notably New York and California, saw non-utility generation as a miracle cure and pressured utilities to sign long-term contracts based on the expectation of continued energy price rises. A further problem was that the utilities had embarked on expensive expansion programs, much but not all nuclear. A growth slowdown produced by rising rates and the spurt in construction costs made these expansions expensive and premature. These plants and the contracts for non-utility generation became severe burdens when energy prices softened.

Utilities naturally sought reversal. Some proclaimed that they had lived under a regulatory compact that could and should be restored. Others sought whatever relief they could find. In several states, major initiatives were undertaken. The details differed greatly. The main common feature was that generation of electricity was freed from wholesale price regulation. Generally, a further step was a phased removal of regulated rates to final consumers. A third step in some states was to require divestiture of generating capacity. New York required total divesting; California confined the sell-off to fossil-fuel plants within the state.

Several critical points emerge. First, not all states instituted such changes. Second, those imposing restructuring each adopted a unique approach. Third and most critically, the liberation was limited. The guts of the California crisis, for example, was simply that uncontrolled wholesale prices soared in response to rising natural gas prices, and retail prices were not allowed to rise in response. (The charges of manipulation will probably prove wildly exaggerated.) More critically, the transmission system was not included in the restructuring process. The only initiative was the Federal Energy Regulatory Commission's (FERC) ultimate decision that independent regional transmission companies were the proper response.

Central Plan versus Market

The debate on what to do involves both the classic question of plan versus market and how the market should be organized. Thus Robert Kuttner's fanciful discussion in the *New York Times* of August 16 postulates that what is needed is formal energy plans submitted to the states and ratified by appropriate rate settings. This is incorrect as both diagnosis of need and description of history.

Kuttner's article begins correctly but irrelevantly, noting that planning, coordination, and incentives are needed to ensure efficient supply of electricity. However, this is true of *every* commodity. The world economy nevertheless produces most commodities without any *central* plans, and somehow enough investment occurs to preclude significant shifts in supply-demand balances. Contrary to common statements about electricity, nothing about it inherently prevents adequate investment as long as prices are set in the market. The amounts are no vaster than in other heavy industry, and uncontrolled prices would be adequate to recoup costs.

It also is utter fiction that, as Kuttner alleges, plan ratification by regulators was the method used to ensure adequate electric-power investment in the face of price control. As it happens, the states that employed systematic state energy plans were California and New York. The California approach was for a massive state agency to formulate extensive reports notorious for their enthusiasm at discouraging expansion. The New York state utilities submitted annual plans to the state, and similar inaction prevailed. Kuttner's basic error is to blame deregulation for the failure to remove price controls that eliminated the incentives for investment in transmission.

Kuttner precedes this claim with another whopper and irrelevance. He spins a fanciful tale that the new un-integrated industry is prone to massive price manipulation. Elementary economics makes clear that a well-structured market cannot be manipulated. To the extent that the opportunistic charges against California generating and natural-gas pipeline companies are substantiated, the manipulation was possible only because of flaws in the government-imposed restructuring.

Kuttner's second criticism of deregulation was that economic transmission of electricity is limited by physics. This is true but does not preclude the systematic maintenance of massive flows over the distances in which exchange is economic. Moreover, the move to an almost national grid long antedates the regulatory initiatives of the past few years.

However, the issue of the optimal organization of private electric-power companies remains. In a classic 1937 article, Nobel laureate Ronald Coase noted that vertical integration (the combination of successive steps in the supply process) improved coordination, but might strain the capabilities of top management. Specialists on the subject long raised questions about the optimum in electric power. At one extreme, the concept of "superpower" has had proponents since at least the 1920s. The idea is for power companies to continue the traditionally standard practice of simultaneously generating, transmitting, and distributing electricity, but to merge companies so that they supplied much larger regions. At the other extreme, it was suggested that integration, if ever needed, was no longer required. The truth remains to be proven, and one of the defects of imposed restructuring is that it establishes a new structure on the basis of regulatory judgment rather than market tests.

In short, once again the interventionists blame limited changes in regulation for the impacts of continued regulation.

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IDEAS ON LIBERTY
October 2003

The FTC Gets in Its Licks

by George C. Leef

The freedom of Americans to peacefully manage their own affairs has been shrinking for many decades, as government officials find more and more reasons to tell us what things we must do and what things we may not do. The pettiness of it all is wonderfully demonstrated in a recent decision by the agency that supposedly acts as a protector of the consumer: the Federal Trade Commission (FTC).

The FTC has legal power to block business mergers that it decides might "lessen competition." Recently, the management of Dreyer's Inc., a firm that makes ice cream, concluded a deal with the international food giant Nestlé, under which Nestlé would purchase Dreyer's stock and wind up with majority control of the firm. Dreyer's shareholders approved the transaction, only 0.1 percent of the shares being voted against. But it isn't enough just to have a willing buyer and a willing seller in modern America. You also have to play "Captain, may I?" with government officialdom. In March, the FTC announced its opposition to the merger. If Nestlé and Dreyer's want to merge, they will have to fight it out with the FTC in court.

Here are the pertinent facts. There is a huge market for ice cream and similar frozen desserts (like Eskimo Pies). A small part of that market consists of what the FTC calls "superpremium" ice cream—very rich and costly brands such as Häagen-Dazs, Ben & Jerry's, and Godiva. The FTC contends that 98 percent of the "superpremium market" is "controlled" by three large manufacturers: Nestlé, Dreyer's, and Unilever. If two of those three were allowed to merge, the result would be "greater concentration" in the industry, which the FTC invariably assumes to mean less competition and therefore harm to consumers. The director of the FTC's Bureau of Competition, Joe Simons, said, "This merger, as structured, would likely raise prices and reduce choice for consumers. The market for superpremium ice cream is already highly concentrated and this deal will reduce the number of significant competitors from three to two."

This is the classic approach of antitrusters: define markets with absurd narrowness and then assume that any reduction in the number of competitors is an "injury to competition" necessitating their intervention. It's all done to help those of us who can't resist an occasional bowl of ice cream. I cheerfully admit to being one of those people, and would be quite pleased to see the FTC stop pretending to do me favors.

First, the "superpremium ice cream market" is nonsense. There is nothing unique about Häagen-Dazs, Dreamery, Ben & Jerry's, or any of the other brands. They cost more per ounce and have a higher butterfat content, but still it's just ice cream. Dreyer's

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superpremium ice creams compete for consumer favor with their premium labels, as well as with many other ice creams, like Sealtest and Texas Gold. If the three or two makers of superpremium ice cream should start to raise their prices, they will find their sales falling as consumers switch to other ice creams or other luxury desserts that now seem to be a better value.

Second, the FTC treats as of no consequence the sellers of that small slice of the "superpremium market" not accounted for by the big makers. But they exist and offer real competition. I grew up in a city known for its custard stands (Milwaukee) and consumers can and do purchase terrific ice cream there. (Maybe the FTC wizards don't think that "custard" belongs in the same market as "superpremium ice cream," but I do.) If the Dreyer's-Nestlé merger takes place and prices go up for superpremium ice cream sold in stores, many consumers will stock up on pints or quarts of custard. Also, most cities have specialty ice-cream shops such as Baskin-Robbins that sell scrumptious products that I'd bet the regulators at the FTC couldn't tell from "superpremium" in a blind taste test. If prices for products like Häagen-Dazs go up, those shops will find themselves serving more customers.

Number of Competitors Doesn't Matter

Third, the FTC makes far too much of the reduction in the number of major competitors from three to two. It's an economic old wives' tale that the intensity of competition is a function of the number of firms. Fewer firms do not necessarily mean less competition. Unilever's Ben & Jerry's brand will still struggle just as hard to win purchasers away from other labels, no matter the ownership arrangement of Dreyer's and Nestlé facilities. That's because they are also struggling to win customers from other ice creams and luxury desserts.

Finally, even if all the competitors in the "superpremium" market were to raise their prices, that would simply invite new competition from ice-cream makers who don't currently produce superpremium brands but could readily do so.

It looks awfully silly for a government agency to flex its muscles over a proposed merger involving a small part of the market for one kind of dessert. Even if the FTC's fears were realized, all that would happen is that a container of Cherry Garcia or Black Raspberry Avalanche might go up in price from perhaps $3.29 to $3.49. Why should that be any concern of the federal (or state or local) government? Anyone who doesn't like the price increase can buy something else, or have "superpremium" ice cream less often. Government is supposed to protect our rights to life, liberty, and property, not fret over whether we're getting the lowest possible price for ice cream.

So why go through this exercise, either forbidding a harmless merger or forcing the firms to spend huge sums on legal fees to fight an FTC injunction in court? In a column in the March 12 *Wall Street Journal*, writer Holman Jenkins put his finger on the reason: "Now the agency has manufactured an enemy monopolist that it can be seen vanquishing in a fabulous war of regulatory coercion. . . . It's obvious why the FTC engages in such intellectual sleight of hand. It wouldn't have anything to do otherwise. Were they obliged to wait until presented with a case raising genuine antitrust concerns, its lawyers might spend the whole of their government service twiddling their thumbs."

That's exactly it. Government agencies want to be perceived as beehives of activity. If they weren't, taxpayers might start asking impertinent questions like, "Why are we paying high salaries to all these people?"

Jenkins's column hit a raw nerve at the FTC. It drew an indignant reply letter from Bureau of Competition Director Simons, who harrumphed that Jenkins was displaying his "indifference to consumer welfare."

But free markets are the best maximizers of consumer welfare, and they don't stop working just because the owners of two competitors want to merge their operations. We no more need a federal agency to oversee competition than we need one to make sure that gravity keeps working. □

IDEAS ON LIBERTY
October 2003

Green for Profit

by Scott McPherson

Have you ever heard the expression "one man's trash is another man's treasure"? What about one man's trash being another man's golf course? That notion is actually becoming a reality, and it proves once again the value of private initiative and the wisdom of entrepreneurialism over government control.

In the sunny suburban landscape of Sandy Springs, Georgia, a private developer has turned a former dump into a recreational area, providing local residents with an 18-hole, executive-length golf course. As the *Washington Times* saw it, "The stinky Morgan Falls landfill was a constant source of complaints from people who lived nearby and from environmental regulators concerned about pollution in the nearby Chattahoochee River. Now, golfers are admiring the ridges and valleys next to the river." (Ty Tagami, "Converted Landfill Par for the Course," December 31, 2002. Subsequent quotes are also from this source.)

Seeing a potential opportunity, Kay Broaddus, a Coca-Cola marketing executive who is now president of Eagle Golf Ventures, had researched demand for sports facilities in the area and concluded that many residents wanted access to a green. The trouble was that increased residential development had taken up all the choicest spots. Rather than abandon an obvious money-making scheme, however, Ms. Broaddus set her sights on a piece of ground that was already occupied, but not exactly being put to its most gainful use.

What Broaddus was eyeing was the Morgan Falls landfill, full since 1988, and, to the concern of state officials, a major cause of erosion and runoff because of poor county maintenance. Worse, this eyesore was costing Fulton County taxpayers $250,000 a year to maintain. By comparison, Eagle Golf Ventures could develop the landfill, remove a blot on the scenery, relieve the county of a needless expense, provide local citizens with golfing facilities, and turn an otherwise useless piece of real estate into a profitable enterprise.

Fortunately, the proposition was approved, and Eagle Golf Ventures spent $5 million to construct Blue Heron Golf Club, after the county spent $1 million on a methane-extraction system to ready the landfill for development. Ideally, that cost too would have been borne by Eagle, but that imperfection in the formula is arguably outweighed by one particular benefit: an end to maintenance costs alone will see the county reimbursed in just four years.

Philosophically speaking, the only thing that really soils the deal is that Eagle does not get deed to the property—it is paying rent to the county to the tune of $40,000 a year and, eventually, a percentage of its greens fees, as well. This regime should clearly be replaced by one passing full own-

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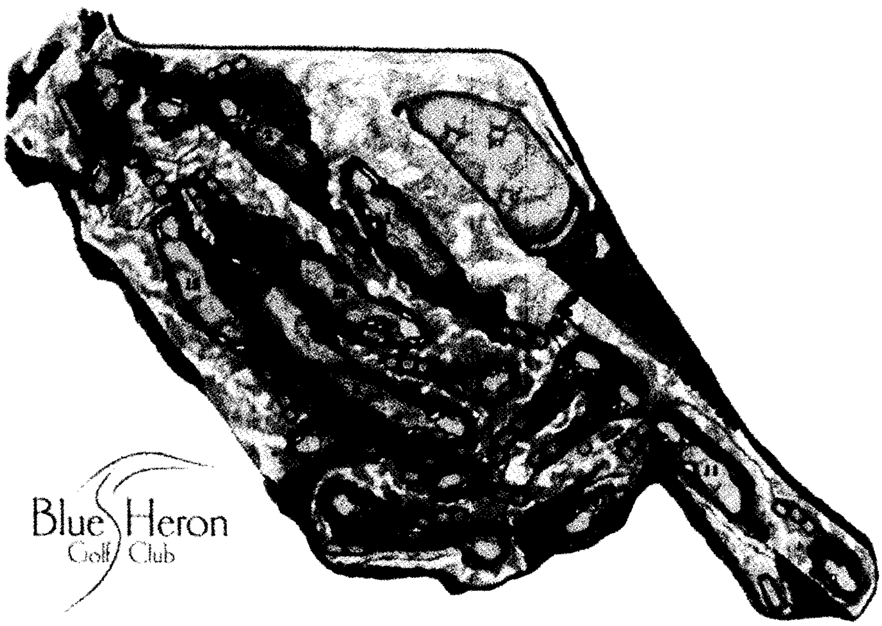

The Blue Heron Golf Club course was designed by Michael Riley. Riley started his career with the Jack Nicklaus organization and subsequently designed the Council Fire course in Chattanooga.

ership to the company. But absent that possibility, it's still a pretty good bargain for everyone. "I think it's a wonderful, wonderful addition to the community," one enthusiastic householder said of the new club.

Next Big Trend

And it doesn't end in Sandy Springs. According to Bill Love, environmental committee chairman for the American Society of Golf Course Architects, there are at least 50 other landfills in the country that have been converted into golf courses. The *Times* report credits Love with predicting "the next big national trend" as "designing landfills for use after closing." Perhaps it would be wisest to cut out the government middleman and just ask private groups like Love's to take over nationwide waste disposal.

Which raises another interesting point. Considering government's repeated inability to adapt and innovate to changing circumstances, could county or state agencies ever be counted on to have the kind of foresight necessary to bring these kinds of projects to fruition? In the Sandy Springs case alone, 14 years and several million dollars went down the drain without any such inspiration. They can't exactly say they were getting around to it, can they? And as *Ideas on Liberty* readers know, bureaucrats and politicians are often enough more than hostile to such community improvements. (See "My Regulatory Nightmare" by Stephen Lathrop, *Ideas on Liberty*, March 2003).

Without the profit motive, a full landfill is as useless as the junk, rodents, filth, pollution, and stench that reside there. Government officials, at whatever level, stand to gain nothing for proposing such a plan. For government, $250,000 a year to maintain a defunct investment is simply a fixed cost. On the other hand, all it takes is an entrepreneur with a little motivation to show that one man's trash can truly become another man's treasure, making the world a little bit greener for everyone. □

IDEAS ON LIBERTY
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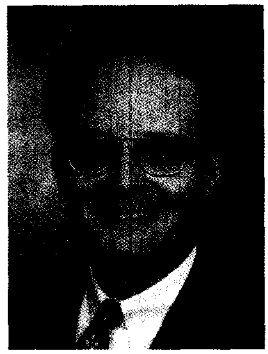

Joseph P. Overton: Character for a Free Society

A person's character is nothing more and nothing less than the sum of his choices. You can't choose your height or race or many other physical traits, but you fine-tune your character every time you distinguish right from wrong and act accordingly. Your character is further defined by how you choose to interact with others and the standards of speech and conduct you uphold.

Ravaged by conflict and corruption, the world is starving these days for people of *high* character. Indeed, as much as anything, it is on this issue that the fate of individual liberty has always depended. A free society flourishes when people seek to be models of honor, honesty, and propriety. It descends into barbarism when they abandon what's right in favor of self-gratification at the expense of others, when lying, cheating, or stealing are winked at instead of shunned. Those who favor the steady advance of liberty must assign top priority to raising the caliber of their own character and learning from those who already have it in spades.

So it is good news for liberty when anyone, anywhere, commits his life to the loftiest standards of personal and professional behavior. It's bad news when we lose such models, and it is with profound sadness that I share some bad news with readers of this journal. The world's sum of good character suffered an incalculable subtraction with the untimely death on June 30 of a friend and colleague, Joseph P. Overton. Killed in a tragic plane crash at the age of 43, barely three months after making his vows to the woman of his dreams at a picture-perfect wedding, he will be remembered by many lovers of liberty around the world as a man who displayed the highest character in every way.

Since his college days Joe believed that liberty and character were mutually dependent and he felt an irresistible calling to work for the advancement of both. He reached the zenith of his contributions as senior vice president at the Mackinac Center for Public Policy in Michigan, whose staff he joined in January 1992. You cannot walk an inch in our 23,000-square-foot headquarters without seeing his imprint—in the output of our organization to the very building itself, whose construction he supervised in 1997.

Talk to any one of our nearly 30 employees and you'll hear the same: Through his example, his mere presence in a room would raise everyone's standards of speech and conduct. As a consummate administrator he taught us the importance of continuous organizational improvement through Total Quality Management. He was able to do that effectively not just because he knew the nuts and bolts of the subject, but because he practiced it in his personal life as well. I heard him say many times, "You cannot impart what you don't possess."

Joe Overton was the straightest straight shooter I've ever known. Not a speck of deception, guile, conceit, or hidden agenda

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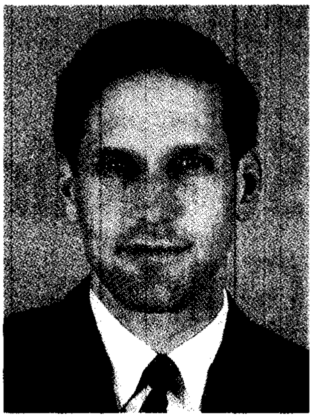
in him. He said what he meant and meant what he said, *always*. You never, *ever* had to wonder if he was telling you the truth. He kept his word as if it was an indispensable and inseparable physical appendage like an arm or a leg. Like so many others, I came to place total, unqualified trust in him. So did others who came to know him. Never underestimate the importance of truth and trust to a free society; if we cannot deal with each other on those terms, we will resort to the ugliness of brute force and political power.

Though packed into a few amazingly productive years, Joe's contributions to the international freedom movement were legion. He was known as a leader in the effort to liberate parents and children from the grip of the government school monopoly, and he designed a unique tax-credit plan to move things in that direction. He devised winning strategies to liberate workers from compulsory unionism. And he created what is becoming known as the "Overton Window of Political Possibilities"—a teaching tool that gets people to understand the importance of putting ideas ahead of political action.

Practiced as Well as Preached

Over and over again, people were attracted to his work because of the sterling character of his persona. Friends marveled at his consistency and self-discipline. They were impressed that he not only preached the virtues of civil society, he practiced them in his own life through endless volunteer efforts, quiet philanthropy, and ceaseless counsel to those who needed good advice. All of this comes through loud and clear in the hundreds of tributes to him that poured in from all over the world in the two weeks after the accident that claimed his life. As a testimony to his far-flung influence, within days of the tragedy a Joseph P. Overton Leadership Center was announced in Nairobi, Kenya, for the purpose of training African youth in the principles of liberty and how best to advance them. You can see just how special Joe was by viewing the many tributes at www.mackinac.org.



Joseph P. Overton

So much more could be said of this great man, but, I close with this from one of the eulogies delivered at his funeral:

The world needs more men who do not have a price at which they can be bought; who do not borrow from integrity to pay for expediency; who have their priorities straight and in proper order; whose handshake is an ironclad contract; who are not afraid of taking risks to advance what is right; and who are honest in small matters as they are in large ones.

The world needs more men whose ambitions are big enough to include others; who know how to win with grace and lose with dignity; who do not believe that shrewdness and cunning and ruthlessness are the three keys to success; who still have friends they made twenty years ago; who put principle and consistency above politics or personal advancement; and who are not afraid to go against the grain of popular opinion.

The world needs more men who do not forsake what is right just to get consensus because it makes them look good; who know how important it is to lead by example, not by barking orders; who would not have you do something they would not do themselves; who work to turn even the most adverse circumstances into opportunities to learn and improve; and who love even those who have done some injustice or unfairness to them. The world, in other words, needs more true leaders. *More to the point, the world needs more Joe Overtons.* □

IDEAS ON LIBERTY
OCTOBER 2003

Strangling the Golden State's Golden Goose

by Steven Greenhut

The older industrial park just south of downtown Los Angeles wasn't the typical spot for a California Chamber of Commerce press conference. There were no ribbons to cut, only a handful of moving boxes decorated with various bill numbers—SB 888, AB 274, SB 515. Instead of hand-shaking and excitement about a newly opened business, a group of assembled reporters and onlookers witnessed some sad speeches and eulogies, the likes of which one usually finds at funerals.

In some ways it was a funeral. Mitchell Greif, chairman of the plastic-bag manufacturing company Coast Converters Inc., was shutting his doors and heading to the Nevada desert, where the cost of business will plummet and where officials are welcoming his company rather than persecuting it.

"I do not want to leave California," Greif told the crowd. "But as a businessman I have no choice. If I stay in California I will be subject to more punitive taxes and fees that will eventually force me to cut jobs. Instead our workers are moving with the factory to Nevada where I will save $800,000 annually in taxes, insurance, workers compensation, and onerous regulations."

"We've been legislated out of business," Kjeld Hestehave, president of Bomatic Inc., a plastics manufacturer in Ontario, California, added, as other company owners eagerly chimed in with their own horror stories. Four years ago, Hestehave said, he was among a group of five plastics manufacturers who met with their state assemblywoman to plead for regulatory relief. "I'm the last one left," he said. Soon enough he'll be gone too—to southern Utah.

It's simple economics. His workers-compensation premiums will go from $300,000 a year to $30,000 a year, and his electricity costs in this electricity-intensive industry will drop from about $800,000 a year to $80,000 a year. But it's not just the money.

"They [legislators] definitely don't want manufacturing in California," he added. "In Utah they want us there so bad. A building permit in California would have taken us months, but we'll get it passed in Utah in about one week." Many of the costliest regulations, business owners say, don't seem to benefit anyone.

It was the same story over and over. Last year California passed a paid-family-leave bill, creating a fund that gives workers time off with pay. Greif points to AB 60, which forces employees to be paid overtime based on daily hours rather than weekly hours. It cost his company $130,000 in one year alone. He said his workers didn't even want the overtime changes, and voted not to implement them, although the state doesn't allow such personal choices.

What is this, some kind of free country where employers and employees can negotiate the terms of employment on their own?

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Business owners have gotten used to a regulatory climate that would be considered oppressive by most standards. But the worst recent business killers are workers-compensation premium increases, which have gone up as much as 400 percent in manufacturing industries, and electricity rates, which have as much as tripled because of the state government's mishandling of an electricity crisis spawned by a failed regulatory plan. Each of those problems could be discussed in entire books, but suffice it to say that state rules in each case are driving higher prices.

More Anti-Business Bills

In the past, Chamber of Commerce general counsel Fred Main said, ideologically driven legislation would be introduced in Sacramento, get a quick discussion in committee, and then promptly be killed. But now these bills pass out of committee without much opposition. Some of them make it into law.

Greif and others said they were getting out of town before the latest crop of bills is signed by the governor. Those bill numbers artfully placed on the empty moving boxes were culled from a list of about 51 deemed "job-killer bills" by the chamber and other state business groups. Add the words "freedom-killing" and we'll be getting even closer to the reality.

Some bills would have dramatic effects, such as a plan for universal health care that would turn the state's medical system into a facsimile of Canada's, in which individuals can spend months or even years waiting for procedures we now consider routine. One of the socialized health-care plans would fund itself by a 7 percent tax on payrolls. It would destroy the economy as well as health care.

The list breaks the job-killers into various categories. First are expensive, unnecessary regulations that, for instance, impose additional environmental approvals for construction projects, or create a fully government-regulated electricity market. Second are those expensive workplace mandates, such as a bill that would require all businesses, big and small, to offer health insurance to workers. Third are those many bills that increase litigation—no surprise, given that the influential trial bar always is looking for new legislation giving them more businesses to sue. Fourth are all the new proposed taxes and fees—on diapers, disposable cups, light bulbs, electronic devices, motor oil, alcoholic beverages, gasoline, Internet purchases, most services, and timber products.

Finally, there are my favorite ones: the largely symbolic bills that treat business owners, quite literally, as criminals. Fred Main said legislators have increased fines on so many businesses that they are now increasing their previous increases. Symbolic of the legislature's mentality is a bill, which passed out of committee on a 5-2 vote, that creates a three-strikes-and-you're-out penalty for businesses. If the company or its leaders are caught committing a felony three times, they will be forced out of business.

Chilly Business Climate

One needn't listen to the state's business groups, or embittered business owners to see the results of this legislative work. The signs are obvious from reading the newspapers.

"California's business climate, always a heated topic in business circles, has tempers boiling once again," the *Los Angeles Times* reported in February. "The state's botched electricity deregulation plan has burdened companies with some of the highest energy rates in the country, while a string of perceived anti-business legislation passed in recent years has made it more costly to employ people."

The *Forbes* annual "cost of doing business" survey has bumped all California cities off its top-ten list. Santa Rosa was the highest-ranked California city, at 27th. The Chamber of Commerce and Business Roundtable "survey of 400 business executives reveals a sharp decline in business confidence since 2001 when the survey was last taken," the *Sacramento Bee* noted in May.

The *Los Angeles Daily News* reported on a UCLA Anderson Forecast showing that "the state's per-capita income has dropped from 15 percent higher than the national average to less than 2 percent higher now. At the same time, home prices and apartment rents are more than twice the national average and consumer prices have risen far more sharply than elsewhere."

Economists blame all this on the state's loss of aerospace jobs and the dot-com meltdown, but couldn't the state's overall assault on business provide another plausible explanation?

State officials are in denial. *San Diego Union-Tribune* columnist Joseph Perkins captured Governor Gray Davis's priceless words in a May 23 column: "California is the best place in the nation for businesses to prosper." The state, the governor said, has a "business-friendly policy environment."

Assemblyman John Campbell, an Irvine Republican, said that when he broaches the subject with the Democrats, who have a nearly two-thirds majority in both houses of the legislature and who control every state constitutional office, they are dismissive. They say California is such a beautiful state that businesses will not leave no matter what new burdens are imposed on them.

But they are leaving. An April article in the *Reno Gazette-Journal* reports that "Nevada stands alone in generating jobs in the manufacturing industry." Why Nevada? It's not that hard to figure out. Neighboring California lost 167,100 manufacturing jobs between July 2000 and December 2002, according to the newspaper, for a decline of 8.6 percent. Nevada officials even advertise in California to lure businesses.

Same Old Reasons

There are plenty of anecdotes. Buck Knives, the century-old knife maker that has been located in the San Diego area for 58 years, announced that it is moving to Post Falls, Idaho. The reasons are the same old same old: "We just came to the point where it seemed riskier to stay in California than to leave," company chairman Chuck Buck told the *Los Angeles Times*.

"The cost of doing business in California is becoming too oppressive," Fidelity National Financial Inc. chairman Bill Foley told the *Orange County Register,* in explaining why the Fortune 500 company is negotiating to relocate its corporate headquarters from Irvine to Florida. "It's too bad because it's a nice place to live."

To Democratic officials, these examples are insignificant. State Senator Sheila Kuehl is author of much of the state's most noxious legislation. In published reports she has said that the jobs leaving are only manufacturing jobs and they mainly are going to Asia and Mexico anyway. She points to Silicon Valley companies, which have no intention of leaving the state.

Kuehl is right on one score: the large businesses in Silicon Valley and elsewhere don't seem to mind the excessive regulatory climate. Ironically, the state Chamber of Commerce gives about 92 percent of its political donations to Democrats. Big business routinely bankrolls legislators who impose new regulations on the state as well as initiative campaigns to make tax-hiking easier.

The chamber excuses itself by saying that it has to play ball with those who are in power. There's some truth in that. But believers in the free market have long understood this dynamic—bigger businesses use the government to regulate and tax smaller competitors. The big guys can weather the additional costs; the small guys can't.

This is leading to a California in which big businesses survive, as do the mom-and-pop businesses that typically are exempted from the most onerous regulations. But the middle entrepreneurial and manufacturing businesses are being pushed out of state. Meanwhile, the state seems poised for an exodus similar to what took place in the early 1990s, when middle-class residents fled for the intermountain West.

Rather than blame their policies, the politicians are blaming the free market. California's electricity crisis, which has led to high electricity rates for all Californians, was caused by "deregulation," according to conventional wisdom. As Governor Davis explains it, the state deregulated electricity, and then out-of-state electricity generators gamed the system and gouged California consumers.

The only problem is that California never deregulated the electricity market. It passed a "deregulation" law that was really a re-regulation law. One area was deregulated—wholesale prices—but the retail price was still capped by the government. It's not hard to see how that led to the bankruptcy of one utility and the near-bankruptcy of another.

The market takes a similar rap with regard to workers compensation. In the view of officials, the state deregulated workers-compensation insurance, rates fell dramatically, but then problems occurred. Insurers were so eager to get business that they undercut their rates until they were losing money, driving many from the market. So the system went belly up. That's how these officials understand the market. If that's how markets worked, then all firms would be out of business because they would have undercut each other into extinction.

In reality, California has the highest workers-compensation rates in the nation and among the skimpiest benefits. Many insurers did start losing money and bailed out of the market. But the reason had to do with what happened between those high rates and low coverage—the excessive medical claims, fraud, and lawsuit frenzy that drove costs through the roof and caused massive losses. Now the state fund is picking up the slack, and it too is losing money. It is handling the problem the way governments always do: by rationing services. Of course, the whole workers-comp mess is ultimately driven by the fact that government is forcing employers to offer this coverage. In a free society, wouldn't individuals decide what insurance to purchase?

Left-Wing Lock

After redistricting, California basically locked in a legislative majority that is far to the left. There are no competitive seats any more, and the Democrats who control things see business as evil and government as good. They don't regard any rights or liberties infringed in their constant attacks on business. It's as if businesses were "public" entities that can be controlled and pilfered at government's will.

No wonder all the punitive anti-business legislation is moving forward, and why many businesses are running scared. Our only hope, one Republican legislator said, is for things to get bad enough that people will wake up.

Maybe things are getting that bad. Not only are businesses leaving, but taxes are likely to go up in the face of a projected $38 billion budget deficit caused by a 37 percent growth in government spending over the past four years. Could this be the beginning of another Eastern European-style meltdown? After all, socialism doesn't work any better in California than it did in Bulgaria.

Unfortunately, the business community has based its defense on arguments about the business climate. California will lose jobs and revenues as businesses shut down, flee the state, or choose not to expand their operations. Where is the spirited defense of freedom? What about the right to run one's business the way one sees fit? What about the right to decide whom to hire, whom to fire, and what to pay one's workers? What about the right to life, liberty and the pursuit of happiness?

Well, at least the weather is nice. □

IDEAS
ON LIBERTY
OCTOBER 2003

"The State of the Air": Propaganda, Not Science

by Roy Cordato

Each May the American Lung Association (ALA) issues "The State of the Air" in which it reports on ground-level ozone pollution county by county over a three-year period. The study gives each county a grade (A-F) based on what are called "ozone exceedence days" and calculates the number of people "put at risk" for respiratory problems as a result of these exceedences.

The study is important because it influences policy debates, especially in the states, and because the local news media like to focus on the ALA's ranking of counties and states. In reality every aspect of the ALA report is methodologically flawed. Its reporting of ozone data and the extent of detrimental health effects is hyperbolic, and its grading system and rankings are meaningless.

First, the ALA report is based on data as much as four years old and says little or nothing about current or future trends. Despite its title, "The State of the Air: 2003" focuses on 1999–2001 and says nothing about the state of the air in 2003 or 2002.[1] Ground-level ozone is heavily dependent on the weather, particularly heat, sunlight, and humidity, and can vary dramatically from year to year. For example, from 1999 to 2001 the average number of ozone exceedence days per monitor in North Carolina fell by more than two-thirds, a fact not mentioned in the ALA's discussion of air quality in the state. In spite of this flaw, the media typically report on the study as if the data were both current and an accurate reflection of past and current trends.

The ALA's grading system and the comparisons based on this system convey little if any useful information. A county is given an F if there are more than three monitor readings greater than or equal to 85 parts per billion (ppb) of ambient air averaged over eight hours for the three-year period.[2] This raises several problems.

Imagine county Y and county Z. Y registers ten mild exceedence days of 85 ppb over the period with no other days registering above 70 ppb. Z registers 20 days measuring 80 ppb with no day below 75 ppb. The ALA grading system would give county Y a grade of F and county Z, with no exceedences, a grade of A. According to the Environmental Protection Agency's Clean Air Scientific Advisory Committee (CASAC), these two grades would tell us nothing about the relative healthiness of the air in these two counties.[3] CASAC concluded that when considering a range of 70 to 90 ppb "there is no 'bright line' which distinguishes any of the. . . standards . . . as being significantly more protective of public health." In this case the difference between A and F, while appearing quite dramatic, would turn out to be, in

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terms of actual protection of public health, no difference at all.

Compounding this deception is the fact that the ALA study uses its conclusions to rank counties and metropolitan areas according to relative levels of ozone pollution. The problem is that different counties, cities, and states all have different numbers of monitors. The more monitors a jurisdiction has the more likely an exceedence will be registered on any given day. That biases the comparisons against areas with more monitors. While the ALA is clearly aware of this problem, it has never attempted to adjust its rankings for the numbers of monitors in each county.

In reporting data from a county, the ALA counts an ozone exceedence from any one monitor against the entire geographical area. Assume a county has four monitors each at a different location, if only one shows an exceedence for a given day, the entire county is reported as being out of compliance. Therefore, a county will always be reported as having considerably more ozone exceedence days in a given year than any location in the county actually experiences. For example, in the latest report, Wake County, North Carolina, was cited as averaging 16 high ozone days per year during 1999–2001. In reality the annual average for the four monitors in the county was only six exceedence days each. In 2001 they averaged only two each.

Exaggerates Risk

In adopting this misleading methodology the ALA exaggerates the number of people who are at risk. Whenever the study cites a county as having an ozone exceedence day, even if only registered on one monitor, the entire population of the county is reported at risk. For example, during 1998 in Wake County, a monitor in the small rural community of Fuquay Varina registered four exceedence days that were not registered on any other monitor. In spite of this, the ALA listed the entire "sensitive" population of the county as "at risk"—including the population of Raleigh, which showed no exceedences on those days.

Along these same lines, the ALA misleadingly reports the identical people as being at risk in several different categories. For example, in stating that "as many as 27.1 million children 13 and under, and over 1.9 million children with asthma are potentially exposed to unhealthful levels of ozone," the ALA is actually referring to many of the same children twice.[4] This occurs with several other categories of "at risk" populations. Technically double counting is avoided only because the ALA does not aggregate.

The annual "State of the Air" report is pure propaganda, and its primary purpose is political advocacy. This is clear from the ALA's website and from the fact that it regularly joins coalitions with leftist environmental pressure groups such as Earth Justice, Environmental Defense, and the Natural Resource Defense Council.[5] The media and everyone else should view its publications in that light. □

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1. Found at http://lungaction.org/reports/sota03_full.html.
2. The 85 ppb, eight-hour threshold is central to the controversial EPA standard that was proposed in 1997. But the ALA standard is even more stringent than the EPA's. For the ALA, if any one ozone monitor crosses the threshold during the day the entire county is in violation of the standard. As the ALA notes in the appendix of its report, "some counties will receive grades of F . . . while still meeting EPA's 1997 ozone standard."
3 "CASAC Closure on the Primary Standard Portion of the Staff Paper for Ozone," Clean Air Scientific Advisory Committee, U.S. Environmental Protection Agency, EPA-SAB-CASAC-LTR-96-002, November 30, 1995.
4. "American Lung Association Fact Sheet Children and Ozone Air Pollution," American Lung Association, September, 2002.
5. See "Environmental Groups Sue EPA for Weakening Clean Air Act," February 28, 2003, www.lungusa.org/press/envir/air_022803.html.

IDEAS ON LIBERTY
OCTOBER 2003

Taking Drug Laws Seriously, II

In my January column I presented my reasons for opposing the effort to combat the war on drugs by seeking to enact state referendums "legalizing medical marijuana." The appeal of that approach to many libertarians is symptomatic of how wimpish some of them are about confronting statist medical, and especially psychiatric, principles and practices. Ted Galen Carpenter's *Bad Neighbor Policy: Washington's Futile War on Drugs in Latin America* is a recent example.

As far as fulfilling his stated aim—that is, presenting an account of the futility of the war on drugs in Latin America—Carpenter's book is satisfactory. What is unsatisfactory—indeed, wholly unacceptable—is his proposal for ending the drug war.

Carpenter, a vice president at the Cato Institute, writes glowingly about George Soros and a few other prominent men who support initiatives that increase the power of the therapeutic state and enfeeble the individual: "They have promoted various measures that embody a strategy of 'harm reduction' and treatment, not jail." Carpenter uncritically buys into the jargon of the psychiatric-therapeutic drug reformers. Can anyone be for "harm augmentation"? Can anyone still not know what drug reformers mean when they use the word "treatment"?

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What does the term "harm reduction" mean? It means not punishing people for possessing hypodermic needles without a medical prescription. If libertarians believe in bodily self-ownership, then the problems that the "harm reducers" propose to remedy could not even arise. Worse, what does the term "treatment" mean in the context of the war on drugs? It means the naked use of force by doctors. Sally Satel—Yale University psychiatrist, "drug addiction treatment" expert, and the star "medical" witness for the drug warriors—proudly proclaims: "Force is the best medicine." The *Wall Street Journal* considers this policy worthy of its editorial pages. Libertarians cannot say they have not been warned.

Carpenter enthuses that nine states have passed initiatives "making exceptions to the drug laws. . . . Instead [of jail], such nonviolent offenders would be *directed into treatment programs*." Tourists receive "directions" to destinations of their own choice. Persons accused of drug offenses are coerced into psychiatric slavery.

Libertarians univocally assert that the prohibition against initiating violence is a cardinal principle of libertarianism. The peasant in Colombia who grows coca is not initiating violence. The politician in the District of Columbia who enacts laws authorizing the use of military aircraft to bomb and destroy the peasant's crop does.

The person who buys and uses a drug—whether it's alcohol or Zyprexa—is not initiating violence. The legislator who authorizes the use of force to prevent him from taking the drug he wants and to compel him to take the drug he does not want; the Supreme Court Justice who declares these laws "constitutional"; and the psychiatrist who incarcerates and forcibly drugs the "patient"—one and all initiate violence.

In my January column I noted that three of the most wealthy and powerful drug-law reformers who advocate "treatment" for drug-law violators have themselves violated the drug laws and have done so without having been punished for their offense or "treated" for their "disease." Yet they advocate punishing others who violate the drug laws, propose that doctors do the punishing, and call this initiation of violence "treatment."

In my books—*Ceremonial Chemistry: The Ritual Persecution of Drugs, Addicts, and Pushers* (1974) and *Our Right to Drugs: The Case for a Free Market* (1992)—I provided a detailed critique of Carpenter's thesis many years before his book was published. Here I shall mention only a few of the absurdities that result from his ignoring the role of psychiatry in American society, and especially in the war on drugs.

Prohibiting Reading of Unapproved Books

From a political point of view, prohibiting the use of drugs not approved by the government and classifying the defiance of the ban as a disease is indistinguishable from prohibiting reading or writing books not approved by the government and classifying the defiance of the ban as a disease. I have said enough about this pernicious nonsense elsewhere and merely note it here.

Carpenter's proposal to treat illicit drugs "as alcohol and tobacco are now treated" contradicts his proposal, earlier in the book, to coerce ("direct") nonviolent offenders into "treatment programs." We do not (at least yet) treat alcohol and tobacco users as either patients or criminals. The proposal would also create the absurd situation of heroin being available like cigarettes, but not morphine; of cocaine and marijuana being available without a prescription, but not Ritalin or Valium.

Another obvious difficulty remains to be considered. Who, in his right mind, would sell heroin or cocaine? Whether "on drugs" or not, some people kill themselves or others. In the present state of American legal and psychiatric practice, the seller of cocaine or heroin could expect to be sued by loved ones or injured parties, claiming that the drug *caused* the actor to kill himself or his victim. The person responsible for the suicide or murder would, of course, be called a "patient." The country's foremost psychiatric experts would line up to testify under oath that the "dangerous drug" *caused* the crime and had the actor not used it, he would not have killed himself or his victim. The seller would quickly be put out of business, if not in jail.

The combination of medical licensure laws, prescriptions laws, tort laws, and the war on drugs has closed and bolted America's door to a free market in drugs. Today, the only way a person can buy or hope to buy the drugs he really wants to take is by breaking the law, transacting his business with a seller in the black market. That is exactly the way citizens of the Soviet Union had to buy the books they really wanted to read.

The two cardinal principles of the libertarian credo are the affirmation of the right to bodily and mental self-ownership and the prohibition against initiating violence. The person who buys a drug and puts it into his body—and the person who refuses to put a drug into his body that a psychiatrist prescribes—are exercising their elementary right to self-ownership. The person who sells a drug is not initiating violence.

Every physician and psychiatrist who does not explicitly repudiate our drug laws and participates in forcibly "treating" "addicts" and "drug abusers" is guilty of violating the basic human rights of free men and free women.

If libertarians do not stand up against the true "drug criminals"—the drug prohibitionists—who will? □

IDEAS
ON LIBERTY
OCTOBER 2003

Pensions: A Wordwide, But Avoidable Crisis

by Norman Barry

Almost every country in the economically advanced world is worried about nationalized pensions. American statisticians have some grisly fun predicting on what day of the week and in what year the Social Security system will finally go bust. Or whether Medicare will be broke first. And most young Americans think that there is as much chance of picking up Social Security when they retire as there is of a sighting of Elvis.

The Europeans are not that realistic: they really do think that they will be as well looked after in old age as their parents have been. That is why, just to make sure, French workers went on strike when reform was first threatened in 1995 and again, in May of this year, when the changes looked a little more serious. They might now be compelled to work an extra two and a half years, but will still retire on 70 percent of salary.

The problem with state schemes is that they cannot repeal the laws of nature. The laws of nature relevant here are longevity and relative infertility. The European and American schemes are financed on a "pay as you go" (PAYG) basis: this working generation promises to pay the retirement costs of the currently aged on the understanding that a succeeding generation will return the favor to it, and so on indefinitely. But if people live longer and do not reproduce at the same rate as before, the alleged "contract between the generations" cannot be kept.[1] One generation in particular will lose out: those people who will have to pay the costs of the existing retirees while saving for their own retirement when reality finally breaks in and governments are compelled to fund their promises with real money.

Most European countries have very generous old-age pensions. In France, Italy, and Germany, among others, people retire at an early age, often below 60, and with pensions, as in France, that amount to 70 percent of their salaries. These are the same countries that are experiencing alarming reductions in the birth rate. In Italy and Germany it is rapidly heading toward the nonreplacement rate; that is, their populations will suffer a net fall. Elderly Germans are advised to cross the road carefully when young drivers are around. Americans face the same problem, and the figures are only slightly more encouraging. There will be a drop from an astonishing 40 workers per retiree, as there were in 1945, to just over two when the baby boomers retire after about 2010. But at least they don't expect the state to honor its promises. The Europeans do. It always has, hasn't it?

Americans have had compulsory old-age pensions since 1935. The system was originally intended to be self-financing, paid out of the Social Security (payroll) tax, but it is

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now a full-fledged PAYG scheme and has been from its early days. Like all socialist schemes, it has steadily got more costly. The combined employer and employee contributions now amount to 15.3 percent of income. (It was originally 2 percent.) Of course, the payments are so meager that many Americans have made private arrangements, with welcome tax concessions.

President Reagan produced a scheme that would eventually build up a fund from which future generations could draw. But this has not been allowed to happen, and by the middle of the 21st century there will be nothing for those generations other than future taxpayers' generosity. Indeed, when the budget deficit finally began to be reduced in the mid-1990s and the returns from the payroll tax began to swell, that fund was deliberately used for other government spending. If the PAYG system continues, it is quite likely that the future will feature, in America and Europe, a war between the generations far more intense than any class war predicted by Marx.

Politics and the Aged

Let us not forget that the elderly are politically powerful. The American Association of Retired People (AARP) is one of the most important pressure groups in the country, and its officials are eager to highlight any threat to Social Security posed by either of the two political parties. It is a tribute to the hidden power of the AARP that no serious threat has ever arisen. Indeed, there is a great disparity in federal and state spending between the young and old.[2] There is an implicit and unexamined prejudice in political debate on behalf of the elderly. To question that prejudice is a sure sign of immorality and egoism. This automatic prejudice undoubtedly springs from the fact that there was once a close connection between being old and being poor, so that welfare measures designed to alleviate suffering would help the aged disproportionately. But this is no longer true. In all advanced Western democracies the retired are quite well off, certainly in comparison to their predecessors.

Equally important, advocates of the retired have managed to persuade American public opinion that Social Security isn't welfare; it has been paid for by past contributions. But it hasn't. And although Americans think Social Security is not generous, they still get more than they paid in. It has the feature of all welfare policies—redistribution. As Carolyn Weaver said, in discussing the raising of the payroll tax: "a decision to increase the tax rate represents a collective decision to alter the distribution of rates of return between generations."[3]

But politicians know very well that the old vote in greater proportion than the young. And the spokesmen for the aged seem immune from the normal criticism that occurs in political and ethical argument. Thus how many of the contemporary advocates of "social justice" for the aged ever realize, least of all point out, that Social Security operates against blacks? But it clearly does. They do not live as long as whites and therefore draw less from the system. This kind of inequity is bound to occur in a socialist system.

Oddly enough, the United Kingdom has been rather virtuous in this matter. One of the many unheralded achievements of Margaret Thatcher's reign was the privatization of the bulk of pensions. There is still a basic, very low, unfunded pension, but the potentially ruinous State Earnings Related Pension Scheme (or SERPS, a full implementation of which would have ruined the economy) was run down and people were given incentives to leave it. Now nearly 70 percent of the workers (well over 40 percent of actual pensioners) are in privately financed schemes. SERPS has been replaced by the Second State Pension, but the problem here is that the original aim of getting everybody out of a second state pension has wavered a little in recent years. People are now being encouraged to contract back into it.

It is true that the British are in a bit of trouble at the moment because of the fall in the stock market, and the number of people privately covered has recently begun to fall. But this is because another social phenomenon is taking over: "moral hazard." The

The whole pensions business illustrates all too well the dangers of government involvement in what is essentially a private decision: how much to save for old age. In a free society this is a consequence of time preference. How much does each person value the future over the present?

basic flat-rate pension is so derisory that those solely dependent on it have to have their incomes topped up from extra welfare payments. So they are now saying, quite rationally: "I will get paid anyway, so why should I save"? Of course, the moral hazard could be alleviated if the supplementary payments were not so generous and if there were greater incentives for people to get covered privately. But the situation in Britain is still very much better than in mainland Europe, where in most countries only 10 percent of workers are in private plans.

Alas, Britain's prudence faces a new threat—and it is not from demography. The Europeans are now engaged in a pale imitation of Philadelphia 1787: they are trying to construct a constitution. What has such heady metaphysics got to do with the tedious actuarial problems of pensions? A lot, actually. The document has something deadly tacked on the end: a Charter of Fundamental Rights, which includes welfare rights, in particular, *entitlements to social security benefits and protection in maternity, illness, and old age* (Article 34). These are not anodyne ideals but legally enforceable claims.

It is worth noting that, despite having welfare, Americans do not have a constitutional right to it. If they did the 1996 reforms would never have survived in the Supreme Court. But a European from any country in the Union will soon have the right to take his government to court if, say, he is not provided with a pension of 70 percent of his salary and if he is made to work till he is 65. Who will pay for such largess? It is likely that Britain's funded pensions will be invested in a European-wide pension scheme. Isn't that what "ever closer union" (the mantra of the Europhiles) means?

The Logic of Pensions

The whole pensions business illustrates all too well the dangers of government involvement in what is essentially a private decision: how much to save for old age. In a free society this is a consequence of time preference. How much does each person value the future over the present? A person with a high time preference does not value the future all that much and will spend his present income on immediate consumption. But most people do care about the future and save accordingly. Indeed, our time preferences begin to fall as we get older.

The original rationale for state involvement in pensions was that people's time preferences were too high, which would present the state with a massive welfare bill in their old age. Yet to pay it would produce another moral hazard by rewarding the failure to save.

Moreover, it's the politicians who have time preferences that are too high. They do not think beyond the next election, and when in government they build up debt that future generations will have to pay. Moreover, they do not use revenue wisely. It has been calculated conclusively that if money collected for Social Security had been invested in the stock market it would have yielded a significantly higher return than the current payments.[4]

The real danger of PAYG pensions is that they involve the imposition of "promises" that cannot be kept on behalf of unwilling generations. The longer a state-run system has been in operation, the more expensive it is to wind up, unless we are willing to see people who have paid their taxes (no doubt unwillingly) suffer in their old age. It is difficult morally to leave people who have been forced into a system unprotected when we, rightly, want to end it.

One of the many achievements of the much-maligned Pinochet regime in Chile was its solution to the country's burgeoning pensions problem. Chile was one of the earliest countries with a PAYG scheme, established in 1924. By the 1970s it was getting extremely costly, but it was calculated that the cost of winding it up, if historic commitments were to be honored, was 3 percent of gross domestic product.

Nevertheless, a radical reform was successfully introduced.[5] All people entitled to the existing pension could keep it or go private (as 90 percent did). All new workers, however, would have to join one of the new competing private pension funds and save at least 10 percent of their incomes so that eventually the state scheme would wither away. Now almost everyone is covered privately, with the returns from their investments exceeding the state pension by 40–50 percent. No one has been hurt by the changeover, and thanks in part to the privatization of state-owned assets, it was carefully worked out so that it did not lead to a tax rise.

It should be possible to reform similarly the American and European systems without too many, if any, people being made worse off. George Bush once promised to liberalize partly the American old-age provisions. During the last presidential election he announced plans to allow citizens to invest a proportion of their Social Security taxes in the private market. It was an anemic imitation of the Chilean scheme, but it does not seem to have got very far.

In Europe the prospects are even dimmer. Yet there is an oddity here. The French and Germans are used to paying for health care out of an (almost) fully funded social-insurance system with competing suppliers. It is not genuine private insurance, and it is compromised by all sorts of statist interventions. But health care is *not* funded from general taxation, like the British system, an (almost) entirely state monopoly of which Stalin would have been proud. Yet it seems to be as hard to persuade Europeans of the absurdity of their almost entirely state monopoly on pensions as it is to convince the British of the inefficiency and injustice of their socialized medicine. If they are still speaking, the British, French, and Germans can learn from each other.

One way out of the present imbroglio is mass immigration. America has the advantage here for one of the keys to its economic success has always been the continued inflow of immigrants. The European Union is expanding, but one of the fears of its citizens is that immigrants will only come into the countries to take advantage of their ruinously generous welfare systems. As a prelude to the abolition of all welfare programs in America and Europe, a condition for immigration should be the forgoing of all welfare claims, including pensions. I can't imagine that rule being a serious disincentive to the industrious Chinese and other Asians anxious for a Western lifestyle. Such a policy would lead to two things essential for free societies: unrestricted movement of labor and the end of the welfare state. □

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1. For a philosophical critique, see Norman Barry, "The State, Pensions and the Philosophy of Welfare," *Journal of Social Policy*, 14, 1985, pp. 468–90.
2. See Norman Barry, "The New Right and Provision for the Elderly," in Grant Jordan and Nigel Ashford, eds., *Public Policy and the New Right* (London: Pinter, 1993), pp. 257–59.
3. "The Economics and Politics of the Emergence of Social Security," *Cato Journal*, Fall 1983, p. 364.
4. Martin Feldstein, "Social Security, Induced Retirement and Aggregate Capital Accumulation," *Journal of Political Economy*, 82, 1974, pp. 905–26, and Peter J. Ferrara and Michael Tanner, *A New Deal for Social Security* (Washington D.C.: Cato Institute 1998).
5. See Eamonn Butler and Madsen Pirie, *The Fortune Account* (London: Adam Smith Institute, 1995), pp. 7–9.

IDEAS ON LIBERTY
OCTOBER 2003

Saving Hunky Town

by Arthur E. Foulkes

It's called "Hunky Town"—a small area of our city known for its large Hungarian population in the early 1900s. Now it's just another poor neighborhood.

"I sometimes forget parts of town like this exist," my wife said as we watched the shabby homes, broken fences, and rusty parked cars go past our car windows. We had just had lunch at our favorite outdoor hamburger stand, which is located in Hunky Town. "I know we occasionally worry about money, but people up here are literally living paycheck to paycheck," she said.

She was right. In this part of our town probably no one thinks about getting a new garage roof, a new central air system, or a water softener. In this part of our town the homes have no air conditioning and the tiny yards are filled with weeds, old furniture, and appliances. Everything looks dirty.

As usual, my wife's comment got me thinking. If the people living in Hunky Town are truly surviving week to week, or even day to day, it is unlikely they are able to make plans that extend very far into the future. After all, it's difficult to plan for the long term when you are so thoroughly embedded in the short term.

Economics gives us some insight into Hunky Town's dilemma by reminding us what makes improvement in living standards possible: savings. For example, a man living alone on a desert island who requires all his free time to simply find the food he needs to survive is unable to improve his standard of living. He is just treading water. He could improve his material well-being by building some kind of capital good, like a net for fishing or a barrel for holding water. But to construct a net or a barrel would require him to put off some immediate consumption in favor of future consumption. That is the only way he could build up a supply of resources large enough to give himself the food and water to carry him through to the completion of a time-consuming capital project.

Savings perform the same function for society as a whole. They makes resources available for investment in time-consuming entrepreneurial projects. The more savings that are available, the more time-consuming and productive those projects can be. People with savings will naturally seek out projects that promise the greatest returns. Indeed, only projects that appear likely to yield a greater value in outputs than the sum of their inputs will be undertaken as "good investments."

The same is true even if individuals do not invest their savings, but rather keep them all in cash (thereby "investing" in cash for future use). As these savings grow, people can begin to plan beyond their next meal or next paycheck and devise ways to raise their living standards, such as returning to school, buying a home, or even investing in a new

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set of clothes for a job interview. The ability to save even just a little begins to extend the saver's planning perspective into the more distant future.

It's possible of course that people living in Hunky Town today actually are unable to save even a little bit. It's possible they may require all of their income for food, rent, utilities, and meager clothing from Goodwill. It's possible.

On the other hand, my wife's family lived in Hunky Town before she was born. Her father and mother, who had only enough money for a single bottle of root beer to celebrate their wedding, eventually saved enough to buy a fine old farmhouse in (what was then) the country. They still live there.

Nevertheless, it's unfortunate that in our society today saving is not strongly encouraged; indeed, mandatory "savings" such as Social Security perversely *discourage* private saving. And no less than the most famous economist of the twentieth century, John Maynard Keynes, helped give saving a bad name by classifying it "a negative act."[1] For Keynes, saving part of our income simply "depresses the business of preparing today's dinner without [necessarily] stimulating the business of making ready for some future act of consumption."[2] In other words, savings actually *harm* the economy.[3]

Keynes Got It Wrong

But this view is entirely wrong. Savings do not sit idle. They are loaned out and invested in new capital projects. Indeed, savings are necessary for such investment. Even simple cash saving (known derisively as "hoarding") does not deserve the negative connotation Keynes and others have given it. If people desire to hold cash rather than spend it, they should be free to do so. Additionally, the decision to hold larger cash balances will decrease the amount of money in circulation and drive down the real price of goods and services. In other words, a greater demand for cash holdings simply increases the purchasing power of money left in circulation.[4]

When I was in college I remember hearing an adult say a certain politician would "ruin the economy" because everyone knew he was personally thrifty, that is, "cheap." This politician would never encourage the kind of spending necessary to keep the economy moving, this man said. No one disagreed; in fact, his statement received approving nods all around.

But sound economics is nothing if not a tool for debunking this sort of intuitively easy thinking. For instance, economics shows us that laws designed to make something cheaper through price controls actually make it harder to come by (and therefore more expensive). It also shows us that closing our national borders to imports actually lowers living standards rather than enriching us by keeping "jobs at home." Economics also shows us that choosing future over present consumption (saving) frees up resources necessary for capital investment or improvement. Thus savings are required for greater productivity and increased standards of living. □

1. John Maynard Keynes, *A Treatise on Money*, vol. I (New York: Harcourt, Brace, 1930), p. 172.
2. John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace, 1936), p. 210.
3. For a critical analysis of Keynes on savings see Henry Hazlitt, *The Failure of the "New Economics"* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1994), pp. 78–97, 142–48, and 217–35. Also see Hans-Hermann Hoppe, "The Misesian Case against Keynes," in Mark Skousen, ed., *Dissent on Keynes. A Critical Appraisal of Economics* (New York: Praeger, 1992), pp. 199–223.
4. See Murray N. Rothbard, *The Mystery of Banking* (Richardson & Snyder, 1983), pp. 24–32.

IDEAS ON LIBERTY
OCTOBER 2003

China's Historic Error

Last time I wrote about the dynamic and innovative economy of Song China. Had China continued to develop as it did under that dynasty we would undoubtedly be talking now of "the Industrial Revolution of the fourteenth century." However, this did not happen. Instead China gradually lost the dynamism and inventiveness that for so long had made it the most advanced civilization on the planet. By 1800 it had fallen behind Europe.

The actual historical story can be told straightforwardly. Despite its strengths, Song China never developed an effective military system. Instead it relied on mercenaries, diplomacy, and paying off outside threats. In 1126 a people from beyond the Great Wall, the Jurchen, overran all of North China and captured Kaifeng and Liaoyang. The dynasty was saved by another great emperor, Song Gaozong, who moved the capital to Hangzhou. The loss of Northern China did not prove fatal, but it was a foretaste of something much worse.

In 1162 a man was born in Central Asia. His name was Temujin, but he is remembered by the title he took in 1183—Ghengis Khan. He united all the Mongol tribes by 1204 and created a uniquely powerful and effective military system. In 1206 he declared himself "Khan of Khans," and by 1215 he had conquered the Jin empire. By the time he died in 1227 he had created the largest empire in human history. The Song resisted Mongol attacks for many years, but finally between 1268 and 1279 the Mongols, led by Kuhblai Khan and his great general Bayan, conquered the whole of China. They established a new dynasty, the Yuan, and ruled until 1368. This was a catastrophe for China, made worse by the devastating impact of the Black Death. By 1370 the population had fallen to half of its level under the Song.

In 1368 the peasant rebel Zhu Huanchang proclaimed himself Emperor, taking the name Ming Hongwu, so founding a new dynasty, the Ming. Hongwu ruled from 1368 to 1398, and the dynasty was consolidated by his son Ming Yongle (1403–1424). It faced increasing difficulties from the late sixteenth century; in 1644 the last Ming Emperor hanged himself in the gardens of the imperial palace.

A new dynasty then came to power, the Qing. It was Manchu, not Chinese, but it adopted Chinese ways. Initially successful, the early Qing Emperors, such as Kangxi (1661–1722) and Qianlong (1736–1795), are seen as among China's greatest rulers. The dynasty ruled China, but under increasing pressure from both internal revolt and European imperialism, until it was overthrown in 1911.

Thus despite recovery and success under the Ming and Qing, China never recovered the dynamism it had known under the Song. In science, technology, and economic productivity it gradually lost its leading position.

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Why did this happen? The simple explanation is the Mongol conquest. However, China recovered from that disaster under the Ming by most measures, and the institutions created under the Song were still extant when the Mongols were expelled in 1368.

It has been popular to blame cultural factors, particularly the impact of the (allegedly) conservative, backward-looking, and anti-trade philosophy of Confucianism. Authors taking this view, such as David Landes, contrast the way European culture encouraged innovation with the conservatism and systematic resistance to change that they see in Chinese culture. Again though, this will not wash. Confucianism had been an important part of Chinese culture since the formation of the Chinese state. It was the dominant, official ideology under the Song. So why did it only come to have such a retarding effect after that dynasty?

Contingent Reasons?

Another response, put by scholars such as Kenneth Pomeranz, is that China after the Song continued to develop, but failed to maintain its lead over Europe for purely contingent and accidental reasons. Pomeranz puts great stress on one factor, that China's coal reserves were both geologically inaccessible and geographically remote, making a steam-powered industrial revolution like the one in Europe impossible.

This argument has some force, but again there are serious problems. While Ming and Qing China did see continued development in a number of areas, there were many others (such as maritime technology) where not only did innovation cease, but entire technologies were abandoned. Most importantly, this argument misunderstands European economic history. The role of steam power in the "Industrial Revolution" is now known to have been exaggerated; there was no single sudden technological breakthrough.

In fact the Mongols were to blame, but indirectly. The real reason for China's loss of momentum was the response of the Chinese elite to the shock of barbarian conquest. The Ming Emperors believed that Song policy had produced a weak, divided polity and had undermined the stability of traditional Chinese society.

In reaction they introduced a set of policies that deliberately reversed many of the key features of the Song. Those policies were continued and even intensified under the Qing. The consultative government and rule of law found under the Song were replaced by a highly centralized and autocratic government, entirely dependent on the Emperor.

Long-distance trade was discouraged, as was overseas trade, and after 1430 all trade by sea was stopped. In general the Song policy of relying on taxes on trade and encouraging it (to bring in revenue) was reversed, and the traditional agrarian taxes were restored. The Ming and Qing sought to make peasant farmers the basic unit of society; free movement was stopped. Several technologies were abandoned or deliberately abolished. The Ming encouraged the formation of large regional merchant cartels, which were favored by the state and given monopolies over key commodities such as lead, iron, and salt. In general, the policy was to discourage and regulate innovation and to promote social stability at the expense of growth.

In the medium term this policy was a success, partly because after about 1600 China had no serious competitors in Eastern Asia. In the long run, however, it led to the series of catastrophes that afflicted China in the nineteenth and twentieth centuries.

What does this tell us? First, it shows that modernity and its benefits are not inevitable or irreversible. An "Industrial Revolution" was cut off and reversed in the fourteenth century by deliberate policy.

Second, as Joel Mokyr points out, this was possible for one reason. Unlike Europe, China was not politically divided. Instead there was a single state, headed by one ruler. This made it possible for the state to stop economic progress in a way not possible in a system of competing sovereignties such Europe. This has clear implications for our own times. □

IDEAS ON LIBERTY
OCTOBER 2003

Understanding "Austrian" Economics

by Henry Hazlitt

"Austrian" economics owes its name to the historic fact that it was founded and first elaborated by three Austrians—Carl Menger (1840–1921), Friedrich von Wieser (1851–1926), and Eugen von Böhm-Bawerk (1851–1914). The latter two built upon Menger, though Böhm-Bawerk, in particular, made important additional contributions.

Menger's great work, translated into English (but not until seventy-nine years later!) under the title of *Principles of Economics*, was published in 1871.* In the same year, by coincidence, W. Stanley Jevons in England published his *Theory of Political Economy*. Both authors independently developed the concept now known as "marginal utility." (Menger never used the term. Jevons called it "final degree of utility." It was Wieser who first employed the German term *Grenznutzen*, which translates as "marginal utility.")

But as few American or British economists read German in the original, it was years before the real extent of the revolution begun by Menger was realized outside of German-speaking countries. For it was Menger, by recognizing most fully the implications of the marginal-utility concept, who opened up new paths and, so to speak, turned the old classical economics upside-down.

Menger insists throughout his work that value is essentially *subjective*, and that therefore economics must be in the main a subjective science. Goods have no inherent value in themselves. They are valued because they help to satisfy some human want or need. A given quantity or unit of a certain good will satisfy a man's most intense desire or need. He may also want a second, third, or fourth increment. But after each unit consumed or employed, his desire or need for a further unit of that good may be less intense, and may finally become completely satisfied.

It follows that each increment of that good at his disposal will have a reduced value to him. But as no unit of the total available quantity of that good can have a greater value in exchange than any other (of the same quality), it follows further that no other unit will be worth more in the market than the "final" unit of the supply. Thus in a given community the exchange value of a given increment of each good will be determined by the relation between its total available quantity and the intensity of the human need or want that it fills.

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*Carl Menger, *Principles of Economics*, trans. James Dingwall and Bert F. Hoselitz (New York: New York University Press, 1981).

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Carl Menger (1840–1921)

So far this may seem like little more than a refinement on the old classical doctrine that value and price are determined by supply and demand. It seems merely to state that doctrine in subjective rather than objective terms. But then Menger comes to point out some of its implications. The values of goods are mutually interdependent. Bread is valued because it meets a direct consumption need. Flour is valued because it is needed to bake bread. Wheat is valued because it is needed to produce flour. Plows, seed, land, and labor are valued because they are necessary to produce wheat, and so on.

Values are also interdependent because, for example, if one raw material necessary in combination for the production of a final product is missing, that lack reduces the usefulness and value of the other raw materials needed.

Goods wanted and ready for direct use or consumption are called by Menger "goods of the first order." Raw materials and other factors necessary to produce these are called "goods of the second order." Materials, machinery, labor, and other factors needed in turn to produce these goods of the second order are called goods of the third order, and so on. These goods of the second, third, and other "higher" orders are valued because of the consumption goods that they produce.

Thus while the classical Ricardian doctrine held that the "normal" value of consumption goods was determined by their "cost of production," the Austrian doctrine holds that the "cost of production" itself is ultimately determined by the value of consumption goods.

These two doctrines can be partly reconciled in the statement that though what a good *has* cost to produce cannot directly determine its value, what it *will* cost to produce determines how much of it will continue to be made. It is the limit that cost of production puts upon the total quantity of a good produced that determines its marginal value and therefore its market price. Thus there is a constant tendency for marginal cost of production and market price to equal each other, though not because the first directly determines the second.

Opportunity Costs

Something should be said also about the sharp distinction between the Ricardian and the Austrian concept of "cost." The Ricardian (and the modern businessman) thinks of cost as a money outlay. But the Austrian economist has a much wider concept, what economists now call "opportunity" costs, or "forgone opportunity" costs. Such costs exist, of course, not only in business but in all our decisions and actions in life. The cost of learning French in any given period is to forgo learning German, or to learn less mathematics, or to give up some tennis or bridge, and so on.

Menger emphasizes the importance of time and the role of uncertainty in the whole productive process. He also points out that no single good, no matter how abundant, can maintain life and welfare, but that these depend upon the production of *combinations* of goods of different kinds in the proper proportions. And he points out, finally, that the process of production cannot be expected to go on at an adequate rate unless there is adequate protection of property.


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Eugen von Böhm-Bawerk (1851–1914)

The economic value of goods, to repeat, depends upon their respective quantities in relation to the human needs they meet. It does not necessarily depend upon the amount of labor expended in their production. To quote from Menger's *Principles of Economics:* "Hence, if there were a society where all goods were available in amounts exceeding the requirements for them, there would be no economic goods nor any 'wealth.' . . . Hence we have the queer contradiction that a continuous increase of the objects of wealth would have, as a necessary final consequence, a diminution of wealth" (pp. 109–10).

(In other words, Menger pointed out more than a century ago a basic fallacy in the now-fashionable national income statistics.)

"The value of goods arises from their relationship to our needs, and is not inherent in the goods themselves . . . . Objectification of the value of goods, which is entirely *subjective* in nature, has nevertheless contributed very greatly to confusion about the basic principles of our science. . . . The importance that goods have for us and which we call value is merely imputed" (pp. 120–21, 139).

"There is no necessary and direct connection between the value of a good and whether, or in what quantities, labor and other goods of higher order were applied to its production. . . . Whether a diamond was found accidentally or was obtained from a diamond pit with the employment of a thousand days of labor is completely irrelevant for its value" (p. 146).

Menger goes on to discuss further how higher goods, including capital goods, get their value: "[I]t is evident that the value of goods of higher order is always and without exception determined by the prospective value of the goods of lower order in whose production they serve" (p. 150).

He outlines a theory of interest, but he leaves it vague. On page 156 of *Principles of Economics* he tells us: "[W]e have reached one of the most important truths of our science, the 'productivity of capital.'" But he emphasizes that this productivity occurs only through the passage of time, and that therefore the market value of presently existing and available goods is at a "discount" compared with the expected value of equivalent goods in the future.

A Time-Preference Theory

This suggests that Menger leaned more toward a "time preference" than a "productivity" theory of interest, though the distinction between these theories was not sharpened and made explicit until the publication of Böhm-Bawerk's *Capital and Interest* in 1884 and his *Positive Theory of Capital* in 1888. Böhm-Bawerk laid great emphasis upon the superior productivity of "roundabout" processes of production, and therefore (after a brilliant demolition of productivity theories of interest) ended by himself offering a theory of interest that combined productivity and time preference. Nearly all "Austrians" today, however, following the lead of Frank A. Fetter and later of Ludwig von Mises, support a pure time-preference theory.

To return to Menger: His *Principles of Economics* next presents a "theory of exchange." In this he points out that men do not buy from or sell to or exchange with each other merely because of a "propensity


THE WARREN J. SAMUELS PORTRAIT COLLECTION AT DUKE UNIVERSITY

Friedrich von Wieser (1851–1926)

of men to truck and barter," as implied by Adam Smith, but because each man seeks to maximize his satisfactions by exchanging what he values less for what he values more. In this way the satisfaction of all is increased. Exchange is thus an integral part of the whole process of production. What is being produced is value. Menger's whole theory of price, to repeat, is developed on the basis of "the subjective character of value."

The final chapter of Menger's *Principles* is on "The Theory of Money." This does not explicitly discuss such subjects as interest rates or inflation, but deals solely with fundamentals, especially the origin and evolution of money. "Money is not the product of an agreement on the part of economizing men nor the product of legislative acts. No one invented it" (p. 262). It developed out of barter. Because it so seldom happened that A and B each had and was willing to offer exactly what the other wanted, triangular and indirect barter began to take place. Men first offered their specialized goods for more "marketable" goods more widely wanted, in the hope that they could exchange these, in turn, for the particular goods that they themselves wanted. As a result these more "saleable" goods became still more saleable because of this extra demand. The most saleable of all finally became "money." Historically, all kinds of goods have served as money, though it later came down to coins of precise weights of copper, silver, or gold.

Money is not a "measure of value," though it is legitimate to call it a measure of price. It is the only commodity in which all others can be evaluated without roundabout procedures. It is the most appropriate form in which people can save and store part of their wealth. The right of coinage has generally been left to governments, even though "they have so often and so greatly misused their power" (p. 283).

I may have seemed to devote a disproportionate amount of space to Menger, but the special contributions of Austrian economics can be most clearly realized, it seems to me, if we begin by dwelling in some detail on those of its originator.

Menger's first important successor as an "Austrian" economist was Friedrich von Wieser, who, beginning in 1884, published several books elaborating, rounding out, and refining Menger's theory of value, clarifying especially problems of cost, "imputation," and distribution.

The next great successor was Eugen von Böhm-Bawerk, whose trailblazing contributions in *Capital and Interest,* in 1884, and the *Positive Theory of Capital,* in 1888, have already been referred to. In addition, Böhm-Bawerk wrote a brilliant demolition of Marx's *Das Kapital* in 1896, in a comparatively short work first translated into English under the title *Karl Marx and the Close of His System.* In this essay Böhm-Bawerk exposed particularly the fallacies in Marx's labor theory of value and his "exploitation" theories, which the latter had derived as a supposed corollary from errors of Ricardo. It should be emphasized that it was the analysis of Austrian economics that made Böhm's refutation of Marx so conclusive. No refutation based on the assumptions of the old classical economics could have been as devastating. ☐

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OCTOBER 2003

"Atomistic Individualism": Anatomy of a Smear

by Tibor R. Machan

For more than two centuries classical liberalism has irked thinkers both right and left. Hegel, Rousseau, Comte, and of course Karl Marx did a great deal of pen-wielding to combat it, and one of their most potent weapons was to link the ideals of a fully free society to the flaws of scientism and one of its products, subjective or narrow individualism.

Scientism is the view that everything, including human community life, can be understood by treating it as classical physics recommends, namely, by analysis, or breaking it into constituents. This amounts to reducing everything to its smallest components, and once the laws governing those components are identified, the rest easily follows. This has indeed been the method of the natural sciences, but scientism extended the approach to the social sciences too.

The reductive-analytical method for understanding social and political matters was most popular with Thomas Hobbes, the sixteenth-century English philosopher who has been history's foremost materialist. By Hobbes's lights people are merely a collection of matter-in-motion, bits of the stuff of which everything else is made, and by understanding the laws of matter, their lives could also be fully understood.

Hobbes's approach made him something of an individualist, especially when it came to metaphysics. He thought there were no classes or natures of things, including human nature. All that exists, Hobbes said, are bits and pieces of matter that we human beings classify according to our needs and wants. So human nature is merely the classification we have created to serve our interests. Sure, we believe that a human being is a rational animal, but we could classify things by height or weight or color or anything else we chose. It's all a matter of convention. (Just why only human beings are able to classify things at all, Hobbes doesn't say. But let's leave that be for now.)

From this methodological approach one kind of individualism did indeed develop, according to which everything is merely the atoms that comprise it and nothing more. So for Hobbes and his followers, many of them classical economists who favored free markets, a community was a collection of self-sufficient individuals. (The reason this Hobbesian view recommended free markets is that in classical physics when something moves forward, the only thing that will slow it down is some force impeding its progress; so economic advances are arrested when governments interfere with people's efforts to live, including production and consumption. *Ergo*: laissez faire.)

A serious problem with Hobbesian individualism is that it eliminates morality from human life. If we are merely propelled by the impersonal forces of nature, then how we

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act is not really up to us and we are not responsible for anything we do. There are no standards of right and wrong within this framework, except those we happen to lay down because the forces of nature impel us to do so. Although there were certain individualist elements to this view, Hobbes believed that it recommended an absolute monarchy with full authority to run society (except when it turned against the lives of the citizenry).

That Hobbes's ideas encouraged classical economists and early free-market advocates has been a liability for all who love liberty—and a boon to all who wish to denigrate it. Marx made the most of this and declared liberalism a sort of infantile stage of human social development. He concluded that the fully mature human society would be an anti-individualist collectivist community.

Marx's ideas had their college try, of course, but they got bogged down, ultimately, because it turns out that human individuality is essential to understanding what a just society must be. When you ignore human individuality you get a top-down authoritarian or totalitarian state that is incapable of figuring out what is good for a human society; this is to be expected when a polity misunderstands human nature and treats us all as if we were members of an ant colony.

Marx's Mistake

Marx's extremely costly and inhuman mistake finally came a cropper and confronted us with the question of whether there is alternative to the flawed Hobbesian individualism. Dozens of defenders of the free society have responded in the affirmative. Sadly, their position hasn't gotten much attention. Instead, we are subjected to endless efforts to salvage collectivism: communitarianism, market socialism, the third way, economic democracy, and so on.

Individualism does require some upgrading by being framed in terms of an objective human nature. Communities are composed of individuals with a definite *human* nature. A central feature of human nature is *individuality*—each of us is unique. This kind of being needs a free society to flourish.

This revamped individualism has been a thorn in the sides of those who do not want human beings to be free. In response, they insist that every form of individualism is atomistic and Hobbesian. One writer who has been most energetic in pushing this smear campaign is Amitai Etzioni, most recently in his book *The Monochrome Society* (Princeton, 2003). Nearly the same theme is found in such works as Roberto Mangabeira Unger's *Knowledge and Politics* (Free Press, 1985), Thomas A. Spragens's *The Irony of Liberal Reason* (Chicago, 1981), Charles Taylor's "Atomism" in his *Philosophy and the Human Sciences* (Cambridge University Press, 1985), and Robert Bellah et al.'s *Habits of the Heart: Individualism and Commitment in American Life* (Harper & Row, 1985) and *The Good Society* (Harper & Row, 1991).

These authors continue to insist that liberalism and its conception of community life must be irretrievably wedded to Hobbesian individualism. They refuse to consider that other, formidable versions of individualism and the liberal polity have been developed by such authors as David L. Norton in *Personal Destinies: A Philosophy of Ethical Individualism* (Princeton, 1976), Ayn Rand in *The Virtue of Selfishness: A New Concept of Egoism* (New American Library, 1961), Fred D. Miller Jr., Neera K. Badhwar, Eric Mack, Douglas B. Rasmussen, Douglas J. Den Uyl, and many others.

In his new book Etzioni conceives of the classical-liberal idea, in the words of one fan, as the "atomization of modern society." Nothing new here at all—Herbert Marcuse made his name by condemning modern capitalist society for producing the *one-dimensional man*, which is pretty much the same idea. And Taylor's famous piece, "Atomism," emphatically makes the same point.

Of course, there is nothing wrong with pointing out that one defense of the liberal social order has its limitations, although doing so over and over indicates a certain insecurity. I suggest that these thinkers know that their only chance of selling communitarianism, or some other version of post-Marxist collectivism, is to link liberalism—or libertarianism—to a narrow individualism (which itself is linked to scientism). A more robust version of individualism would not easily yield this result, so such views must be ignored.

Initiators of Action

Individualism in its normative, non-Hobbesian rendition does not insist, incredibly, that human beings are self-sufficient from birth and have no need for communities. Rather, it embodies the notion that individuals are at some basic level initiators of their actions, for good or for ill, and that a just community recognizes this. That's the reason their rights to life, liberty, and property are protected. This secures for them a sphere of personal jurisdiction, authority, sovereignty—or as Robert Nozick put it, "moral space."

No community, whether the family, tribe, ethnic group, club, religious order, nation, or humanity at large, has priority over the adult individual's personal responsibility to decide what to do in his life. Those communities are in fact derivative of the decisions and choices made by innumerable individuals. This is so even while individuals interact with others in the communities of which they are members. (Taylor, following Rousseau and others, would use the phrase "belong to their communities," assuming that the community is a kind of body of which the individual is but an organ, limb, or cell.)

This approach is contrary to the message of a long line of communitarian, collectivist thinkers who believe, with Jean Starobinski, that "The aptitude for moral life is a gift that the individual receives from the society in which he grows up; hence he is in debt to that society" (*New York Review of Books*, May 15, 2003). Starobinski reports that "Rousseau treats the life of the citizen as a 'conditional gift of the state.'" (Exactly how a gift places one in debt to someone is a mystery—genuine gifts aren't supposed to be given conditionally.)

Two things are repeatedly missed in these musings. First, it is individuals who utter these positions and so betray their own messages of collective identity. Second, because societies are only collections of individuals, any payment of such alleged debts is merely a transfer to other individuals (what about their debts?) rather than to some exalted collectivity.

Auguste Comte went all the way with this line of thought in *Cathechisme positiviste*: "[The] social point of view. . . cannot tolerate the notion of rights, for such notion rests on individualism. We are born under a load of obligations of every kind, to our predecessors, to our successors, to our contemporaries. After our birth these obligations increase or accumulate, for it is some time before we can return any service. . . This [to live for others], the definitive formula of human morality, gives a direct sanction exclusively to our instincts of benevolence, the common source of happiness and duty. [Man must serve] Humanity, whose we are entirely."

Had Comte been more forthright, he would have added, "And I'll be pleased as punch to extract from you the debt you owe to those predecessors, successors, and contemporaries."

No doubt, with the academic community in the hands of thousands of scholars feeding off the collectivist political order—most universities are state-run and -supported or dependent on taxpayer money—it isn't likely that the individualist libertarian theme will soon replace the currently popular semi-socialist communitarian alternatives. Still, it is useful, as one encounters repeated efforts to shore up what is ultimately a hopeless, indeed, self-contradictory idea, to stress that "there is no there there."

Human beings are both individual and social beings. They do not *belong* to anything or anyone. Their lives are their own, something that obviously rankles those who would gladly seize the chance to run them. □

IDEAS ON LIBERTY
OCTOBER 2003

Title IX and the Law of Unintended Consequences

by Larry Schweikart

A recent debate over obesity featured James Glassman, an American Enterprise Institute resident fellow, defending the fast-food industry and Shannon Brownlee, a New America Foundation senior fellow, complaining "not only is your local, state and federal government not doing anything about this disease—anything credible about it—but they are actually promoting this disease through taxes and other policies."[1]

What Brownlee and other big-government advocates mean is U.S. tax policy through which, she alleges, "we allow the advertising of all kinds of food to children." Tax policy that *allows* companies to advertise is responsible for obesity.

Unfortunately for Brownlee, a program likely to be much closer to her heart may have in fact made *women* fatter. It was in one sense unforeseen—but anyone who knows how government programs boomerang could have predicted that this program would have unforeseen results. In fact, the results were diametrically opposite those (supposedly) claimed by the proponents of the law in the first place.

What law am I referring to? Title IX, the famous "women's equality" measure passed in 1972 as a federal education amendment. Conventional wisdom is that Title IX enhanced women's fitness by prohibiting sex discrimination in any sports program receiving federal funding. This presumably applied to virtually all public schools and most private schools that accepted federal scholarships or grants. In theory Title IX required colleges and universities by 1978 to fund such programs as women's soccer, basketball, and lacrosse if it funded men's football, basketball, and baseball. Never mind that aside from women's basketball, no one watched those sports, while literally millions of people turned out to watch NCAA men's football. This was about equality . . . and fitness.

Except for one small problem. It now appears that Title IX has damaged women's fitness in ways never imagined. One need not endorse government schools to see that if fitness is a stated goal of those schools, then Title IX has undercut that goal by elevating "higher" social objectives of "inclusiveness." The Law of Unintended Consequences strikes again.

Colleges are the last stop and thus the least fruitful place to see what has happened to women's fitness. Let's look at the public schools K-12 instead, and let's examine California as a case study. To accommodate Title IX, schools had to ensure that girls had as many resources as boys did when it came to locker rooms, physical-education (PE) classes, access to sports fields, and most important, faculty/coaching time. With the redistribution of resources—in essence, twice as many students with only a fraction

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more resources—schools had to make a choice. California responded by lopping off mandatory PE classes as part of its curriculum. In 1976, attempting to comply with Title IX, junior and senior high school students of both sexes were exempted from physical education, and within a year, an internal California survey found that "staffing has been reduced and teaching methods changed as a direct result of the new programs."[2]

The point here is not that ending mandatory PE classes is a bad thing, but that *from the vantage point of the advocates of Title IX, it was an undesirable unintended consequence.*

The repercussions rippled through the schools. The number of juniors and seniors taking PE declined by about 50 percent. A 1980 Department of Education survey reported that "about 40 percent of schools . . . perceive that [Title IX] has caused program quality to decline."[3] Specialized female coaches for soccer, tennis, swimming, and other sports were needed, and due to the pressures of Title IX they often could coach such sports almost exclusively. With shrinking funds, general PE courses were cut.

Ironically, not only were a large number of girls now penalized so that a small number could play highly specialized sports, but the burdens broke down along class lines. Generally (and despite the misleading images provided by largely black NBA teams), poorer people exercise less than wealthier people, and non-whites, especially African-Americans and Hispanics, exercise less than whites. Most strikingly, the Center for Disease Control found in a 1994 study that the greatest disparity was between *white girls and black girls*, where more than 77 percent of the white girls said they exercised hard at least three times a week, while less than 70 percent of black girls reported doing so.

Meanwhile, a stunning rise in body fat (measured by body mass index, or BMI) was occurring. Between 1966 and 1994, obesity based on BMIs among youth rose from 7 percent to 22 percent, and at the "top end" (literally) of the scale, the morbidly obese (larger than 95 percent of their peers) were growing disproportionately. Only one out of five students in California schools could pass minimum standards for the state's physical fitness tests—which themselves had been "dumbed down" in the wake of Title IX.

As the elite female athletes (mostly white and upper-middle class) benefited from Title IX, "average" kids (especially minorities) paid the price with less physical exertion in schools. Literally, female sports programs were funded on the bellies and thighs—not the backs—of the poor.

Standards Attacked

At the same time, measurement mechanisms to evaluate health and fitness were coming under attack for being racist, sexist, or discriminatory against, fat people. For example, the federal government for years has offered both dietary and fitness guides. Yet these came under attack because so few people met the goals.[4] Several organizations, including the American Heart Association and the American College of Sports Medicine, looking at studies of predominantly white middle-class males tested at the Cooper Institute and at Stanford, concluded that people gained a lot from just a little exercise—a true but highly misleading conclusion, for it implied that people could "walk briskly" for 30 minutes a day and get meet all their fitness requirements.

The heart association also reduced its recommendations that people burn 2,000 calories a week in exercise in favor of merely 700 calories per week. The Clinton administration chimed in with a "Healthy People 2000" initiative that redefined fitness at such a low level that the Surgeon General guaranteed to "show improvement." This allowed the government and, to a large extent, the media, to contend that a half-hour's worth of gardening was equivalent to a half-hour's jog. (Oprah Winfrey, a woman whose own battles with weight and fitness have been well publicized, was one of the few to run against the current by proclaiming loudly and often on her television show that a half-hour a day is not enough to lose weight.)

The bottom line (no pun intended) is that while a relatively small sliver of the female population who played competitive sports in college benefited from the redistribution of Title IX funds, women were, on the one hand, increasingly getting less exercise in government schools and becoming less fit every day. It took time for the impact of Title IX to be visible in women's fitness. However, by 1985 when the third President's Council on Physical Fitness survey was conducted, studying the fitness of 18,000 boys and girls, the results were shocking. In 1958, the average American 15-year-old boy could run 600 yards in just over two minutes and do 45 sit-ups, and those numbers improved by 1965 (by 19 seconds and almost 30 sit-ups). Since that survey, the testing methods had changed, but the message was unmistakable: half the girls could not run a mile in less than 10 minutes. Worse, analysis of fatness, including skin fold tests, showed that young women were becoming fatter.

The most insidious thing about Title IX was that its negative impact on women's fitness hit in the early years—when fitness habits were formed among girls—and provided "benefits" only years later, when the young women got to college. By that time, Title IX had already done its damage to all but the few blue-chip athletes. Less capable girls, who might have developed exercise habits for life before college, and who might have discovered that a little sweat actually *felt good* and had important health benefits, dropped out of phys ed classes in significant numbers—and women's dress sizes later expanded.

Title IX, championed as the panacea for women's sports, has ended up like so many other federal programs: it benefits a few at the expense of the majority. Or more accurately, in this case it takes fat and calories from the few and "redistributes" them among the many. □

1. Steve Brown, "Obesity Debate Centers on Pinning the Blame," CNSnews.com, May 14, 2003, at www.cnsnews.com/ViewNation.asp?Page=\Nation\archive\200305\NAT20030514a.html.

2. Quoted in Greg Critser, *Fat Land* (New York: Houghton Mifflin, 2003), p. 67.

3. Ibid.

4. This is not to say that government is needed to issue dietary or fitness guidelines. In this regard, see Robert Wright, "Are Dietary Guidelines a Public Good?" *Ideas on Liberty*, November 2002.

CAPITAL LETTERS

Should the French Boycott Be Boycotted?

To the Editor:

I am enjoying my first issue of your publication and glad to be a new FEE supporter. I confess to having stumbled at the threshold, however; I'm dubious, that is, about [Sheldon Richman's case for] boycotting the boycott (July/August).

The state/people distinction is sometimes useful in political discourse, as during the Cold War and concerning, most recently, Iraq, but that doesn't appear to be the case in the matter at issue. It may be that 50 million Frenchmen can't be wrong, but polls clearly show that an overwhelming majority supported Chirac's errant (from our standpoint) behavior. It is not an argument against a voluntary boycott, just as it is not an argument against free trade, that a small majority may be adversely affected if a larger, overall benefit is reasonably to be expected.

The recent French diplomacy gave rise to a tremor of discomfort in a lot of Americans, the expression of which as a practical matter could only take the form of abstention from buying French products. These voluntary actions gave rise to a spontaneous reordering of the market sure to be detected by French politicians, ever reflexively mercantilist, both directly and from the lamentations of their export and tourist industries. This may even affect their behavior. But whether it does or not, it seems to be that this is how the global political economy is meant to work and convey information.

There is also an element of individual liberty in the balance here.

So I would like to suggest that the libertarian maxim in cases such as this ought to be *laissez faire et laissez boycotter.*

—John L. Stavert
Loudon, Tennessee

Nature Conservancy Is Different

To the Editor:

I agree with everything Walter Williams says in his insightful article "Average Americans versus Environmentalists" (July/August). I am anxious to read Rothman and Lichter's *Environmental Cancer: A Political Disease.* However, I do object to their lumping the Nature Conservancy (NC) in with environmental groups, as Professor Williams says that they do. I hope that NC's responses to Rothman and Lichter's survey were markedly different from those of the environmentalist groups, but if they were not, it is surely because, as Williams quotes Rothman and Lichter, "most Americans are willing to describe themselves as environmentalists" even if they are far from them politically.

The Nature Conservancy puts my donations toward the purchase of remote lands, which it preserves in largely pristine states, although it does permit some profitable enterprise such as cattle breeding and oil drilling. NC does not work against land development through legislation, and confiscation of private property is certainly not on its agenda. William Thomas, editor of the Objectivist Studies Monograph Series and author of "Radical for Capitalism: An Introduction to the Political Thought of Ayn Rand" (an essay available from the Objectivist Center), writes, "The Nature Conservancy's general method of purchasing areas and setting them aside for protection is a model of the kind of wilderness protection methods that might exist under Rand's system" (p. 13). Such a statement by a prominent Objectivist should convince readers of *Ideas on Liberty* that NC is not environmentalist; its methods of land conservation are consistent with capitalism.

Because libertarians and Objectivists are both radically capitalist groups, we are ourselves, unfortunately, still removed from the majority of Americans. For our movement to grow, we must distinguish those who are of our own persuasion from those who are not.

—Arthur Williams
Denver, Colorado

BOOKS

The Illusion of Victory: America in World War I

by Thomas Fleming

Basic Books • 2003 • 543 pages • $30.00

Reviewed by Richard M. Ebeling

Imagine how different the twentieth century might have been if Lenin and the Bolsheviks had never come to power in Russia in 1917 and had not set in motion all the cruel crimes that were committed in the name of making a new socialist man for a bright and beautiful communist future. Imagine if Mussolini and Hitler had never come to power and we had been spared the fascist and Nazi variations on the totalitarian theme.

No one can say how the twentieth century would have taken shape if these collectivist demons had not been set loose. But it can be said with a fairly high degree of certainty that the triumphs of communism, fascism, and Nazism would not have occurred except for one event: the First World War.

How different was the epoch before 1914 from everything that came after it! It is true that nationalist, neo-mercantilist, and socialist ideas and policies were gaining influence in the years before the beginning of World War I. But for the most part—even in militarist-minded Germany— there was a dominant sense that governments should respect a certain conception of what it meant to live in a civilized society.

That conception included the ideas of individual liberty, private property, rule of law, relatively free commerce and trade, and limits on the method of fighting wars. As one historian pointed out, an Englishman, before 1914, could go through practically his entire life and never be confronted by the state, other than in the form of the policeman walking his beat and the occasional irritation of serving on a jury.

That world, however imperfect from a principled classical-liberal perspective, was nonetheless a paradise of human liberty compared to what followed through the rest of the twentieth century. It came to an end with the opening shots of the First World War in 1914.

Thomas Fleming's book, *The Illusion of Victory: America in World War I*, focuses on Woodrow Wilson's crusade to bring the United States into that European conflict, and the domestic and international consequences resulting from American participation.

The personality characteristics that Fleming finds in Wilson include arrogant self-righteousness, a lust for power, petty vindictiveness, cruelty toward enemies and opponents, lack of political common sense, and a streak of near-irrational stubbornness that resulted in personal and political tragedy for himself.

Wilson was manipulated by British propaganda once World War I had begun. He was taken in by fabricated atrocity stories about German brutality in Belgium and France, and was swayed by British and American interests wanting to assure an Allied victory for various political and economic reasons.

After running for re-election in 1916 on the slogan "He kept us out of war," Wilson asked Congress for a declaration of war on April 12, 1917. Once the United States had entered the war, he introduced a Committee on Public Information that censored the press and suppressed dissent and disagreement.

Conscription was introduced, adding compulsory military service to many other wartime restrictions on domestic life. More than a million young men were sent to France. Many thousands of them never returned home or only with permanent injury, after being sent into the meat-grinder of trench warfare.

At the war's end Wilson went to Europe to remake the world in his own image of a just society of nations. After spending seven months in the company of the other Allied leaders, he discovered that all his earlier rhetoric and pronouncements about a peace without vengeance, without territorial annexations, and rights of self-determination for small countries were a fool's dream in the real world of nationalism and imperialism. The peace treaty imposed on the Germans was one of revenge, political and economic emasculation, and deep humiliation. Wilson had been willing to accept virtually anything the British and the French wanted, as long as he could get their acceptance for a League of Nations.

When he returned to the United States, Wilson discovered that many Republicans and a sizeable number of Democrats considered the peace terms to be either too harsh or too soft. Unwilling to compromise, he insisted on fighting an all-or-nothing campaign in favor of the peace treaty and the terms for a League of Nations. The treaty twice went down to defeat in the Senate and the campaign brought on a stroke from which Wilson never recovered.

Fleming suggests that if the United States had stayed out of the war, a compromise peace would have been forced upon the exhausted European combatants. And even if the terms had been more in favor of Germany than the Allies, it still might very well have been a far better outcome, from the perspective of hindsight, than a war that went on so long that its unintended by-product became those twentieth-century forms of collectivism and totalitarianism. □

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Another Century of War?

by Gabriel Kolko

New Press • 2002 • 160 pages
• $15.95 paperback

Reviewed by John V. Denson

Most libertarians, or believers in the free market, probably met Professor Gabriel Kolko through reading his 1963 revisionist interpretation of American economic history from 1900 to 1916, *The Triumph of Conservatism.* Since then, Kolko has been primarily a historian of war and American foreign policy, his 1994 magnum opus being *Century of War: Politics, Conflicts, and Society since 1914.* The publisher of that work suggested he continue the theme by commenting on the events of September 11, 2001.

Kolko states the purpose of his book: "In the following pages I outline some of the causes for the events of September 11 and why America's foreign policies not only have failed to exploit communism's demise but have become both more destabilizing and counterproductive. I also try to answer the crucial question posed in my title: Will there be another century of war?"

His theme is that the United States has become the single most important arms exporter, thereby contributing to much of the disorder in the world. Further, contrary to America's claims of bringing stability by its interventions, especially since 1947 in the Middle East, it has caused death, destruction, and turmoil. For Kolko, America has become the sole rogue superpower, no longer restrained by the possibility of the Soviet Union's counterpunch.

Kolko notes that much changed since September 11. With terrorism becoming the worldwide target of the U.S. government, the result may be perpetual war: "Bush had campaigned in 2000 as a critic of 'big government,' but after September 11 he became an 'imperial' president with new, draconian powers over civil liberties."

In regard to U.S. policies in the Middle East, Kolko argues that the CIA set up a Vietnam-type trap for the Soviet Union in Afghanistan, and with financial assistance from Saudi Arabia, the U.S. government armed and supplied Osama bin Laden to fight the Soviets. When Saddam Hussein invaded Kuwait, bin Laden offered to repel Iraq, but this offer was refused. Instead, the American coalition, with financial support from Saudi Arabia, pushed Hussein back within his borders, while leaving American troops in Saudi Arabia. This alienated bin Laden, who vowed vengeance on America.

He mobilized his forces into al Qaeda in 1989 by training up to 70,000 potential fighters and terrorists, and creating cells in at least 50 countries, all initially financed with U.S. and Saudi money. Kolko states: "But both of America's prime enemies in the Islamic world today—Osama bin Laden and Saddam Hussein in Iraq—were for much of the 1980s its close allies and friends, whom it sustained and encouraged with arms and much else." (Some analysts, such as Peter Bergen, author of *Holy War, Inc.*, dispute this.)

Kolko contends that our massive support for Israel, which began in 1968, was one of the turning points in American foreign policy and has led to enmity against America: "This aid reached $600 million in 1971 (seven times the amount under the entire Johnson administration) and over $2 billion in 1973. Thenceforth, Israel became the leading recipient of U.S. arms aid. Today it still receives about $3 billion in free American aid. Most of the Arab world, quite understandably, has since identified Israel and the United States as one."

The author maintains that America faces a dire future if it continues its frequent interventions and warfare throughout the world. He writes, "Should it confront the forty or more nations that now have terrorist networks, then it will in one manner or another intervene everywhere. . . . America has power without wisdom, and cannot recognize the limits of arms despite its repeated experiences. The result has been folly, and hatred, which is a recipe for disasters. September 11 confirmed that. The war has come home."

Kolko concludes that we cannot afford further interventions and wars since weapons of mass destruction are prevalent throughout the world and available to terrorists everywhere.

This little book, so full of wisdom and good common sense, should lead the way toward reaffirming America's original foreign policy of noninterventionism. □

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The Future of U.S. Capitalism

by Frederic L. Pryor

Cambridge University Press • 2002 • 367 pages • $35.00

Reviewed by Gary M. Galles

In *The Future of U.S. Capitalism*, Frederic Pryor attempts "to analyze the most probable future of the economic system on the basis of the best information currently available." He arrives at pessimistic conclusions, described variously as a tendency toward "a merciless economy," "capitalism with a very hard edge," and "capitalism with an inhuman face."

Unfortunately, while Pryor includes some useful insights in his discussion, the core strands in his analysis are confused, at best. Therefore, even if some of his premises are correct, there is no reason for confidence in the conclusions drawn. Perhaps most important, though, his conclusions are pessimistic only because of his strong statist leanings. To anyone familiar with the case for limited government, his gray cloud is actually the silver lining.

The useful sections of Pryor's book deal with demographic problems and financial-sector fragility. The pending retirement of the baby boom may well reduce savings and investment, cutting economic growth as well as confronting the U.S. taxpayers with tens of trillions of dollars in unfunded commitments to Social Security and Medicare recipients. Combined with the electoral clout of the elderly, that is likely to lead to substantial increases in taxes. Reduced saving could also lower asset prices, causing difficulties or even bankruptcy for pension plans, which might lead to further government bailouts. Dovetailed with increases in financial-sector fragility due to greater debt, the result may be increased vulnerability to financial shocks and serious bankruptcy and/or illiquidity problems.

The rest of Pryor's book, however, is built on false premises. The most serious involve income and wealth inequality, his reliance on market concentration as a useful measure of competition, and the presumption that government intervention successfully improves and stabilizes the economy.

Pryor, who teaches economics at Swarthmore College, argues that income inequality has risen and that it will continue to do so (even though that is inconsistent with the most recent trends). This will supposedly cause social unrest and increasing "need" for government intervention.

He cites reams of data, but misunderstands them. He relies on reported income statistics, ignoring that consumption is the more relevant measure and that the lowest income quintile (20 percent) spends substantially more than twice its measured income each year. He also ignores that the worsening situation he sees for "the poor" is largely caused by the increasing fraction of retired people, many with near-zero measured income, which skews the average sharply downward at the low end of the income distribution. He claims that upward income mobility in the United States is limited, ignoring many studies to the contrary. He even concludes that having more high-income people somehow causes harm to low-income people, rather than seeing that in a world of voluntary market relationships, higher incomes mean greater benefits have been provided to others.

Given that increasing inequality drives much of his analysis, Pryor's failures to understand the income measures and trends he relies on completely undermines his forecast's credibility. But that is far from his only confusion.

Pryor's understanding of competition amounts to little more than long-discredited measures of market structure, which displays no understanding of the process of competition. He needs to do some serious remedial reading of analysts such as Dominick Armentano and Harold Demsetz.

Pryor further argues that big business will increasingly control an accommodating government. This mistakes increasing political action to rein in the growing government extortion of business for an increase in business control over government. Aside from corporate welfare and protectionist policies, the business-government relationship is more of a war by government against businessmen (or more precisely, private property) than increasing control of government by business.

Perhaps Pryor's greatest analytical error, however, grows from his vision of government. He expresses a naive Keynesian view of fiscal policy as a successful stabilization tool, and simplistically credits activist monetary policy with similar success. Therefore he mourns rather than celebrates the increased limits, thanks to globalization, on government power to "stabilize" the economy, as well as to engage in protectionism.

He wants a government even more massively involved in income redistribution (that is, theft) than it is today, favoring a society in which "public choice, rather than individual demand, becomes the arbiter of services." He thinks poor educational achievement "can be solved in part by the infusion of federal and state funds," and endorses such counterproductive policies as the minimum wage.

Thus Pryor's gloomy conclusions stem from faulty understanding and analysis, combined with his desire for the government to do more of what in fact it should not do at all. ☐

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Creative Destruction: How Globalization Is Changing the World's Cultures

by Tyler Cowen

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Reviewed by George C. Leef

A main gripe against globalization is "American cultural hegemony." When "we" build McDonald's restaurants or sell designer jeans in culturally different nations, we're guilty of undermining, if not destroying, the indigenous culture. "Culture-cide" is nearly as bad as genocide.

The anti-globalization protesters have never thought deeply about the relationship between culture and trade (for that is all globalization comes down to—ever widening trade), but Tyler Cowen certainly has. In his latest book, the George Mason University economics professor carefully analyzes the impact of globalization on culture and finds that, as Joseph Schumpeter said of the process of competition generally, it's a case of creative destruction. When the people of Culture A encounter the arts, products, technologies, and so forth of Culture B, they may end up abandoning some aspects of their own culture for things they prefer from the other. But those choices should not be lamented, Cowen argues.

He begins with a crucial insight: "Individuals who engage in cross-cultural exchange expect those transactions to make them better off, to enrich their cultural lives, and to increase their menu of choice. Just as trade typically makes countries richer in material terms, it tends to make them culturally richer as well." Contrary to the anti-globalist rant about domination, the spread of cultural influence is not a case of "ours" somehow taking over "theirs." It is a matter of individual actions. If Chinese teenagers like listening to Western pop music rather than traditional Chinese music, that isn't domination. It's peaceful change.

Cross-cultural exchanges, Cowen points out, increase diversity within cultures, while at the same time decreasing diversity among cultures. Using the example above, when Chinese add American pop music to their cultural mix, they now enjoy a wider range of choices. However, in doing so, the difference between Chinese and American cultures decreases. That bothers some cultural "purists," who think it akin to species extinction when "we" start to contaminate the "authentic" cultures in other parts of the world.

Cowen treats the cultural purism with disdain. First, there aren't really any pure cultures. With many interesting illustrations, he demonstrates that what we may think of as authentic native cultures are the products of considerable cross-cultural exchange, usually having taken place long before people were paying attention to the phenomenon. Consider the steel-drum music associated with Trinidad. Where did the steel drums come from? The answer is that American military forces brought many with them during World War II. The "authentic" music of Trinidad was based on bamboo percussion, which the Trinidadians happily abandoned when American steel drums became plentiful.

Similarly, Cowen points out that Navaho weavers hardly have a culturally pure product. Their dazzling geometric designs were not indigenous to the Navaho culture, but were borrowed from the ponchos of Spanish shepherds living in northern Mexico, designs that the Spanish had adapted from the Moors. Once machine-spun yarn and chemical dyes became available, the Navaho eagerly experimented with and began using them.

Even if we arbitrarily denominate the current cultures of China, Trinidad, the Navaho, and others as "pure," so what? Does it follow that anti-globalists are doing those populations a favor in trying to protect them against Western contamination? Cowen has no patience for that argument, writing that "poorer societies should not be required to serve as *diversity slaves*." That's what the elitist position comes down to. People in all those exotic places with their quaint, "authentic" cultures should be denied the opportunity to adopt aspects of Western culture so that some elitists can bask in the warmth of knowing that they have helped protect against the ravages of capitalism.

Besides its resounding call for a laissez-faire approach to culture, *Creative Destruction* has a delightful side dish for the reader: Some embarrassing truths about one of the most overrated men of the twentieth century, Gandhi. Gandhi railed against Indian purchases of British textiles, calling them "defiling" and "our greatest outward pollution." He insisted that Indians, no matter how poor, burn their foreign garments. Evidently, Gandhi regarded Indian weaving as "authentic" and foreign textiles as somehow a desecration of Indian culture. Cowen has sport in pointing out that "Western technologies provided critical pieces of the economic network behind Indian handweaving." Gandhi comes off like a cranky authoritarian.

Anti-globalists need "issues" to grumble about. The supposed destruction of native cultures is one of those issues. Thanks to Tyler Cowen for showing that it's nothing but hot air. ❑

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Medical Care and Market Forces

I've heard it argued that market forces don't apply to health care because there isn't anything close to a free market in health care. There are all these government programs, and there's insurance, and patients don't have as much information as doctors. The list of market "imperfections" is a long one. Supply and demand just don't function in such an environment, says the skeptic.

Part of that kind of talk is rhetoric—a way to frame the debate. But it's more than rhetoric. To a lot of people, the inherent logic makes sense. And one source for the sympathy some have for this argument comes from college economics classes, I suspect.

In economics textbooks and in college classrooms, there's something called perfect competition. Perfect competition is a theoretical idea. It assumes there are a huge number of small sellers, so that no one seller can have a significant impact in determining the price. It assumes that the buyers and sellers are aware of all the prices being charged in the market. It assumes that the good being bought and sold is homogeneous, so that buyers make all decisions based only on price.

The textbooks go on to analyze how the supply and demand for the good in question produce a price and how that price adjusts to various changes. This is the bread-and-butter of most economics classes in college.

And is there any market out there that conforms to the assumptions of perfect competition? Wheat. Maybe. At least that's the answer you'll find in a lot of textbooks and classrooms.

This may explain why most conversations I have with strangers about economics leave me so depressed. I'll be on an airplane and the person next to me will ask me what I do for a living. When I tell them I teach economics, I usually get one of the following responses:

"Do you think the stock market will go up this year?"

"I took economics in college. That's the subject that works in theory but not in the real world."

Both responses lower my spirits. But there's something special about the second one. Who would want to teach economics if that second quote is an apt description of the field? Who would want to study something in graduate school for four years that can't be applied to the real world? It would be like studying the life of a newt on Jupiter. It might be an interesting intellectual challenge. But why would you devote your life to it? And why would you want to communicate that knowledge to thousands of undergraduates across the country and the world?

I think about those poor students learning about "perfect competition." If you're taught a theory that requires a large number of all-knowing sellers interacting with lots of all-knowing buyers, buying and selling a

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product that's identical, with price the only form of competition, why that's obviously malarkey. And it's malarkey that's particularly pernicious because it appears to be designed for one purpose and one purpose only—to make undergraduates suffer through final exams rather than helping to understand the world around us.

And then when you think about health care, why it seems obvious that it has nothing to do with that class you took back in college called economics. After all, there's nothing homogeneous about it, so how can you talk about the demand for "health care"? Seems absurd. There are usually only a few hospitals in any one city. Surely they have a large role in determining price. And the amount of knowledge that buyers have about prices is minimal. Obviously, supply and demand have nothing to tell us about health care. Ergo, you can't even talk about the market for health care. And if it does exist, it's a mess and there's no point in using "market forces" to reform it.

As Alexander Pope observed, a little learning is a dangerous thing. It's true that the market for health care doesn't fit the model of perfect competition very well. It's not a "free market," whatever that is. But incentives always matter. They matter in free markets, constrained markets, controlled markets, command-and-control economies, family life, and religious life. And if there are newts on Jupiter, incentives matter to them, too.

Market Forces Matter

Even in the weird real world of health care, far, far away from the textbook model of perfect competition, incentives and supply and demand still influence behavior.

If we put price controls on pharmaceuticals and lower the return to discovering new drugs, then pharmaceutical companies will spend less money on research and they will discover fewer new drugs.

If we mandate insurance coverage of new eyeglasses, people will buy more eyeglasses. The price of health insurance will be higher.

If the government pays for old people or poor people's health care, the demand for health care will increase, and prices will rise.

If we restrict the number of people who can go to medical school, prices will rise.

If we pass tax laws that encourage employers to offer health insurance, more health care will be used and prices will rise.

And so on and so on. The fact that the health-care market isn't a perfect match with the textbook case of supply and demand does not repeal the laws of human nature. Incentives matter. For wheat, yes. And most everything else. □