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IDEAS ON LIBERTY

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COLUMNS

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IDEAS ON LIBERTY

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PERSPECTIVE

Our Ultimate Resource Gone

On February 8 Julian Simon died. Difficult words to write, those. We have suffered a terrible loss on many levels. He was, first of all, a wonderful human being—ever positive, smiling, encouraging; a joy to be around. After that, he was one of freedom's great crusaders. (When Don Boudreaux created FEE's Council of Scholars last fall, Julian became one of its original members.) As our age sunk into the despair of what is called environmentalism, with its agenda of expropriation, restricted consumption, and population control, Julian Simon strode center stage, impish grin on his countenance, to sing his song of scientifically grounded optimism. To those who wailed that things could hardly get worse, Julian Simon replied: do you want to see worse? Read about how people lived a mere one hundred years ago; look at what age and of what they died. Now look at our age through the lens of historical perspective. With all the moaning about our killer environment, people the world over live longer and better than ever before. That is why the population grows. Women aren't having more babies—actually, they have far fewer than just a short time ago. The population grows because the death rate falls. And a growing population is good.

That point leads to Simon's landmark contribution to the cause of liberty, his work on the nature of resources. How often do we hear people warn that "we are running out of resources"? Too often, especially since Simon's magnum opus, *The Ultimate Resource*, came out in 1981. In that book, and its updated, 1996 edition (see the review this month, p. 250), he asked a simple question: if we are running out of resources, why do their prices fall rather than rise? Everyone agrees that as anything of value becomes more scarce, its price goes up. The law must have been repealed. Or so it seems. As Simon showed, resources were not becoming more scarce at all! They were more plentiful than ever. Simon was confident that the trends of the past would continue—so confident he was willing to bet on it. Environmental alarmist Paul Ehrlich made the mistake of accepting the challenge. Ehrlich picked five metals and bet Simon that ten years later (1990) the price of each would be higher in inflation-adjusted terms.

Ehrlich lost. Even the unadjusted prices were lower. Julian Simon kept his offer to bet open until the end of his life. There were no other takers.

Why was Julian Simon so confident that the benign trends would continue? Because he understood that, strictly speaking, there are no *natural* resources. Nature provides man with lots of variegated stuff. But stuff is only a potential. To transform it into a resource, a creative person must first stamp it with a human purpose. People *create* resources. The ultimate resource is human intelligence. If individuals are free to think and create, we will have an unending supply of resources. The more people, the more creators. By the same token, for Simon immigration was a good thing. His work on population prompted F.A. Hayek to write a fan letter to Simon, the only such letter he'd ever written to an economist.

The insight about the ultimate resource is Julian Simon's inestimable bequest. It will live forever to honor his name.

* * *

Cuba has been under the thumb of communist dictatorship for almost 40 years; it is one of the few remaining outposts of that particularly awful idea, Bolshevism. Predictably, the island is poor, but the people are unbowed, writes Marc Olshan.

Cecil Bohanon and T. Norman Van Cott contribute a companion piece in which they contrast Fidel Castro with his contemporary, the late Roberto Goizueta, who fled Cuba and went on to become the fabulously successful head of Coca-Cola.

In the fourth installment in our reprint series commemorating the centenary of the birth of FEE's founding president, Leonard E. Read, suggests that the way to sell the idea of cutting taxes is to make the moral rather than the materialistic argument for liberty.

We live in an era when wealthy owners of professional sports teams think nothing of having government force the taxpayers to build stadiums and arenas. Ray Keating tells the story of one such owner.

Come now, when a miser socks away his money and refuses to buy or invest, he can't possibly contribute to the general welfare. You think not? Candace Allen and Dwight Lee will attempt to disabuse you of that notion.

As the digital revolution embodied in the Internet permeates more and more of daily life, some politicians have seen an opportunity to expand the scope of government. Proclaiming the danger from a coming technological underclass—information "have nots"—they call on government to ensure universal access to computers, e-mail, and the Worldwide Web. Gary Dempsey shows that government is not needed to guarantee access.

Besides the words *liberty* and *freedom*, the three most used words in libertarian literature may be *state*, *government*, and *society*. How these words are defined can make a huge difference in how the case for liberty is made. Wendy McElroy contributes some thoughts on the subject.

Modern America is not the only place where the government restricted property rights in resources. It happened in merry old England in the days of Robin Hood, writes Daniel Walker, who hopes we might learn from Sherwood Forest and Runnymede.

Are we or are we not experiencing global warming? Would it or would it not be a good thing even if it is happening? Jonathan Adler's primer on the "greenhouse effect" dispels the fog from this important issue.

Much more predictable than the weather are charges of profiteering during natural disasters. Karen Selick catalogues the benefits of free pricing even during ice storms.

The man who invented the corn flake had to get out from the shadow of an eccentric brother. It wasn't easy, writes Burt Folsom, but because of this entrepreneur's determination, he lived to become the better-known Kellogg.

Book reviews this month take up such intriguing subjects as political extortion, prosperity, and teachers unions. Our columnists also get their monthly say: Doug Bandow on the Bureau of Indian Affairs . . . Lawrence Reed on alleged biases against women . . . and Mark Skousen on the financial crisis in Southeast Asia.

We're also pleased to introduce a new monthly feature: *The Pursuit of Happiness*. Walter Williams and Charles Baird will be regular contributors, along with various guest commentators. Professor Williams's first column, "Discrimination and Liberty," begins on page 255.

—SHELDON RICHMAN

THE FREEMAN
IDEAS ON LIBERTY

Inventing Life in Cuba

by Marc A. Olshan

In the hills of the Sierra de Cubitas, Cuba, a rusted-out truck loaded with scavenged lumber creeps onto the broken pavement. The lumber sticks out well past the end of the flatbed and, lacking a piece of cloth, the driver has "invented" a warning flag. Tied to the tip of the longest piece of stained, weathered wood is a bouquet of brilliant red hibiscus.

Eight years after the disappearance of its Soviet backers, Cuba confounds the world with its continued survival. In some quarters, surprise has given way to admiration. The island's unsought and unplanned culture of austerity is even being touted for the lessons it supposedly holds for the rest of the world. In the sharply reduced levels of consumption imposed on Cubans, some observers see the virtues of thrift, self-reliance, and ecological soundness. Others see Cuban policies as a model for our presumably inevitable transition to a world of scarcity. But a closer look yields different conclusions and different lessons.

Cubans have in fact been forced to dust off archaic technologies, substitute jury-rigged devices for imported goods, and engage in imaginative recycling in order to survive. But these creative responses to economic crisis are born in individual households and on the street, not in the offices of bureaucrats in Havana. The Cuban people survive not because of their government's policies, but despite them.

Marc Olshan is a professor of sociology at Alfred University in Alfred, New York.

The Case of Food

One measure of Cuba's slide backward is the decline in agricultural production, as oxen replace tractors, fertilizer and pesticides become increasingly scarce, and equipment and facilities deteriorate for lack of maintenance. The highly subsidized government distribution system provides only about half of each month's food needs. Coming up with the rest depends entirely on the ingenuity of each family. Cubans call it "inventing." They "invent" food by raising chickens on the balconies of Havana high-rises. They fatten pigs on garbage or take them, on a leash, to forage in parks. Raising animals in urban areas is illegal, but enforcing the law would amount to declaring protein to be illegal, so the authorities look the other way.

Other urban families "invent" food by traveling into the countryside to buy directly from farmers, a practice that is outlawed as well. Enforcement is spotty since the police lack the resources to monitor movement effectively. But at checkpoints periodically set up on roads leading into cities, police search for contraband food. Those caught violating the law, by either buying or selling, face fines or prison sentences.

Meanwhile crops often rot in the field, either because there's no incentive for local laborers to harvest more than they can use, or because the government is unable to mobilize the necessary transportation. In northern Camagüey province I saw expanses of orange trees loaded with ripe fruit dropping to the ground. Any individual initiative to salvage this crop by transporting it to a population center and selling it would be considered a criminal act. Such enterprise is inconsistent with an ideology that celebrates equality of condition above all else.

Fuel shortages and the near collapse of the island's transportation system are handled with the same dogmatism. One government response has been to deploy a corps of clipboard-toting "inspectors." Their job is to stand on the sides of roads throughout the island and stop passing vehicles to check for empty seats. They then assign those seats to a lucky few from the crowds of would-be travelers who gather daily on the edges of every city and town in the country. This exercise in command-and-control hitchhiking leaves people spending hours, sometimes the entire day, waiting for an assignment.

An alternative is the open-air trucks that have largely replaced a rapidly disintegrating fleet of intercity buses. The trucks are sometimes replaced by other "inventions" such as a bus chassis pulled by tractors or horse-powered wagons. In any case, it's a long time between vehicles.

The wait is a lot shorter for illegal privately owned "taxis." Occasionally shut down at the whimsy of the authorities, these taxis are usually tolerated as long as everyone subscribes to the fiction that drivers are doing favors for friends or relatives and no money is being exchanged. These vehicles, for the most part pre-revolutionary relics, are kept alive by the sheer ingenuity of their owner-operators.

On one occasion, after I squeezed into a 1948 Plymouth with several other travelers, the driver instructed me: "If we're stopped by the police, tell them you're my cousin." We both knew that story wasn't going to stand up to more than the mildest of scrutiny. But when we were stopped at a roadblock and the car was searched, the police only opted to give me and the driver's other "relatives" a skeptical look before waving us on.

Another government response to transportation shortfalls was to turn to the bicycle. Photographs of healthy, smiling cyclists pedaling along the broad expanses of Havana's Malecón Boulevard almost make the shortage of motorized transport seem like a godsend. But for Cuba's undernourished citizenry—dodging the potholes and open ditches of dangerously deteriorated roads, carrying freight and family in tropical heat and rain, and negotiating the jumble of horse-drawn wagons, motorcycles, smoke-spewing trucks, swarms of other bicyclists, and the occasional speeding automobile—cycling is no idyll.

Bicycles have proven to be a partial substitute for more advanced transportation to the extent that they are creatively adapted by individual users. Attaching a child's seat made from scrap wood to the crossbar and rigging a carrier over the rear wheel turns a one-person conveyance into transportation for a family of four. It's not comfortable, it's not safe, and it's not easy to keep it moving, but it works.

Overcoming Political Obstacles

In endless small ways the inventiveness of the Cuban people covers for the mistakes of the central planners and the intransigence of their political leadership, allowing the country to continue to limp along. Housewives prepare for the frequent shutoffs of gas and electricity by cooking with an array of "inventions," including recycled electric heating coils, makeshift kerosene burners, and homemade charcoal. Families "invent" additional bedrooms in already tiny apartments by putting up partitions with scraps of building materials. They supplement their income with micro-businesses, selling homemade pizzas, refilling disposable cigarette lighters, or operating a rudimentary beauty parlor from a table in the street.

"Inventing" has another, more picaresque side as well. It involves the theft of food, equipment, services, and supplies from the state. It also includes buying and selling in a black market, which is probably as large as the official economy of Cuba. For example, rationed items that are not used, such as rum or cigarettes, are sold at the much higher market price. Food that will be virtually given away in state "stores" in exchange for a ration coupon and a few *centavos* is sold for the going black-market price by anyone who has access to it before it reaches the shelf.

Even those families operating businesses on the government's list of "authorized" activities are forced to buy raw materials stolen from the state. Wholesalers and middlemen are illegal. One member of the Communist Party, a decorated "Hero of the Revolution," described how he and his wife sell candies from a window in their apartment. Since sugar is as stringently rationed as any other commodity, they must buy it on the black market. Ideology takes a back seat to survival.

Access to services is also "invented" by bribing state employees such as automobile mechanics, clerks who sell railway or airline tickets, or telephone repairmen. The state nominally offers such services for very modest charges, but in fact they are often not available because demand far exceeds the state's ability to supply them.

"Inventing" can also mean joining the ranks of the *jineteras* (literally "horsewomen") in the sex trade that has helped boost Cuban tourism to the nation's largest source of foreign exchange after its sugar exports. Hani, a twenty-year-old *jinetera* working in Santiago, Cuba's second largest city, explained it like this: "This is a very wearisome life, but well . . . you become a *jinetera* out of necessity. I have friends who do it, who'll go anywhere, to a discotheque, to a restaurant, so that they can drink Coca-Cola or a Heineken beer or smoke a Marlboro or eat chocolate. Things they can't do in their own homes." As guests of foreigners with dollars to spend, these women can enter the tourist facilities that are otherwise closed to them.

Dollar Stores

With dollars everything is available. And although the government constantly invokes the American "blockade" of Cuba as an explanation for the island's disastrous economic situation, American products are readily available in hotels and the state-run "dollar stores." In the tourist industry, Cubans can earn tips in dollars. Waiters or tour guides may collect, in a single day, the equivalent of an engineer's or professor's monthly salary in pesos. Consequently, jobs in tourism, no matter how humble, command a great deal of status, as illustrated in the following joke:

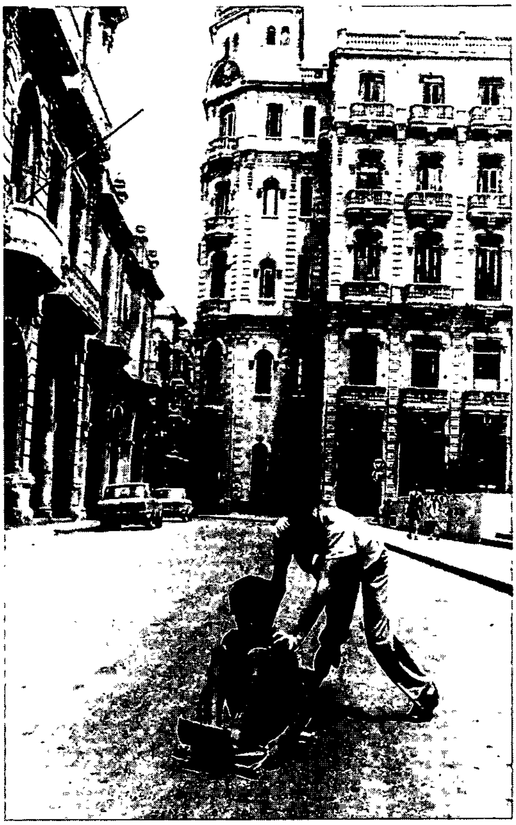
> *First young lady*: "So, how is it going with your new boyfriend?"
> *Second young lady*: "I'm finished with that bum. It turns out he's been lying to me all along."
> *First young lady*: "Oh, how is that?"
> *Second young lady*: "He told me he was working as a bellboy at the new hotel. But I found out the other day that he's really only a doctor."

Dollars also come from relatives and friends outside the island. Cubans receive an estimated $500 to $800 million annually in foreign remittances. For a nation that earned only $1.2 billion in foreign exchange from sugar sales in 1995, such an amount represents an enormous subsidy. Any claim of "success" that doesn't acknowledge this massive infusion of aid is meaningless.

But no amount of money could keep Cuba's economy afloat without the resilience and endless inventiveness of its people. On the sidewalk in front of the Camagüey City public library, I came upon a librarian stirring a large cast-iron cauldron full of soup. The blackened pot was supported by a tripod over a roaring fire of books. The book-burning librarian, amused by my surprise, explained that these were discards being recycled one last time.

The pages of discarded books are also used to make the small paper cones in which street vendors sell peanuts. On one such cone the text began: "The unity of all the people that was an indispensable condition for the revolutionary triumph. . . ." Even Fidel's speeches are being recycled.

Newspapers and magazines likewise do double duty—in the nation's bathrooms. Toilet paper is a rarity, at least outside of tourist facilities. The first time I stayed in a Cuban home I naively asked where the toilet paper was. My hostess, with typical Cuban drollness, indicated a pile of what I had thought was reading material and said: "Look, we



Havana children with their "inventro" scooter.

have plenty. Take your pick: 'Rebel Youth,' 'Workers,' or 'Bohemia.'"

Cubans take stock of their bleak circumstances and still manage a bitter laugh. One joke that made the rounds tells of a man so depressed by years of shortages that he decides to commit suicide. He first sticks his head in the oven but the gas service has been interrupted. He then goes to fill the tub to drown himself but finds that the water is off again. He tries to electrocute himself, but there's a power outage. Finally, he throws himself from his apartment window only to land on a huge mound of uncollected garbage in the street. He picks himself up and, out of desperation, limps to the nearest police station where he intends to provoke the police into shooting him by shouting antigovernment slogans. He walks in and screams "Down with Fidel!" but is frustrated once again when the man on duty enthusiastically shakes his hand and says "I'm with you, buddy, I'm with you."

In one respect the Cuban police have it easy. Since violating the law is the only way to survive, anyone and everyone can be legally arrested at any time. And as if that did not give the state enough control, it can always fall back on the "Law of Dangerousness," which allows the arrest of anyone who is even potentially "antisocial." Little wonder then when I asked a pre-med student in Guantánamo province about the attitudes of his peers, he responded with a chillingly simple summary: "Cuban youth is afraid."

In Havana a teenager described the "voluntary" labor expected of him and his fellow students: "We are supposed to do agricultural work in the country but no one wants to go. The heat is impossible; the food is awful. Your parents will go to a doctor to get a statement certifying that you aren't fit for such work. Everyone tries to do that. If you end up going, the only benefit is that the boys' and girls' barracks are close together."

State control is so pervasive that it represents the defining feature of Cuban life. At a university hostel where I was staying in Santiago, a maid approached me with one of my socks that she had found in the hall outside my room. I thanked her for bringing the sock to me. She laughed and said quite spontaneously, "Now it will have to be punished for leaving the room without authorization."

The Cuban Spirit

Offering Cuba as a model for the rest of the world would strike most Cubans as a cruel joke. Whatever the redeeming features of poverty and regulation might be, they are not likely to be celebrated by the poor and the regulated. The real lesson from Cuba lies in the economic and social devastation that follows when ideology is used as a vehicle of control. Cuban government policies are "successful" only to the extent that they are circumvented by the creativity of the Cuban people, supplemented by the black market, and massively supported by remittances from abroad. The Cuban people are surviving. But to confuse their spirit and creativity with the bankrupt ideology that produced the very conditions under which they suffer is, most literally, to add insult to injury. □

THE FREEMAN
IDEAS ON LIBERTY

Roberto and Fidel: Two Versions of "Share the Wealth"

Cecil E. Bohanon and T. Norman Van Cott

The October 1997 death of Roberto Goizueta, the former CEO of Coca-Cola who fled Fidel Castro's Cuba in 1961, offers an opportunity to make a telling comment on the Cuban economy. To wit, the corporate regime of a single Cuban emigrant generated sufficient wealth to more than double the average living standard of Cuba!

The market value of the Coca-Cola Company increased by $141 billion ($4 billion to $145 billion) between 1981 and 1997, the period when Goizueta led Coca-Cola. Suppose you invested $141 billion in the stock market. What yearly return, on average, could you expect from your investment? The usual approach to such a question is to look at previous returns in the stock market over a long period of time.

It turns out that the Standard & Poor's 500 Index grew at an average annual rate of 10.7 percent for the 70 years between 1927 and 1996. Investing $141 billion at this rate of return yields an average yearly income of $15 billion. CIA statistics say that Cuba's national income is $14.7 billion. In other words, the increase in Coca-Cola wealth under Goizueta can be expected to generate more income than 11 million Cubans under Fidel Castro!


COCA-COLA COMPANY

Roberto Goizueta

Admittedly, Goizueta wasn't solely responsible for the more than 36-fold increase in Coca-Cola shareholder value. He had help from Coca-Cola's 32,000 employees, the opening of world markets, and a booming U.S. stock market. Nevertheless, Goizueta was at the helm when the wealth-increasing decisions were made. The buck stopped at his desk.

Cecil Bohanon and T. Norman Van Cott teach in the department of economics at Ball State University, Muncie, Indiana.

Regardless of how one partitions the $141 billion between Goizueta's efforts and other factors, he garnered but a small fraction of the increase. Most of the increase went to other shareholders; at his death, Goizueta is reported to have held $1 billion of Coca-Cola stock. This is less than one percent of the rise in the value of Coke stock. Moreover, the increase in the value of Coca-Cola stock actually understates the wealth created under the Goizueta regime. Additional value, not captured in the stock price, accrued to Coca-Cola employees, suppliers, distributors, and consumers.

Creating wealth entails expanding the network of voluntary exchanges in the marketplace. Roberto Goizueta never forced anyone to drink a Coke, never expropriated anyone's assets, and never forcibly drafted anyone into Coca-Cola's service. Rather, he was a talented wealth creator who shared his wealth among many.

Then There's Fidel

Fidel Castro is another Cuban of Goizueta's generation who has talked a lot about sharing wealth. Fidel Castro's methods, however, differ radically from those of Roberto Goizueta. Confiscation of wealth, forced labor, and jail sentences for opponents have been the hallmark of his regime. Is it any wonder that Roberto Goizueta and 32,000 Coca-Cola employees can outdo Fidel Castro and his 11 million "slaves"?

Some might interpret all this as a justification for Fidel Castro and others like him prohibiting emigration from their countries. That way, goes the argument, Goizueta would have produced wealth for Cuba instead of Coca-Cola. This misses the point completely. Even if Fidel Castro had been prescient enough to recognize Goizueta's managerial/entrepreneurial potential in 1961, and then prevented his departure, it is safe to say that Goizueta's talents would have languished in a communist quicksand of perverse incentives. Cuba's current living standards would be little changed.

In the end, societies that stifle voluntary exchange waste the talents and resources of their people. That's why Fidel will never match Roberto when it comes to sharing wealth. You can't share what you don't have. □

THE LIVING RESOURCES NEWSLETTER

Ideas That Make Freedom Possible

The Myth of Attention Deficit Disorder
Today's Cult of Sensitivity
Diseases du Jour
Why Education Must Be Totally Privatized
You Are Not Your Brother's Keeper
Solutions, Not Excuses

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How to Reduce Taxes

by Leonard E. Read

The cuneiform signs, as shown above, are copied from a clay cone now on display at the Louvre. The cone was excavated by the French at the site of ancient Lagash, a prehistoric city located in Mesopotamia. The messages on the cone were etched with a reed stylus on soft clay during the third millennium B.C.[1]

While the experts on Sumerian civilization may not agree precisely in their interpretations, the consensus is that the above three signs mean "freedom from taxes." There are two features to observe about these ideograms. First, the word "freedom" here puts in its earliest written appearance. Second, is the remarkable clarity used to depict "taxes." These Sumerians expressed in a symbol the nature of governmental "take" better than we express the process in our modern languages. Note its barb or fishhook or harpoon characteristics, suggesting, so very clearly, that this instrument is one which can be thrust into, but hardly retrieved from whatever it penetrates. The nature of taxation thus revealed itself at the very dawn of history, and experience confirms this early disclosure: Taxes are easy to increase but almost impossible to decrease.

We need not go beyond the experiences of our own country in this century to verify the one-way tendency of our taxes. They continue to penetrate inexorably deeper, always advancing, never receding. Look at the record: the population of the United States increased from 76 million in 1900 to 174 million in 1958 while government expenditures *per person* (in terms of 1947–49 dollars) rose from $56 in 1900 to $580 in 1958, a more than tenfold expansion of governmental assessments *per person*—man, woman, and child.

Where is the end of all this? If the trend of the past few decades be projected into the future—the near future even—the prospect is that of a once-great economy flying to pieces. The expenditures of government (now equal to 35 percent of the people's earned income)

Leonard Read established FEE in 1946 and served as its president until his death in 1983. This article, reprinted from the July 1960 issue of The Freeman, *is the fourth in a monthly series commemorating the 100th anniversary of Mr. Read's birth.*

have long since passed the point where they can be met by direct tax levies. Inflation—increasing the volume of money—is then resorted to. This reduces the value of the monetary unit. Serious in our country? The dollar has lost 52 percent of its purchasing value since 1939!

Historically, in most instances, governments resort to inflation when the collection by government reaches 20 to 25 percent of the country's earned income.[2] As a rule this is the level beyond which direct tax levies become politically inexpedient. Inflation, therefore, becomes the only alternative means of financing excessive expenditures. And the more overexpanded the government, the more the inflation!

Inflation in the United States however, is more dangerous than in other countries and for a simple reason: we are more specialized than other people are or ever have been. We are so specialized that all of us are dependent upon the exchange of our numerous specializations. In a highly specialized economy such as ours, the exchanges are not by barter; a circulating medium of exchange is required. This is money's most important function.

Inflation, let it be repeated, is a politically engineered increase in money volume. This thins or dilutes the circulating medium. The medium can, assuming a continuation of inflation, become so thin that it will lose all of its circulating power. This is what happened in Germany after World War I when 30 million marks would not purchase a loaf of bread.

The Moral Case for Freedom

The purpose of this paper, however, is not to point out the dangers of government in an ever-expanding role with its ever-increasing costs, and the ultimate consequence of this course—inflation. These threats are well known to all individuals who are likely to be of any help in slowing down and eventually reversing present trends. Not as well known is the fact that a mere rehashing of these threats, coupled with scoldings and exhortations, will not turn the tide. People simply are not frightened away from collectivism by statistical or mathematical or materialistic arguments which show the expansion of government, the rise of the debt, the bite of taxation, the erosion of the dollar, the extent of inflation, and so on.

The purpose of this paper, therefore, is (1) to suggest that arguments on behalf of freedom, when confined to the materialistic—which too often they are—account in part for the seemingly irreversible one-way direction of the taxing process and (2) to draw attention to the moral arguments that must be perfected and presented if any change is to be brought about.

Omitting the enormous activities and costs related to the "cold war,"[3] government's expansion in the United States—and elsewhere, for that matter—is a growth in socialism. It is an increasing practice of the collectivistic concept—the notion that the individual exists for the group, by the group's permission, and for the group's sake.

This concept denies the Creator and substitutes therefore the omnipotent State as the source of man's rights and the dispenser of privileges. State supervision of welfare and prosperity is substituted for personal responsibility. The State takes from and gives to, as its political hierarchy sees fit. The Marxian ideal, "from each according to ability, to each according to need," is, quite consistently, part and parcel of the collectivistic doctrine. Ignored is the idea that government is for the purpose of securing the inalienable rights of man. It cannot be otherwise, for the State, not the Creator, is the ultimate sovereign according to collectivism.

Examples of this from-each-according-to-ability-to-each-according-to-need thesis are the progressive income tax, TVA, government mail delivery, government housing, compulsory social security, subsidies to farmers, protections against competition, federal aid to education, and so on. A specific example would be a federal grant for a local hospital.

Taking this specific example, the people who seek federal aid for their local hospital present a united front. They achieve a political unanimity, a wholeness, and their demands come through clear and loud. Once the hospital is built it stands as tangible evidence of an "accomplishment," a monumental testimony to the "wisdom" of its sponsors. The good it does is visible. It can be photographed and publicized as a concrete instance of community welfare.

Now this federal grant-in-aid means of local achievement does have some opponents. An observant taxpayer who resides in New York sees no reason why he should be compelled by the political apparatus to subsidize the citizens of Los Angeles or Dallas. But suppose he expresses his opposition materialistically as he invariably does. He may, for instance, complain about the cost to him. And, how much is that? Why, only a pittance—30 cents, perhaps. What a niggardly position to take! He, with his big income! And, if he argues that anyone, regardless of how wealthy, can be "pennied and dimed" to death, he is confronted with the impossible task of naming the instances that take so many of his pennies and dimes. He may even generalize about national financial trends, but to do so he must talk in terms of billions of dollars. Such terms are as incomprehensible to his listeners as are 100,000,000 light years.

Opponents of socialism who argue only materialistically would be well advised to add the moral argument.[4] As distinguished from socialism's proponents, with their united front, they are a splintered and fragmented lot. It is next to impossible for them to unite on materialistic terms.[5] The financial injuries done to them are not alike in any two instances, nor do the injuries, imposed in dribbles, greatly excite the victims. The damage is done more or less unobserved. Nor can these material injuries be photographed, or dramatized with any persuasiveness. Invisible, material erosions of an individual's larder are no match for the huge government dam or the new, merciful, thousand-bed hospital. This is a one-sided contest between the seen and the unseen, with the thing seen considered real while the unseen is dismissed as imaginary.

Supplying groups of the population with government pap as quickly destroys their capacity to fend for themselves as does the hand-feeding of squirrels. Men as well as animals tend to regard any coddling as a right. Simply reflect on any of the thousands of special privileges granted by government, of more than a year's duration, and see if one can be discovered that is not already regarded as a right. How can it be otherwise if the collectivistic notion is accepted that government is the grantor of rights as well as the dispenser of privileges? The opponents of socialism are on weak ground if they rely on materialistic arguments against those who believe in their privileges as rights. The socialists bring "human rights" to their side; the adversaries only complain about pilfered pennies and dimes.

A Moral Reorientation

Over the past fourteen years I have lectured at scores of meetings before audiences of nearly every type. In most of these lectures, I have expressed in materialistic terms the course our country is now on, and my conclusions—also in materialistic terms—have been actually frightening. Never once have my facts, the documentation, or the conclusions been challenged. Yet, in all these years, I have never witnessed a single individual who was moved away from his collectivistic notions by reason of a fear of what the future held for him materialistically.[6] The collectivist, communist, socialist, state interventionist—call him what you will—merely responds, in effect: "I will suffer any indignity for my faith!"

However, during these years, I have noted countless individuals who have made the ideological switch from collectivism to freedom. In every case, where diagnosis has been possible, the individual made the switch because he had grasped, for the first time in his life, the right and wrong of it all. The experience was a moral reorientation!

The materialistic argument has only the force of shouting, "Fire!" or "Man overboard!" It can compel attention. And there, it seems, its usefulness ends. If, after getting attention, one cannot advance the moral argument, he may only add to the state of confusion—like not being able to point out where the exits are, or not knowing how to conduct a rescue operation.

Adherence to Principle

It is only in the moral realm that socialism's antagonists—freedom's devotees—can find any common ground for concerted or unified effort. Where we can make no impression at all over the personal loss of 30 cents, or any multiplication of small change, we can win agreement on the point that there is no difference in principle between the forcible extortion of 30 cents and the forcible extortion of one million dollars. One is misappropriation as well as the other. The distinction is one of degree, not of kind. To violate the principle, even minutely, is to compromise the amount but not the principle. The principle is surrendered, regardless of amount. To forswear allegiance to honesty and integrity—the principle here at issue—is to destroy the moral underpinnings without which no good society can endure.

Legalizing the forcible extortion of the citizens' resources does not alter the morality of the act. It merely absolves the offender of his crime—in the eyes of the legal apparatus! Not in the eyes of one's Maker! Absolution by the State has meaning only if it be conceded that man's rights to life and liberty are endowments of the State, that is, are endowments of those quite ordinary human beings who succeed in attaining political office. That these people are the source of rights is no more valid than the divine-right-of-kings thesis. It is only the modern way of rendering an old world fallacy.

Inalienable Rights

Once we accept the only alternative to state omnipotence, namely, that man is endowed by his Creator with certain inalienable rights, we cannot, logically, grant to government any powers which do not pre-exist in the individuals who organize it. These rights of the individual in relation to others, when viewed personally, are fairly clear and need little in the way of elaboration.

No sane farmer, in his capacity as an individual, would dream of forcibly collecting from all citizens a sum of money as payment for not growing wheat. No respected resident of Dallas would think of going about the country coercively collecting funds for a Dallas hospital, regardless of how urgent the need. No thoughtful businessman would try to keep customers by personally forcing a competitor to raise his price for the same product. No wage earner with any sense of justice would, on his own, forcibly deny the right of another wage earner to any job connection peaceably agreed upon. No sensible individual would have the effrontery to impose his personal idea of a minimum wage or maximum hours on a nation's citizenry.

Moral standards for individuals, fairly well established by all the world's moral and ethical systems, find no reasonable sanction for modification by individuals acting concertedly, whether organized as governments or labor unions or trade associations. No new rights come into existence by collectivizing two persons or a million of them. If this is not a correct conclusion, then, pray tell, what is the magic number at which new rights originate?

The above is only suggestive. It has been set forth merely to stake out the area in which each of us should strive for perfection. For it is only in moral philosophy—the study of right and wrong, a qualitative discipline—that the case for freedom and the rights of man can be won. Short of a growing effectiveness in this area, we are committed to a continuance of the present course. The only end to this course of governmental expansion and its ever-penetrating tax take is, as history seems to reveal, either atrophy or revolution.

It is only when we understand that government can have no rightful powers of control, over and beyond the powers that inhere in individuals as moral rights, that we can clearly recognize the proper limitations of the State. With this recognition will come the trimming process: government reduced to the enormously important function of securing the rights of man. Limited to this role—its only competence—government will become an aid, not an ailment; a bargain, not a burden. Taxes will then be a matter of relative unimportance.

Summarized, this paper insists that the only way to reduce taxes is for each devotee of liberty to become, as best he can, a moral philosopher. Too difficult? Only if the Golden Rule, the Ten Commandments, and the Declaration of Independence are beyond one's scope! □

1. See Samuel Noah Kramer, *From the Tablets of Sumer* (Indian Hills, Colo.: The Falcon's Wing Press, 1956), Chapter 6, "The First Case of Tax Reduction," pp. 41–46.

2. "Dr. Colin Clark, the Australian economist, has concluded from his study of governmental costs that whenever the figure for any country rises to more than 20 or 25 percent, progressive inflation and the debauchery of the currency is likely." See p. 110, *Liberty: A Path to Its Recovery* by F. A. Harper (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, Inc., 1949).

3. While the wastes and excesses in current "defense" expenditures are related to a spreading acquiescence to socialism, this aspect of the subject is beyond the scope of this paper. The purpose here is served by pointing out that for fiscal 1961 "defense" expenditures are one percent higher than at the end of the Korean War. But, non-defense expenditures are 86 percent higher! See *Monthly Tax Features*, February 1960, Tax Foundation, Inc., New York.

4. Dr. Thomas Nixon Carver, 32 years professor of political economy at Harvard University, once said to me, "The two most influential books in Western Civilization have been the Bible and Adam Smith's *Wealth of Nations*." Adam Smith and the biblical writers were, among other things, moral philosophers. Reflect, also, on the thinking that went into the Declaration of Independence, the discussions in the Constitutional Convention, and the arguments set forth in *The Federalist*. The appeals were not made on the basis of material advantages. The arguments were in the realm of moral philosophy, and the case was won by appealing to man's sense of justice.

5. Experiences of the past three decades support this contention. Many antisocialists have been certain of a common private property interest among the millions of insurance policyholders, shareholders, and homeowners. However, repeated attempts to organize them against socialism have come to naught. They simply will not coalesce along materialistic lines. Nor should we believe that wage earners have been brought together in labor unions by reason of monetary motivations. Their enormous memberships have been achieved by (1) coercion and (2) the conviction that the "benefits" they seek are rights. More obvious to many union members than to the rest of us is the fact that they do not make money by striking. These costly ventures, like their expensive union memberships, are either forced upon them or charged off to "gaining rights for the workingman."

6. The material needs of Americans are satisfied to an unprecedented degree. This explains, in part, why appeals to material well-being are so futile. Douglas Murray McGregor of the Massachusetts Institute of Technology has this to say: "Man is a wanting animal—as soon as one of his needs is satisfied, another appears in its place. . . . Man's needs are organized in a series of levels—a hierarchy of importance. . . . Man lives for bread alone, when there is no bread. . . . But when he eats regularly and adequately, hunger ceases to be an important motivation. . . . A satisfied need is not a motivator of behavior!" See *The Management Review*, November 1957.

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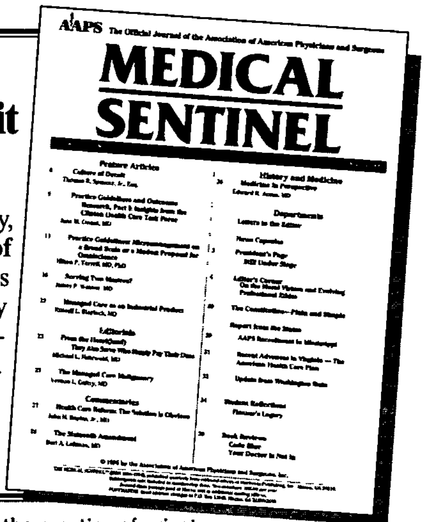

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Are Women Being Victimized by the Market?

One of the many false but frequent criticisms of the marketplace is that it discriminates against women. It goes like this: if the market is fair, why do women own fewer businesses and earn less than men for doing the same work?

Groups organized for the purpose of getting government to intervene insist that women are victims of widespread discrimination in America, held down by the "glass ceiling" of male bias. They paint the market as a place where silly prejudices determine wages, where it actually pays for employers to exploit an entire gender of employees, where men conspire against businesses owned by females. These groups propose a range of harmful, redistributive pseudo-remedies: wage controls, compulsory quotas and affirmative-action schemes, daycare subsidies, and the like.

Economists have demolished this criticism in many venues (including *The Freeman*), but it comes up again and again. So again, here's a rebuttal.

In "Women's Figures: The Economic Progress of Women in America," published in 1996 by the American Enterprise Institute, Diana Furchtgott-Roth and Christine Stolba showed conclusively that the marketplace is working for women far better than its critics admit. For instance: when all factors, such as experience and life situations, are held constant, women between the ages of 27 and 33 earn 95 to 98 percent as much as the average male worker—a statistically insignificant difference.

More good news: from 1987 to 1992, the number of women-owned businesses in America rose by 43 percent. Today, women earn the majority of associate's, bachelor's, and master's degrees. Nearly 40 percent of doctorates are awarded to women. And during the past decade, the number of female executive vice presidents more than doubled and the number of female senior vice presidents increased by 75 percent.

Skeptics might be tempted to say that it wasn't women's efforts or the marketplace that explain these facts, but sex-based preference programs encouraged by government. Wrong again. An analysis by Sally Pipes and Michael Lynch in the Heritage Foundation's *Policy Review* debunked that myth, too. Pipes and Lynch proved that more women are going to college and that this is the primary reason for the significant advances in female earning power.

In 1960, for example, only 19 percent of bachelor's degrees were earned by women, but by 1995 women claimed a whopping 55 percent. Over the same period, women increased their share of lucrative professional degrees—MBAs, MDs, and JDs—by at least 500 percent. The increase in college enrollment is a result not of government-enforced preferences, but of changing cultural patterns and personal choices that enable women to excel in fields formerly dominated by men.

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The so-called "wage gap" between men and women, say Pipes and Lynch, is due not to senseless discrimination. It's caused by statistical differences in age, education, and continuous years in the work force. Because women experience more interruptions in their working careers than do men—usually because of marriage or childbearing—the wages they can command in the market are slightly discounted. That is not unfair; indeed, it is perfectly rational economic behavior on the part of employers concerned about their bottom lines.

The *Detroit News* (April 25, 1996) showed that what differences exist between the wages of men and women are largely a consequence of lifestyle choices: "According to the U.S. Census, men on average spend 1.6 percent of their work years away from the job; women are away 14.7 percent. Ten years of seniority raises wages more than 25 percent, according to government figures. [Former] Labor Secretary Robert Reich may opine that women are 'unable' to build seniority, but men are 'unable' to give birth."

"Nor is there evidence," says the *News*, "that biology is destiny. Women hold triple the percentage of top management jobs compared with similarly 'seasoned' males. And 81 percent of Fortune 500 boards feature women directors; a third of the companies have more than one. Women also own 7.7 million businesses, employing 15.5 million workers—a third more than employed by Fortune 500s."

If there were widespread or substantial discrimination against women by men in the marketplace, then one would expect to see *female* employers paying their female employees more than *male* employers pay their female employees for the same work. Not so. No evidence. Zip.

No one should deny that some men, even some male employers, discriminate against women in ways that cannot be explained by lifestyle choices or impersonal market forces. The point is, most are smart enough not to because they understand that it's self-defeating. Pay a woman less than she's worth and you hand a golden money-making opportunity to a competitor.

A fascinating 1994 book, *The Myth of Male Power*, takes the charge of male discrimination against women and turns it on its head. It is encyclopedic in its presentation of previously unpublished facts and figures. The author, San Diego writer and consultant Warren Farrell, is more than qualified to address the subject: he is a former three-time elected male board member of the nation's foremost radical feminist outfit, the National Organization for Women.

Farrell says that men account for 94 percent of the occupational fatalities each year. Undoubtedly that stems from the fact that men make up more than 95 percent of the work force in hazardous occupations.

Though men enjoyed virtually the same life expectancy as women as recently as 1920, they now live an average of seven years less. Female longevity has soared almost 50 percent in the past 70 years.

Women do more housework than men, but men do more workplace work. On average, men labor an average of 61 hours a week (counting work inside and outside the home), while the figure for women is 56, says Farrell. His conclusion: if men are oppressing women, it sure doesn't show up in the numbers.

In the end, the fuss about male discrimination against women in the marketplace is much ado about very little, with a lot of carelessly unexplained figures tossed about that, in any event, hardly argue for government to coercively interfere with privately arranged contracts and relationships between consenting adults. □

THE FREEMAN
IDEAS ON LIBERTY

The NFL Oilers: A Case Study in Corporate Welfare

by Raymond J. Keating

After more than three-and-a-half decades in the city of Houston, the National Football League's Oilers kicked off this past season in Tennessee. The Tennessee Oilers are the result of a traumatic corporate welfare struggle in Houston, one that has left all but dead the political will to fight government handouts to million-dollar team owners and players.

Oilers owner Bud Adams originally was a bold football entrepreneur. His team was a 1960 charter member in the upstart American Football League, which was set up to offer a direct challenge to the well-established NFL. Adams named the team for the business in which he earned his fortune, and the Oilers took two of the first three AFL titles.

In 1965, Adams moved the Oilers into the new taxpayer-financed, $35 million Eighth Wonder of the World, the Houston Astrodome. He got a good taste of corporate welfare early on in his sports ownership career—something probably quite soothing compared with the rough-and-tumble oil business. And it apparently left him with a taste for more.

Over the next three decades, Adams would venture to tap his hometown taxpayers twice more. In 1987, he requested $67 million-worth of stadium upgrades to the Astrodome—including new artificial turf, 10,000 more seats, and 65 new luxury boxes. Adams needed negotiating leverage, so he drew the most formidable weapon in any business executive's arsenal: he threatened to move his team—in this case to Jacksonville, Florida. Adams got what he wanted from Houston officials through a property-tax hike and a doubling of the hotel tax.

The NFL's "best" stadium—as Adams referred to the upgraded Astrodome—did not stay that way for very long. In 1993, Adams began tossing around the idea of a brand new dome. His proposed $235-million Ninth Wonder of the World would come with the latest in stadium accouterments, including more of the ever-critical luxury box suites. Those boxes generate big dollars that do not have to be shared with other teams under the NFL's revenue-sharing plan. They are in fact a huge catalyst for the push in recent years for new stadiums, ballparks, and arenas by many professional teams.

Adams's plan also called for all the seats from floor to ceiling to be reconfigured to fit not just football, but also hockey, basketball, convention, and concert floor plans. (It's amazing the ideas one can come up with when spending somebody else's money.) Although Adams offered to put up $75 million for this new dome, taxpayers would still be called on to sacrifice $160 million more.

As things generally go in the corporate welfare story, this is the place where politicians usually cave in to team owners. However, then-mayor Bob Lanier (no relation to the former NBA star) reacted rather coolly to the Oilers' demands.

Raymond Keating is a columnist with Newsday, *chief economist with the Small Business Survival Foundation, and author of* New York by the Numbers: State and City in Perpetual Crisis *(Madison Books, 1997).*

The Mayor Refuses

Lanier first declared that property taxes would not be used for any new sports facilities. Then, buttressed by polls in early 1994 showing that anywhere from 56 percent to 71 percent of the public thought the taxpayers should not finance a new dome for the Oilers, Lanier argued against any public funding. (Houston's resolve against the Oilers may have had something to do with the team's growing reputation as choke artists. In a 1993 playoff game, the Oilers blew a 35-3 halftime lead to lose to the Buffalo Bills—one of the greatest football collapses of all time.)

Support from fellow team owners in Houston couldn't be lined up either. Adams could not get the National Basketball Association's Houston Rockets—playing in the city-owned Summit—interested in his deal as a co-tenant of the proposed facility, and Astros' owner Drayton McLane also gave it a thumbs down.

Mayor Lanier stuck by his refusal to put tax money into a new stadium. However, other taxpayer-funded schemes started to float about, like a $90-million upgrade for the Astrodome and $30 million for The Summit.

NFL Commissioner Paul Tagliabue came to town to aid Adams's quest in mid-1994. In recent years, a major part of Tagliabue's job has been to travel to cities where teams want the taxpayers to pay for new stadiums and to offer both carrots and sticks to state and local governments. He arrived in Houston promising that the city would host the Super Bowl one day if a new stadium was built for the Oilers.

Amazingly, though, Lanier's resolve only strengthened. He declared that he would not go along with "taking Joe Sixpack's money and putting it into supporting a stadium . . . for owners with $100 million assets and players making $1-million-plus on salary." The editorial page of the now-defunct *Houston Post* even chimed in with some down-home common sense: "If it is a good deal, private enterprise will do it."

Confronted by this unprecedented opposition, Adams once again drew the ultimate weapon: the threat of a move from the city. First, he pitted nearby county against county in a bid for a new stadium. Then, for good measure, the Oilers commissioned a study from a major accounting firm—the kind of study that ignores basic principles of economics, the failure of government industrial policy, and the efficiency of the private sector—which asserted that a new dome for the Oilers would be worth $20 million annually to Houston. Still, none of it turned the tide in Adams's favor.

Nashville Woos the Oilers

So, in August 1995, he opened negotiations with the city of Nashville. Unlike Houston, Nashville and the state of Tennessee had wooed Adams. The city had long wanted to be "big league." Mayor Phil Bredesen had already built a new hockey arena without a National Hockey League tenant; so he stood more than willing to build a football stadium for an actual NFL team. And Tennessee Governor Don Sundquist announced that state taxpayers also would be tapped to help bring the Oilers to Nashville.

Back in Houston, Lanier started to crack. He offered a deal to build an open-air stadium for Adams. But Adams decided it was too little too late, and besides, it supposedly was too hot to play outside in Houston.

A deal between the Oilers and Nashville was announced in November 1995. The stadium would seat 67,000, with 120 luxury suites and 9,600 premium seats. Adams would not only not have to lay out a dime to build the new facility, but he would also receive a $28 million relocation fee and garner 100 percent of stadium-related revenues. The state would kick in $55 million in construction bonds and $12 million more for road improvements. Nashville would fork over $144 million and had to guarantee $70 million in net sales of personal seat licenses, giving fans the option to buy tickets.

One hurdle remained, however: against the mayor's wishes, local stadium opponents gathered enough signatures to require a referendum on the city package. Big dollars poured into the pro-stadium "Yes for Nashville" campaign—outspending the opposition by about 16 to 1. Commissioner Tagliabue naturally stopped by to give support. The resolution passed with 59 percent of the vote.

Meanwhile, the Oilers had a couple of years left on their lease in the Astrodome, and Adams promised to stay and play out those years. But after fewer than 21,000 fans attended the last three games of the 1996 season, the Oilers wanted out. (A few days prior to the Nashville vote, a save-the-Oilers rally in Houston drew fewer than 50 people.) Adams negotiated a buyout deal.

Not long after the Nashville vote, Tagliabue met with Houston officials and sang a familiar song. Houston could get a new NFL team—if it built a new stadium or upgraded the Astrodome. Astros owner Drayton McLane talked about selling his baseball team, claiming a string of annual losses since he acquired the club. And Houston's lone champions—the Rockets—made noises about playing in an arena far glitzier and more profitable than The Summit (recently renamed the Compaq Center).

The Mayor Caves In

Apparently, this was all too much for Mayor Lanier. His rhetoric about taking money from Joe Sixpack gave way to defeatism. He noted that "the three leagues are monopolies and they're behaving logically for monopolies." He and Harris County officials announced the formation of a commission to study the possibility of building new sports facilities. This is the equivalent of establishing a bipartisan commission in Washington, D.C., to deal with Social Security or Medicare. It provides cover. Predictably, the commission came back with the recommendation that Houston build new facilities for baseball and basketball, and upgrade the Astrodome for football. Estimated price: $625 million.

By September 1996, a deal was consummated with the baseball Astros. A 42,000-seat ballpark, with a retractable roof and 66 luxury suites, would be built for about $240 million, of which taxpayers would pick up $180 million through rental car, parking, sales, and liquor taxes. Lanier explained his surrender: "If people want professional sports in this city, the reality is their presence requires certain public participation." The Astros' owner offered one of the standard justifications for stadium subsidies: "If we're going to compete with teams like Atlanta, we need to have a stadium like this."

A referendum barely (51 percent) approved the Astros' new ballpark, as well as $200 million in Astrodome upgrades, just in case the NFL came back to town. Houston had fought a valiant struggle against corporate welfare, but it finally gave in—big time.

Early in 1997, Lanier proposed a new arena to be shared by the Rockets and a minor-league hockey team. For a $200 million facility, the teams would be asked to chip in only about $75 million. The latest talk around town is about a completely new stadium for an NFL expansion team.

Meanwhile, Texas state officials rolled out the red carpet for the pro sports corporate welfare juggernaut. Governor George W. Bush signed legislation allowing localities—after voter approval—to set up sports authorities that could impose a county-wide 2 percent hotel tax, a 5 percent rental car tax, and taxes on parking and tickets, and to use sales tax revenues collected at facilities, all to pad the bottom lines of team owners and boost the salaries of players.

To the very end, the Oilers' Adams never stopped thinking out loud about his beloved Houston. In a strangely sympathetic piece in late 1996, which appeared in the *Houston Chronicle*, Adams was asked what he would do over. "I'd let [Astros owner] Drayton go first. Then he'd be the one moving and I'd be getting a new stadium."

At a Nashville rally in November 1995 celebrating the announcement of the Oilers' move, Adams declared: "When Bud Adams tells you we will come if you live up to your end of the bargain, that's binding." Yet, among most team owners today, to "live up to your end of the bargain" isn't what it used to be. Now it means, "as long as you keep forking over taxpayer subsidies, then we'll stay put. Otherwise, we're outta here."

Some small, short-term justice, though, has been dispensed. The Oilers' attendance in the 1997 season was just as bad as in their final days in Houston. Adams persists in his quest for corporate welfare; he reportedly complains that the team's new training site is too small. Of course, he demands a new one.

In the end, the guilt lies with politicians willing to dole out sports pork in one form or another. In June 1997, Nashville's Mayor Bredesen admitted the tenuous ground upon which stadium subsidies rest: "I can't justify building a football stadium on direct economic impact. The professors who make a living pooh-poohing that are right. But there are a lot of intangible benefits that make it more than easy to do."

Such sentiments by politicians bent on tapping the "intangible benefits" of sports are a long way from the political sensibilities of a man like Calvin Coolidge, who as president once said: "The collection of any taxes which are not absolutely required, which do not beyond reasonable doubt contribute to the public welfare, is only a species of legalized larceny."

Today, legalized larceny on behalf of million-dollar athletes and owners is all the rage. And as the performance of Houston—a generally free-enterprise city without, for example, zoning laws—and its former mayor show, resisting a man in an athletic uniform is hard to do. □

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In Defense of Markets and Misers

by Candace Allen and Dwight R. Lee

Markets and misers are greatly underappreciated for the same reason: people fail to see the value of the little things they both contribute. Lots of small benefits spread out over the entire population are difficult for people to notice, much less appreciate, even though the sum of these small benefits is large. On the other hand, concentrated benefits are easy to see and appreciate, even though they are not so large.

The apparent threshold below which benefits are difficult to see provides a basis for understanding the bias against market activity compared to political activity. There is a similar bias against misers as opposed to those who spend their fortunes, or better yet, give them away to charity. Misers have even fewer defenders than markets, and, as in the case of markets, they are criticized by those who benefit from what they are criticizing.

We are not recommending that people become misers, and such a recommendation would have no influence even if we made it. The life of a miser is an unattractive choice for most people, who quite rationally want to spend on themselves, or voluntarily share with others, the money they have earned. But those who choose to hoard their money deserve our gratitude rather than our ridicule. By considering some simple economics and recognizing the value of small benefits spread over large numbers of people, one can see that markets and misers are both sources of unintended generosity more beneficial than that dispensed intentionally by politicians or philanthropists. Before mounting a defense of misers, we examine briefly the tendency to undervalue market benefits and overvalue political benefits.

The Bias in Favor of Politics over Markets

In politics, large benefits are commonly sacrificed in favor of small benefits because the former are widely dispersed and the latter are highly concentrated. For example, a tariff duty receives popular support because everyone can see the benefit it concentrates on those who work in the protected industry, while few notice the much larger cost in the form of a small price increase spread over millions of consumers. Indeed, government activities, although they destroy wealth, are often popular because the benefits are concentrated and the costs are widely dispersed.

In contrast, market activities are often criticized although they create wealth. The market faces a tremendous public relations problem because it motivates the creation of widespread benefits in the form of better products and lower prices for the masses by concentrating costs in very visible ways on those who fail to serve the interests of others. Because the benefits of the market are so dis-

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persed, they are largely ignored or taken for granted, while the market discipline that makes the benefits possible is denounced.

Similarly, because people have difficulty noticing and appreciating dispersed, as opposed to condensed, benefits, they also undervalue the contributions of misers and overvalue the contributions of philanthropists.

The Bias Against Misers

Consider the following example of a rich miser, M, and an equally rich philanthropist, P. Both were extremely and equally productive at creating wealth over their entrepreneurial careers. At age 50 they both retire, each with accumulated wealth of $10 billion. The similarity between M and P ends when we consider how they enjoy their wealth during retirement. Mr. M spends almost nothing, getting his greatest pleasure from keeping his money in a secret vault buried beneath his modest house. He has no friends, wife, or offspring with whom to share his enormous wealth, which is just as well, since he would be appalled at the thought of anyone, including himself, spending his money.

Mr. P is a jovial and generous man who spends lavishly on himself and his friends. He hosts extravagant parties in his mansions located in some of the most exotic parts of the world. These parties feature sumptuous feasts and the world's greatest entertainers, and Mr. P's private jets and luxurious yachts are constantly on the move transporting his guests from one party to the next. Mr. P's spending on entertainment provides employment for cooks, pilots, yachtsmen, maids, butlers, house cleaners, interior decorators, and others. But even his entertainment budget cannot come close to exhausting his wealth in his lifetime, so P also gives away hundreds of millions of dollars to worthy nonprofit organizations such as universities, art museums, symphony orchestras, and operatic companies, creating enjoyment and employment for still more people.

Each man dies on his 85th birthday, Mr. M with his money forever locked in his hidden vault, and Mr. P having just spent his last dollar on the feast that finished him off. The question we ask is, which one of the two did more to benefit others? We have both asked this question of students in our economics classes and almost without exception they answer, Mr. P.[1] We suspect that those without any economic training are even more likely to answer, Mr. P. After all, Mr. P's money obviously benefited other people, both by increasing their consumption and by providing them with employment. Mr. M's money did nothing but sit in a vault, which may have provided M with some kind of perverted pleasure, but what could it have done for anyone else?

In fact, it is easy to establish that Mr. M did more to benefit others than did Mr. P. One reason people are misled when comparing the benefits created by the two men is that they are unaware of the connection between the quantity of money in circulation and the general price level. But we believe people also ignore the contribution of Mr. M because they cannot perceive benefits spread thinly over large numbers of people, although the aggregation of those benefits is large. For much the same reason there is a bias in favor of politics over markets, there is also a bias in favor of philanthropists over misers.

To proceed with the case for Mr. M, one must recognize that both M and P created more wealth than the $10 billion that each amassed in his personal fortune. The $10 billion is the difference between the revenue each man received from selling his product and the cost of producing it. This difference is commonly called producer's surplus. But consumers receive more value from products than they pay for them. Customers expand their purchase of a product to the point where the value they place on the last unit is equal to the price, with previous units being worth more to them than the price. The difference between the value consumers place on all the units consumed and the amount they pay (the price multiplied by the number of units purchased) is called consumers' surplus. So our original assumption that both M and P were equally productive over their careers and that they earned the same amount of money (producer's surplus) implies that their productive activity contributed the same amount to others in the form of consumers' surplus. The question then comes down to how much each contributed to others with his $10 billion.

Comparing Their Contributions

Mr. P's contribution with his $10 billion is easily seen because most of it was concentrated on a relatively few friends, employees, and nonprofit organizations. Mr. M's contribution is easily missed because it is distributed over hundreds of millions of consumers. Mr. M did exactly as much as Mr. P to expand the supply of goods available in the economy, but by hoarding all of his $10 billion, he reduced the quantity of money available to spend on them. Increasing the supply of goods while reducing the supply of money is a guaranteed way to reduce the general price level below what it would be otherwise. Every consumer could buy a little bit more with his income than would have been possible had Mr. M spent his money.

It is true that the price level would not be noticeably lower than otherwise; almost no one would realize that he is able to buy more. Even if someone did realize it, he would not connect the additional purchasing power to the hoarding of Mr. M. But that's the point. Mr. M's hoarding will be providing a total benefit of $10 billion to others, but because it is so widely distributed no one will notice, or appreciate, his contribution.

The benefits misers provide to others would be easy to see if they were concentrated on a few. To consider an extreme example, just imagine how well off you would be if everyone but you began hoarding all the money they earned (except for the amount necessary for a bare subsistence), but continued to produce the same quantity of goods and services as now. You could buy almost everything produced in the entire economy with your income, whether you had the income of Bill Gates or of a welfare recipient. The lower your income, the less you would have available to spend, but the lower prices would be. In this case, it would be obvious that misers provided you with a great bargain. They would have produced for you and demanded nothing of value in return.[2]

Unfortunately for those of us who would like to specialize in consumption while almost everyone else specializes in production, there aren't many people like Mr. M. Instead of ridiculing the few misers who do exist, we should be singing their praises in the hope of encouraging more people to become misers.

But even if you now understand the benefits Mr. M provides to others, you might still feel that Mr. P provides more. After all, he not only gave away most of his $10 billion to his friends and worthy causes (his personal consumption can be ignored since, as with most people who earn enormous wealth, it is a very small proportion of his total wealth), he also created lots of employment by keeping his money in circulation.[3]

In fact, Mr. P caused no increase in employment with his spending. He simply directed some workers into employment producing the things he spent money on (either directly, or indirectly through his contributions to charities) and out of other employment. Mr. M didn't increase employment either, but he certainly didn't reduce it. By reducing the general price level a little, his hoarding allowed millions of others to buy a little bit more with their money, with the increase in their total purchases equal to what Mr. M could have spent himself. The only difference between Mr. M and Mr. P is that M allowed others to decide where employment opportunities should be expanded with their purchasing choices. So while there is no reason to favor either Mr. M or Mr. P for creating employment, Mr. M's hoarding is really more generous than Mr. P's spending because the beneficiaries of hoarding can get what they want instead of what someone else wants for them.[4]

Also, philanthropy in the form of gifts to nonprofit charitable organizations, although universally applauded, actually does less good than the unheralded contribution of Mr. M. Although such organizations do provide value, they face a serious handicap because they are nonprofit; without the feedback of profit and loss, they don't know if they could be producing more value by using their resources in other ways. Furthermore, even if such information were available without market-generated profits, these charities lack the incentive to direct resources to their most productive employment.[5] On the other hand, most of the value Mr. M contributes to others is transferred through private firms responding to the market information that makes it possible to provide consumers the greatest value at the lowest cost.[6]

Another drawback to giving money to nonprofit charitable organizations is that much of it goes into appeals for more contributions rather than into promoting the organizations' stated objectives. Indeed, in many cases, well over 50 percent of the money collected by nonprofits goes into fund-raising activities, often referred to euphemistically as educational expenditures.[7] Some expenditures providing information to potential donors are justified, just as are advertising expenditures by private firms. But, unlike most nonprofit charitable organizations, private firms provide their products to those who pay the full cost for them. So if private firms don't reinvest most of their revenue into maintaining and improving their products, advertising won't do them much good. Not surprisingly, as a percentage of revenues, private firms spend much less on advertising to attract customers than nonprofit charitable organizations spend to attract donors, who typically have little motivation to monitor how their contributions are spent. So less of Mr. M's contribution is eaten up in appeals and more of it actually gets to the beneficiaries.

Mr. M's dispersed contributions may go unnoticed and his behavior may be ridiculed, while the highly visible contributions of Mr. P are lauded and his generosity praised. But Mr. M is actually providing more benefits to others.

Unintended Benefits

Our purpose has been to explain how misers provide benefits to others more effectively than do philanthropists and why, despite this fact, misers are ridiculed, while philanthropists are revered. From the outset we noted that markets and misers are underappreciated because their contributions are spread thin. But there's another reason: the contributions of both markets and misers are unintended. Indeed, the amazing thing about markets is that they channel the pursuits of largely self-interested people into a pattern of social cooperation that benefits everyone even though that is the intention of no one. Similarly, misers do not intend to benefit others, yet their actions do more good than if that had been their intention. So even if the contributions of markets and misers were noticed, most people would deny them the moral virtue that is so easy to assign to those who intend to do good. In contrast, the contributions of both politics and philanthropists appear to be intentional.

A final point: because the benefits of markets and misers are conveyed impersonally, people expend little effort (and therefore use few resources) attempting to secure special favors from those creating those benefits. In contrast, because the benefits of politics and philanthropists are associated with the intentions of identifiable donors, much of the value of those benefits is dissipated as people compete for their favor.

We are not sure that defending misers is the best way to make a case for the market. But we are sure that if people properly understood the market, and how it contributes so much to all of us, misers would not need to be defended. □

1. Only in Lee's classes have a few students picked Mr. M, but that was almost surely because they have learned from previous experience to choose the answer that seems less reasonable.

2. A solid economic defense of misers is given by Walter Block, *Defending the Undefendable* (San Francisco: Fox & Wilkes, 1991 [1974]), pp. 105–109. Also see Steven E. Landsburg, *Fair Play* (New York: The Free Press, 1997), pp. 200–03.

3. The employment created by spending money was the most common reason students in one of Allen's classes favored Mr. P when asked who contributed more to others.

4. Of course, when P gives money to charities they have a lot of latitude on how they spend it. But even here, by choosing the type of charities he does, P is exerting more control on how his contribution is spent than is M. Also, we are not arguing here against gift giving. After all, the giver of gifts receives satisfaction also, and this should be taken into consideration. But if we recognize that the miser is making a gift every bit as generous as the philanthropist's, we should also acknowledge that the miser receives satisfaction from making his gift as well, the satisfaction of hoarding all that money.

5. Of course, people who work for nonprofit organizations can benefit from any excess of revenues over costs, but this benefit has to take the form of additional expenditures within the organization. So any excess revenues (profits) are quickly converted into inflated costs rather than directed into more productive uses.

6. For more on the disadvantages of expanding philanthropy at the cost of reducing the activity of private firms, see Don Boudreaux, "Bill Gates, Philanthropist," "Notes from FEE," *The Freeman*, January 1998.

7. For a detailed discussion of the fund-raising and spending practices of some of the country's best-known nonprofit charities, see James T. Bennett and Thomas J. DiLorenzo, *Unhealthy Charities: Hazardous to Your Health and Wealth* (New York: Basic Books, 1994).

THE FREEMAN
IDEAS ON LIBERTY

The Myth of an Emerging Information Underclass

by Gary T. Dempsey

For the past few years, egalitarian pundits and politicians have argued that people without Internet access will be at a serious social and economic disadvantage. Subsidies, one Clinton administration white paper claims, are required to connect lower-income households. Otherwise, we risk becoming a society of information "haves" and "have-nots." Similarly, advocacy groups like the Alliance for Public Technology and the Center for Media Education fear that without Internet subsidies an "information underclass" will emerge in the digital age.

Yet proponents of Internet subsidies make two false assumptions. The fact that some people do not log on does not necessarily imply that they cannot afford to do so. They may simply have other priorities. And having an Internet connection does not necessarily imply that someone is "information rich." Just as living next door to a public library doesn't by itself make a person more knowledgeable, there is nothing automatically informative about being wired.

Moreover, there are several compelling reasons to doubt that an "information underclass" will emerge in the absence of government-mandated Internet subsidies. First, the number of low-income households with Internet access continues to grow each year. In the last quarter of 1996, for instance, a survey by Wirthlin Worldwide found that Internet use by people earning less than $15,000 a year may have increased by as much as 160 percent. A recent *Business Week* poll found that as many as 18 percent of today's Internet-using households earn less than $25,000 a year. Such trends have led Novell's Eric Schmidt to predict that "At the current rate of growth every man, woman, and child on the earth will be connected to the Internet by 2007."

Second, researchers at Carnegie Mellon University have found that people use the Internet primarily for amusement. This suggests that entertainment, not information services, will drive the Internet's commercial development. As an entertainment technology, the Internet will likely penetrate households just as VCRs and color televisions have, into 88 and 98 percent of households, respectively.

Third, recent technological innovations, like cable modems and wireless local multipoint distribution systems (LMDS), will expand the availability and lower the cost of Internet access. Cable is now available to 97 percent of U.S. homes, according to the National Cable Television Association, and several companies are currently developing cable modems that will allow 24-hour access to the Internet at speeds unmatched by telephone lines. For instance, transmitting a five-megabyte file over a typical telephone modem takes approximately 22 minutes. To send the same file through a cable modem would take four seconds.

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Cellular technology is also advancing. Wireless LMDS will allow simultaneous high-speed interactive voice, video, and Internet services without the expense of laying costly new wires. What both cable and LMDS technologies will provide is Internet access that is diversified, faster, and, with competition, cheaper.

Fourth, charitable organizations can offer low-cost or free Internet access as part of their programs. That is precisely what the Plugged In organization does. The East Palo Alto-based nonprofit group is committed to extending network access to low-income people. The group also offers more than 30 classes designed to give community members basic Internet and computer skills.

Help from the Profit Sector

Private companies around the country are also stepping forward and offering free Internet access. DIGEX Inc., for example, donates Internet access to the Robert Taylor housing project in Chicago, and Imperium Internet donates access to the Eternal Light Church's public computer lab in urban Canton, Ohio. Microsoft, too, currently supports 215 libraries in low-income urban and rural areas by providing free hardware, software, and training.

Finally, one obvious reason lower-income households lag in Internet access is that they do not have computers. But that is changing. According to a survey by DataQuest, 43 percent of American homes today have computers. Furthermore, one-fifth of computer-owning households earned less than $30,000 a year, 30 percent more households than the previous year, according to a 1995 survey by Computer Intelligence Infocorp. One reason for the rapid growth of computer ownership among lower-income households is the ever-increasing supply of used computers. Fifteen to 19 million used business computers go on the market each year, according to the Gartner Marketing Group, plus an estimated one million used government computers. It's not surprising, then, that 29 percent of first-time buyers recently reported that they bought their computers used.

Added to the growing pool of hardware will be new, low-cost, network computers designed especially for Internet use. Such "information appliances," as they are sometimes called, are now being introduced into the marketplace. Oracle advertises a $299 version, and Hewlett-Packard and Sun Microsystems plan to introduce sub-$500 models.

What all of this suggests is that an "information underclass" is far from inevitable. Rather, information technology is on course to spread everywhere without government subsidies. The voluntary institutions of civil society—markets and charitable giving—are expanding access on their own.

Subsidies Do Harm

Giving Internet subsidies to low-income households would, of course, have several negative consequences. For one, it would cost telephone customers a bundle. The federal government already requires all telecommunications carriers that provide interstate telecommunications services to contribute to a universal service fund to subsidize Internet access for schools and libraries. These carriers receive bills from the universal service administrator based on their interstate and intrastate end-user telecommunications revenues. This year, the price tag for Internet subsidies could reach $2.25 billion for schools and libraries alone. This cost is passed on to telephone customers in the form of higher fees—approximately $6 per customer according to *Internet News*. Extending Internet subsidies to low-income households would make telephone service still more expensive.

Increasing Internet subsidies would also further expand the dominion of the federal government. Indeed, whenever a new government program comes along, so does a whole raft of supplementary regulations. In the case of the current Internet subsidies program, schools and libraries are barred from reselling services purchased with the subsidy. This has created a whole new category of federal crimes—selling subsidized Internet access——and a new domain for federal law-enforcement officials to operate. Further extension of

Internet subsidies would surely increase the scope of federal authority.

The better policy choice would be to allow markets to function as they have historically in spreading new technologies. Consider the automobile. According to historian John Hicks, "In 1919 there was only one automobile for every 16 Americans. . . . But by 1928 there was one car for every six Americans," a nearly threefold increase in the per capita number of cars in just nine years.

Radios and televisions provide other examples of how, without subsidies, new technologies spread to consumers. According to historian Alan Brinkley, "The first commercial radio station in America . . . began broadcasting in 1920. . . . By 1923, there were more than 500 radio stations, covering virtually every area of the country; by 1929, more than 12 million families owned radio sets." As for televisions, Brinkley explains that "In 1946, there were only 17,000 television sets in the country, by 1957 there were 40 million sets in use—almost as many as there were families" after just 11 years.

The lesson is clear: government-mandated subsidies are not necessary to spread the technologies that consumers demand. □

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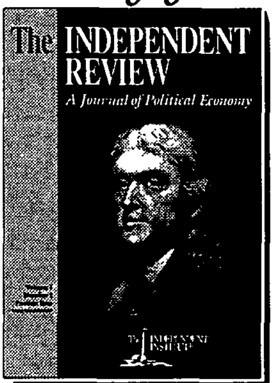

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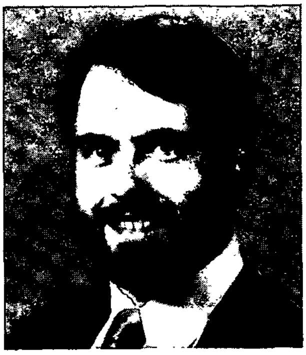

Native American Success Stories

Many supporters of limited government are unsure what to think of native Americans. Anyone who believes in liberty should be uneasy about how early Americans destroyed the original peoples during the expansion across the North American continent. But Indian dependence on the federal dole deserves criticism too.

The latter may be the most unfortunate modern legacy of the nation's earlier treatment of native Americans. Of the roughly 2.2 million Indians in the United States today, roughly one-fifth live on reservations. The dominant presence in the lives of many native Americans is the hidebound Bureau of Indian Affairs (BIA), which spends $1.7 billion annually and employs 12,000 people. Gary Jordan, vice chairman of Wisconsin's Oneida tribe, complains that the BIA has "got all the earmarks of socialism at its worst."

It is tempting to treat native Americans as a simple budget issue: just cut BIA funding. But the plight of Indians remains a powerful emotional lever for agency supporters. Native Americans earn about half the average national income; one-third of them are in poverty. The social pathologies evident in the inner city are also present on reservations. Observes Senator Ben Nighthorse-Campbell of Colorado, chairman of the Senate Indian Affairs Committee: "To many people, their only form of sustenance is food stamps and commodities."

The BIA seems intent on keeping native Americans dependent. What the bureaucracy most wants is a bigger budget. Ada Deer, assistant secretary of the Interior for Indian Affairs, says simply: "We need more money." For what? "A Marshall Plan approach to Indian affairs," she explains.

Yet there has never been a lack of cash. Indeed, the bureau is not the only federal spigot; other agencies provide funds for health care, housing, and more. Anyway, there is no reason to believe that more money invested by the same agency in the same way will do any good. Barely ten to 15 percent of BIA spending is thought to actually reach its supposed beneficiaries. Observes Senator Slade Gorton of Washington, a member of the Indian Affairs Committee: "The federal government has run a paternalistic system for nearly the entire history of the United States. It's that system that has been a failure."

Still, critics will be more effective if they not only decry BIA inefficiency, but also help point the way to tribal independence. And the best way to do so is to highlight Indian entrepreneurship. Many native Americans recognize that their only hope is self-help. Observes Senator Nighthorse-Campbell: "Indians now see private enterprise as the best way out of poverty."

A number of tribes, such as California's Cabazons, Minnesota's Mille Lacs Chippewas, and New Mexico's Sandias, have constructed casinos. Other tribes have benefited

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from their control of natural resources. For instance, Arizona's Navajos and Jicarillas produce oil and gas. Oregon's Confederated Tribes manage forests and operate hydroelectric dams.

Admittedly, these cases involve somewhat artificial economic success. In particular, native American casinos typically thrive because states ban any competitive facilities from non-Indians. Nevertheless, a willingness to take advantage of such opportunities, however contrived, demonstrates entrepreneurship that could be applied in other fields as well.

And, in fact, tribes have increasingly moved beyond gaming monopolies and natural resources. The three tribes of Oregon's Warm Springs confederation run a series of enterprises that generate $80 million a year in revenue: a power plant, timber operation, vacation resort, and apparel company. Explains tribal council member Kenneth Smith: "We have done a good job of developing our national resources. But we need to do still more to diversify our economic base."

Arizona's White Mountain Apaches manage nine enterprises, including an aircraft parts plant, with total revenues of $45 million. Also in Arizona, the Ak-Chin tribe operates a $10 million agribusiness, and the Yavapais tribe maintains a hotel as well as a casino, and has leased land for construction of a mall. Maine's Passamaquoddies run an auto parts plant, apparel operation, mini-mall, and farm; license out a synthetic-fiber plant and environmental scrubber technology; and have bought, and sold for a large profit, a cement plant. Wisconsin's Oneidas own a mobile-telephone company and a partial interest in a bank, participate in a joint venture to produce circuit boards, and are moving to create metals fabrication and medical products companies. The tribe also offers loans to members for small businesses. South Dakota's Rosebud Sioux are planning a large food-processing plant.

One of the most dramatic examples of entrepreneurial success is the Choctaws in Mississippi. "For generations the Choctaws were a virtual textbook example of the futility of reservation life," reports Fergus Bordewich, who has written a book on Indian entrepreneurship. "Over the last quarter-century, however, the 8,000-member tribe has defied even its own modest expectations by transforming itself from a stagnant welfare culture into an economic dynamo, and one of the largest employers in Mississippi."

It wasn't easy. Three decades ago the Choctaw unemployment rate ran 75 percent. Eight of ten tribe members were on welfare. Infant mortality and life expectancy were at Third World levels. Few Choctaws received more than elementary education.

Then along came Chief Philip Martin. As a young man, he found the only open reservation jobs to be BIA maintenance positions. After being elected chief in 1959, he went to 150 different firms before he found one, automotive supplier Packard Electric, willing to train local workers in a Choctaw plant on the reservation. The enterprise skirted failure at first, but eventually transformed the reservation. Writes Bordewich, "people who had been totally destitute [began] to show up in new shoes and clothes without holes, and eventually in cars." More factories followed.

Today the tribe runs a casino, construction firm, printing plant, shopping center, and other businesses that collectively generate revenues of $300 million a year. Jobs are increasingly technical and professional. The result has been widespread prosperity—average annual family incomes have climbed from $2,000 in the mid-1970s to more than $13,000 today. The number of Choctaws on welfare has fallen dramatically; education, health, and housing have sharply improved.

Obviously, many tribes have not done as well. And the nature of Indian businesses—collective ownership, resistance to sale of tribal land, an inability to pledge as loan collateral land in BIA trusteeship—limits business opportunities. Nevertheless, many native Americans have found entrepreneurship to be a way out of poverty. And more are likely to take that path in the future.

Unfortunately, some legislators are upset about too much of a good thing. In particular, they see Indian gambling revenue as a pot of money for government to raid. Proposals have surfaced on Capitol Hill to tax up to a third of native American gaming; House Ways and Means Committee Chairman Bill Archer unsuccessfully attempted to include such a levy in last year's big-spending budget "compromise."

The federal government's greedy desire for cash is supplemented by some people's objection to gambling per se. Yet native Americans are pikers compared to those who run state lotteries, which generate more than $15 billion annually. Whether or not gambling is a good thing, it should be neither banned nor monopolized by government. And there is no reason for Uncle Sam to tax native American gaming proceeds but not state lottery revenue.

For a century American Indians have been victimized by the welfare strategy of development. Dependent on federal largesse, they have languished in poverty. But an increasing number of tribes are taking the entrepreneurial path of development to prosperity. As they do so, Uncle Sam should apply the overriding rule for government: first do no harm. Taxation is, after all, the power to destroy. It's taken decades for native Americans to stumble upon the path that most other Americans followed to prosperity. Now that they are beginning to succeed, Washington should take care not to ruin what has proven to be a good thing. □

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THE FREEMAN
IDEAS ON LIBERTY

Defining *State* and *Society*

by Wendy McElroy

Two of the most important concepts in any discussion of liberty are *state* and *society*. But it is often far from clear what any given person means by those terms. Part of the confusion stems from the fact that the definitions can shift dramatically depending upon the theoretical approach of the speaker. Virtually all individualists agree that there is some distinction to be drawn between a state and a society. But exactly where the line should be drawn has been the subject of active debate, at least since the writings of the seventeenth-century English classical liberal John Locke.

The German sociologist Franz Oppenheimer spearheaded an analysis of these key terms in his classic work, *The State* (1914). Oppenheimer defined the state as "that summation of privileges and dominating positions which are brought into being by extra-economic power." He defined society as "the totality of concepts of all purely natural relations and institutions between man and man."[1] He contrasted what he termed "the political means" with "the economic means" of acquiring wealth or power. The state uses the political means—in other words, force—to plunder and exploit society, which uses the economic means—in other words, cooperation. Thus, for Oppenheimer, the state was the enemy of society.

Wendy McElroy is author of Sexual Correctness: The Gender-Feminist Attack on Women *(McFarland, 1996).*

The American individualist Albert Jay Nock was one of the main conduits of Oppenheimer's thought into the United States. He captured his mentor's sentiment in a book titled *Our Enemy, The State* (1935). Nock wrote, "Taking the State wherever found, striking into its history at any point, one sees no way to differentiate the activities of its founders, administrators, and beneficiaries from those of a professional criminal class."[2] At this point in his argument, however, Nock introduced a third concept into his discussion of liberty: *government*. Nock's government is an agency that protects individual rights within society, presumably in exchange for a fee, such as embodied in a reasonable tax rate.

Nock was not alone in distinguishing between government and the state: the novelist-philosopher Ayn Rand also embraced the concept of a limited government that would function as a night watchman, unobtrusively protecting the person and property of its customers. Indeed, Oppenheimer himself left the door open for a distinct agency called government when he declared, in the concluding paragraph of the introduction to *The State*, "Others may call any form of leadership and government or some other ideal the 'State.' That is a matter of personal style."[3]

The contemporary philosopher Tibor Machan offers a definitional distinction between the state and government. The state is a jurisdictional claim to territorial sovereignty that persists through time. The government was the actual agency that acted to carry out the decrees of the state. Thus, the government might change from Republican to Democrat, but the state remains the same. Whether Reagan or Clinton occupies the White House, each man would represent the same state, which derives its legitimacy from the American Revolution and the ratification of the U.S. Constitution.

More radical voices within the individualist tradition, such as the economist Murray Rothbard, did not draw such a distinction between state and government. Or, if they viewed the two as technically separate entities, such individualist anarchists typically condemned both as invasive. They asked a haunting question: how can any agency or institution rightfully claim monopoly jurisdiction over a service to customers who do not wish to subscribe to it? Or, if government provides a service, like a night watchman, can you take your business elsewhere?

The discussion of individual freedom returns inevitably to how the key concepts of *state*, *society*, and *government* are being defined. And in pursuing those definitions, one fact becomes quickly apparent. They are more than a matter of personal style, contrary to Oppenheimer: they involve deep ideological and historical disagreements with equally profound implications.

What Are State and Society?

The state is an abstraction, and care must be taken not to make something overly concrete of it. The same can be said for society. The analytic approach traditionally adopted by classical liberals is called methodological individualism. This approach claims that only individuals exist, and that institutions—such as the family, church, and state—all result from and can be analyzed in terms of individuals interacting with each other in particular ways. Society is the shorthand for the sum of all voluntary, or natural, institutions.

The state has emerged many times and in many forms throughout human history. Sometimes it has been lauded as the ideal expression of society, as in Plato's *Republic*. At other times, it has been excoriated as a vicious parasite riding on the back of society, as in Rothbard's *For a New Liberty* (1978). With such a division of attitudes, the challenge to political thinkers is to discern the commonality that exists among all states in order to derive a definition of *the state*.

Historically, when political thinkers have attempted to discover the essential nature of the state and whether it has legitimacy, they have looked to the origins of that institution for answers. In general, there are four basic and somewhat overlapping theories of how the state originated. Each theory carries different implications for its relationship to society. The first theory is a supernatural one, which claims that the state, or at least a certain ruler, is in place through the will of God. This theory results in theocracy and the divine right of kings. According to the theory, the members of society—who are presumably placed by God in their roles as well—owe some level of allegiance to even an abusive state.

The second theory attempts to ground the state in more naturalistic terms. It claims that the state—like the family—is an almost spontaneous institution that naturally evolves from the act of community. Because individuals and their property require protection, an overriding institution naturally evolves to act as a policeman and a final arbiter of disputes. According to this theory, no hard line necessarily distinguishes the state from society; they are engaged in a cooperative venture.

The third and fourth theories entail conflict. The third theory claims that the state emerges due to internal warfare within the society. Karl Marx popularized this view by analyzing the state as an agency of class warfare by which the capitalists control the workers. For Marx, the state is an expression and protector of one segment of society at the expense of another segment.[4]

The fourth theory looks to external conflicts and maintains that the state arose as the result of one tribe conquering another tribe.

Within classical liberalism, two theories of the origin of the state have struggled for dominance: the naturalistic, or consent, theory, by which the state evolves from society; and the

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April 1998

Julian Simon, Lifesaver

The real issue is not whether one cares about nature, but whether one cares about people.
JULIAN L. SIMON, *The Ultimate Resource 2* (1996)

Julian Simon's unexpected death in February brought a major loss. With the passing of this noted free-market champion, humankind lost a genuine hero; the economics profession lost one of its most brilliant, if underappreciated, members; FEE lost the wisdom of an original member of its Council of Scholars; and I lost a kind and dear friend.

It was heartening to see, in the sad days following Julian's passing, an outpouring by writers in several newspapers and magazines—including *The Freeman*'s own Sheldon Richman—of tributes to Julian and to his courage and perseverance in challenging the emotionally charged deceptions spewed by doomsayers and self-styled environmentalists. While pessimism-pushers such as Lester Brown, Paul Ehrlich, and Al Gore received the mainstream media's reverence, during his life Julian received mostly scorn for showing that the world is not on the brink of an environmental and population calamity. His only consolation was that truth was his constant ally.

Julian's foremost contribution to humankind was his demonstration that prosperity and a healthy environment are best assured when governments respect private property and free markets—because only within free markets can human creativity flourish. In his magnum opus, *The Ultimate Resource 2* (Princeton University Press, 1996), Julian showed that ours is not a world of fixed resources. Instead, he rightly taught that the quantity of resources available at any given time is determined by how creative and energetic we are in extracting resources from the earth, as well as by how creative and energetic we are in devising ways of getting more and more output from each unit of resource. His massive and masterful documentation of how free people unfailingly use resources with increasing efficiency is the single most potent intellectual weapon available today for doing combat against the anti-people puritans of both the left and the right.

By chronicling the vast improvements unleashed by free, private-property markets—by demolishing countless Chicken Little falsehoods spawned by statists—Julian Simon has done more than any single human being during the past quarter century to protect us from the coercive schemes incubating in the hothouse of unwarranted public hysteria.

But Julian also contributed in a more direct way to the saving of human lives. Indeed, it may well be that some of Julian's most vehement critics would not be alive today were it not for his genius.

More than 20 years ago, Julian devised the volunteer system that U.S. airlines use today to handle overbooked flights. Because of him, airline travel is now more reliable and less costly. As a result, fewer people drive long distances; more people fly. And because flying is much safer than driving, Julian's idea literally saves lives. Here's how.

Airlines overbook because chances are high that not all booked passengers for any given flight will actually show up for that flight. By increasing the number of seats sold for a flight, the airline lowers the minimum price it must charge for each seat. Overbooking lowers the cost of flying.

But what to do when too many booked passengers show up for a flight? In the days before Julian's proposal was adopted, airlines arbitrarily bumped some booked passengers. This practice made flying unnecessarily inconvenient. Those people who absolutely had to be at their destinations by a certain time could not depend upon airlines to get them there. Many of these people would drive rather than fly.

One possible solution is for airlines never to overbook. But avoiding overbooking means that too many airplanes would take off with too many empty seats. And every empty seat means that the airline's cost per actual passenger on board is higher than it would be if the seat were occupied with a paying passenger. An airline whose flights are consistently filled with paying passengers can charge lower prices than can an airline whose flights are regularly only half filled.

Julian's ingenious solution simultaneously enables airlines to continue the efficient practice of overbooking while assuring passengers with tight schedules that they will not be bumped from overbooked flights.

His system is fair and simple—although no one thought of it until he came along. When too many booked passengers show up for a flight, airlines now engage in voluntary exchange with their customers. No one is forced to miss the flight; instead, the airline pays people to miss the flight. The airline pays with an offer of a later flight to the passenger's immediate destination as well as with a free roundtrip ticket to another destination of the passenger's choosing.

This system works splendidly. I've been on countless overbooked flights and never have I witnessed an airline failing to persuade enough people to "sell" their seats in exchange for a later connection and free roundtrip airfare.

Julian's creative idea for handling overbooked flights is not as celebrated as is Henry Ford's idea for producing automobiles on assembly lines or Sam Walton's brilliant method of lowering retail prices. Few people, after all, have ever heard of Julian Simon, while Ford's and Walton's names are legendary.

Julian's anonymity, however, itself testifies to his larger life's work. More clearly than almost anyone else, Julian understood Adam Smith's insight that in free markets wealth is the product of human creativity. And the greater the number of free people, the greater the number of innovative ideas for transforming raw resources into goods and services that improve human lives. In free markets, more people mean more wealth. This is the reason why Julian rightly celebrated population growth, and why he devoted so much effort toward championing open immigration.

Precisely because a free market inspires literally millions of people to add their creative geniuses to industrial and commercial efforts, relatively few individuals are singled out as great benefactors. But that's the beauty of the free market: it is so full of creative heroes that we cannot honor them all!

Julian Simon was one such hero, a man who deeply cared about people. We are all poorer now that his genius and immense humanity are lost to us forever.

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Nock's work is "social and intellectual criticism at its best" and Barzun wrote optimistically that he "will surely climb in due course to his proper place in the American pantheon." Charles Hamilton noted that Nock "contributed some powerful and lasting criticism of the state of humane life in America." Nock was not a voluminous writer, wrote his friend, Frank Chodorov, but "had a rare gift of editing his ideas so that he wrote only when he had something to say and he said it with dispatch." Hendrik Willem van Loon exclaimed that Nock was "possessed of a rare genius for the handling of,words." And finally, H. L. Mencken, no slouch himself as a prose stylist, declared that Nock "thinks in charming rhythm. There is never any cacophony in his sentences as there is never any muddling in his ideas. It is accurate, it is well ordered, and above all, it is charming."

Albert Jay Nock was not a reformer and found offensive any society with a "monstrous itch for changing people." He had "a great horror of every attempt to change anybody; or I should rather say, every *wish* to change anybody; for that is the important thing." Whenever one "*wishes* to change anybody, one becomes like the socialists, vegetarians, prohibitionists; and this, as Rabelais says, 'is a terrible thing to think upon.'" The only thing we can do to improve society, he declared, "is to present society with *one improved unit.*"

—**Robert M. Thornton** (from the Introduction)

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conquest theory, by which the state may be considered to be a continuing act of war committed against society by a separate group. These are not merely historical suppositions. They are analytical approaches intended to question or confirm the state's legitimacy. If the state in its very genesis requires the mass violation of human rights, it becomes far more difficult to ethically justify the institution than if it arose from mass agreement.

Thus, the following discussion deals not only on the historical origin of the state, but also touches on its possible grounding in ethics.

The Consent Theory of the State

John Locke's *Two Treatises of Government* is a pivotal document in the history of individualism. In his *Second Treatise*, as Karen Vaughn observed, "Locke argues the case of individual natural rights, limited government depending on the consent of the governed, separation of powers within government, and most radically, the right of people within society to depose rulers who fail to uphold their end of the social contract."[5] Locke's work, from which both the French and American revolutions drew heavily, remains the touchstone for consent theory within the classical liberal tradition.

Locke believed that God had given the world to all men in common, and he justified private property—the appropriation of a common good for personal use—by arguing that each man had an ownership claim to his or her own person. Based on this self-ownership, Locke argued,

> The labour of his body, and the work of his hands, we may say, are properly his. Whatsoever then he removes out of the state that nature hath provided, and left it in, he hath mixed his labour with, and joyned to it something that is his own, and thereby makes it his property.[6]

The need to protect the property of "life, liberty, and estate" led men to form a government. In other words, the institution arose as a shield against the conflicts that naturally occur when individuals accumulate property in a world of scarce resources. Through an explicit social contract, men relinquished to the state the right to adjudicate their own disputes. For its part, the state pledged to rule in order to secure men's claim to their property, for example, through inheritance laws. Thus, the existence of private property could be said to be a cause of the Lockean state, or government.

In the *Second Treatise*, Locke attempted to counter some of the arguments of the seventeenth-century English philosopher Thomas Hobbes, who also believed that the state, or commonwealth, arose through what he called "mutual covenants" aimed at subduing man's natural tendency toward constant warfare. In particular, Locke rejected the Hobbesian contention that the initial consent to the state rendered by free individuals could bind their children and succeeding generations. Instead, Locke developed a doctrine of tacit consent, which bound even people who did not explicitly consent to government. In essence, each person who lived in a community and accepted its benefits was said to tacitly agree to the rules by which that community was governed.

Withdrawal of such tacit consent was always possible. A man could relinquish his "estate" and leave the community, thus putting himself back into a state of nature in relationship to it. However, as long as he occupied land over which the government has jurisdiction, he tacitly accepted that jurisdiction. After all, Locke would argue, the "good title" of any property a person inherited comes from the government that has protected that wealth and regulated its just transfer to you. A similar argument could be made concerning wealth accumulated through contract: the contract had validity only because of the regulatory benefits provided by the government.

In essence, Locke believed that a civilized and satisfying society could not exist without government to adjudicate conflicts and to provide a legal context for property. Only when government ceased to fulfill its part of the social contract was the citizenry justified in rebelling against it. Otherwise, government (or the state) and society were engaged in a cooperative endeavor.

Whether or not Locke actually believed there had ever been an original government formed with the explicit consent of everyone over which it claimed jurisdiction is a matter of debate. Clearly Locke used the contract as an analytical tool to explore the circumstances under which civil government could be justified. His theory can be critiqued or embraced on either level.

The Conquest Theory of the State

The conquest theory of the state stands in sharp contrast to the preceding Lockean model and attempts to ground the primitive state in historical fact rather than political conjecture. A common expression of the conquest theory runs as follows: Originally there were agricultural tribes that settled in certain areas where they became dependent upon the land. Roving nomads, who were perhaps herders, waged war on the more sedentary tribes for the obvious economic benefits. At first the nomads killed and pillaged, but they discovered it was in their long-term economic interest to enslave and exact tribute from the conquered populace instead.

That is the model for how the institution of the state arose. The more extreme versions of conquest theory conclude that all states originate in conflict, not consent. More moderate forms of the theory argue that warfare plays a defining role in the formation and continued sustenance of the state. But war is not the only factor. It is a necessary but not a sufficient condition for the emergence of the state. Other conditions—such as the inability of a conquered people to migrate—must be specified.

In *Our Enemy, The State*, Nock defended the conquest theory of the state on an historical basis. Rothbard in *For A New Liberty* advanced a modified version of the theory, which conceded that some states may have evolved in a different manner, but contended that the conquest theory was the typical genesis of the state. Thus, down to its foundation, the state was never meant to preserve justice, property rights, or the peace. The motive behind the state was and is the desire to establish sovereignty and achieve wealth through the use of force. Any benefits that a state provides are tangential and non-essential to its nature.

In arguing for the conquest theory, both Nock and Rothbard relied heavily upon Oppenheimer. Oppenheimer argued for what he called "an economic impulse in man." He believed that material need was the prime motivator of human beings and that progress is produced by economic causes, not by political ones. As mentioned earlier, Oppenheimer sketched the two basic means by which men satisfy their material needs: the economic means and the political means.

He discovered the origin of the state in those who wished to satisfy the economic impulse through the political means. He posited six stages through which a conquering group typically passes in order to become a state. At first, a warlike group raids and plunders a vulnerable group. Second, the victimized group ceases to actively resist. In response, the raiders now merely plunder the surplus, leaving their victims alive and with enough food to ensure the production of future wealth to plunder. Eventually, the two groups come to acknowledge mutual interests, such as protecting the crops from a third group. Third, the victims offer tribute to the raiders, eliminating the need for violence. Fourth, the two groups merge territorially. Fifth, the warlike group assumes the right to arbitrate disputes.

Oppenheimer described the last stage in which both groups develop the "habit of rule":

> The two groups, separated to begin with, and then united on one territory, are at first merely laid alongside one another, then are scattered through one another. . . . [S]oon the bonds of relations united the upper and lower strata.[7]

Thus the state, which originated from external conquest, evolves into an agency of continuing internal conquest by which one group—or a coalition of groups—use the political means to attain wealth and power at the expense of those who actually labor. In this view, the state arises and maintains itself as the enemy of society.

Although the conquest theory has much greater historical validity than the consent theory, debate continues as to what implication the origin of the state has for the legitimacy of current states.

Getting the Terms Right

In its broadest sense, classical liberalism maintains the right of individuals to act to maintain their own lives and happiness. A main focus of classical liberalism has been its opposition to the state, or government, controlling people's peaceful activities. Indeed, libertarian theory—which may be viewed as a subcategory of classical liberalism—views the history of political thought as a struggle between individual rights and government control. Of course, consent by the individual eliminates this struggle.

The question becomes: what does the state do with a peaceful individual who rejects its jurisdictional claims over his property and person? Locke would tell the individual to leave. Others maintain that to grant the state such territorial jurisdiction is actually to grant it ownership of the land; the individual whose name is on a government deed is merely getting zero rent in exchange for obedience. They question how the state can acquire such monopoly jurisdiction simply in return for providing a service, even the important service of protecting property. After all, a doctor who saves your life does not acquire a continuing and monopoly claim over your body.

The answer to the question posed above, and related ones, may well lie in using words such as *state* and *society* in a clearly defined and precise manner. □

1. Franz Oppenheimer, *The State* (New York: Free Life Editions, 1975 [1914]), p. xxxiii.
2. As quoted in Charles Hamilton's introduction to *The State*, p. xii.
3. Oppenheimer, p. xxxiii.
4. Oppenheimer's position may resemble Marx's but there are at least two key differences. First, Oppenheimer contended that, however the state may evolve, its *origin* is to be found in external conflict, not an internal one. Second, he defined the two classes as entirely separate entities–those who use the political means (the state) and those who use the economic means (society), thus removing the inevitability of conflict within society.
5. Karen I. Vaughn, "John Locke's Theory of Property: Problems of Interpretation" *Literature of Liberty*, Spring 1980, p. 5.
6. John Locke, *Two Treatises of Government*, ed. Peter Laslett (Cambridge: Cambridge University Press, 1960), pp. 305–06.
7. Oppenheimer, p. 57.

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An Earlier Response to Environmental Tyranny

by Daniel F. Walker

There was a time when a government elite used its power to enforce draconian laws concerning wildlife and forests; when the common law was ignored; when special courts decided cases concerning the environment; and when the government owned great areas of land, zealously prosecuting and persecuting people who had the audacity to use natural resources to feed and shelter themselves. So-called crimes on government lands were met with harsh punishments, far out of proportion to the offenses. Of course, the government used its laws to raise revenue by imposing severe monetary fines on offenders; building a hedge or ditch without first having obtained government permission, for example, would result in a fine at the least.

People who flouted the laws were identified as outlaws. You probably recognize one of the more prominent names: Robin Hood. He scorned not the Environmental Protection Agency or Bureau of Land Management or the Endangered Species Act, but the horrid "forest laws" of England and their enforcers early in this millennium.[1]

From the times of William the Conqueror, Henry I, and Henry II, English kings expanded the range of royal forests, driving out many who lived within the forests and imposing an extraordinary array of regulations. By the reign of Henry II, only a century after the Norman conquest, approximately one-third of the entire English kingdom consisted of land deemed to be royal forests. Just as the term "wetland" today encompasses much land that is seldom wet, the royal "forests" often included land which was not forestland. According to British legal scholar William Sharpe McKechnie, "A forest was not necessarily covered with trees throughout the whole or even the greater part of its extent. Miles of moorland and heath and undulating downs might be included and even fertile valleys with ploughed fields and villages nestling among them."[2]

Before the Norman conquest of 1066, kings did not exercise absolute power over forests. "Crown rights" over forests and natural resources, however, generally increased from 1066 onward, aided in part by the development of feudal law.

Unoccupied lands were deemed to be royal lands, and other desirable tracts were depopulated, residents often evicted, villages destroyed, and churches burned down; despite occasional retreats from land-grabbing, kings made ever-stronger claims to preferential and ultimately absolute power over these lands, as well as the wildlife within them. Over the decades, occupied lands were "afforested," that is, brought within the definition of royal forests and thus made subject to the forest laws and the absolute, solitary jurisdiction of the king and his agents.

Daniel Walker is a Tallahassee, Florida, attorney specializing in estate and inheritance planning, and is founder of the new Law & Liberty Foundation, Inc. He can be contacted at LibLawDFW@aol.com.

A Royal Monopoly on Hunting

The kings enjoyed a near-monopoly over hunting within the royal woodlands. With few exceptions, only the king could hunt animals such as the wild boar, fallow and red deer, and roe; some privileged few, such as bishops and others to whom the king sold or granted licenses, could hunt lesser game including hares and nuisance creatures like wolves. One unfortunate person, William Rufus, often hunted deer—that is, "until he was found dead under a tree with an arrow in his heart. The people were told that this was 'God's righteous wrath.'"[3] Thus, poaching could lead to a punishment of death or mutilation, such as pulling out an offender's eye for taking a boar.

Unsurprisingly, with government control of natural resources came other controls on people's activities. Forest dwellers could not own bows or arrows and their dogs had to be "lawed," meaning that three claws were removed from their forefeet, to keep them from pursuing or harming game. Any infraction of these restrictions could lead to at least a fine.

Property rights for those living within the "forests" were practically nonexistent. Just as government permits the retaining of nominal ownership today even as it regulates away numerous rights of property ownership, "landowners" in royal "forests" technically retained their freehold, but were deprived of the practical use and value of much of their lands. It was contrary to the forest laws for freeholders to clear land for cultivation, root out trees, build mills, or make fishponds or unauthorized hedges or ditches. Anything that might affect the king's interest in preserving the environment for game was within the scope of the forest laws. One could not lop off a tree branch, much less destroy a tree or keep birds of prey or cut firewood except under sharply limited circumstances. Again quoting McKechnie: "Men might live, and did live, within the boundaries [of royal forests], but they could enjoy no rights of personal freedom or of property inconsistent with the rules laid down by the Crown to protect its own interests. Within the imaginary line the king's power was supreme, and he used it frankly for the preservation of beasts of the chase, not for the good government of the men who happened to dwell there."[4]

As with any extensive body of regulation of persons and property—such as the Code of Federal Regulations today—there was an array of "law-enforcement" and special courts to secure adherence to the Forest Laws. Just as we have administrative "courts" today, in England a special three-tiered court system was concerned only with alleged violations of the Forest Laws. The common law did not apply.

Wardens were the king's agents in the royal forests, and "foresters" below the wardens often enjoyed their privileged position by imposing scores of fines on forest dwellers for alleged violations of the Forest Law restrictions. In cases where an individual offender could not be ascertained, "collective punishment" could be imposed, as it was to the town of Maidford. The head of a red deer was discovered in a royal forest near the town, and the forester for that area was dead. Because no specific offender could be determined as guilty of hunting the hart, the king seized the entire town. According to McKechnie, "there was clearly a strong inducement in such cases, to find someone guilty."[5]

The Barons Resist

Barons as well as peasants suffered under application of the forest laws. The severity and totality of the laws were among the reasons for the historic gathering at Runnymede in 1215 that produced Magna Carta and later the lesser known Charter of the Forest in 1217 soon after Magna Carta was reissued. While it cannot be denied that King John's acquiescence to the barons' demands was in large part a matter of "power politics" and timing—the barons being more concerned with their own fortunes and lives rather than those of the poor peasantry—the measures obtained in Magna Carta and the Charter of the Forest were historic for developing recognition and protection of property rights, punishment proportionate to the crime, and limitations on the powers of government.

Within Magna Carta of 1215 were numerous provisions to reform the forest laws; when the great charter was reissued two years later and the sections concerning forest laws were omitted, a separate Charter of the Forest was issued. Both documents provided rudimentary institutional limits on the power of the king. Thus is Magna Carta a milestone in the Western legal and political heritage.

The two charters brought about numerous changes concerning rights to property and use of natural resources. Freeholders could cut and use wood from their own lands. Forest dwellers could clear their land, plow, and farm. The right to erect mills and dig ponds and ditches was recognized, subject to the proviso that others' lands not be harmed. Marle—lime in the ground—could be taken. Clause 13 of the Charter of the Forest recognized the right to gather honey (the most common form of sweetener) and to keep birds of prey such as hawks and eagles. One of the final clauses of the charter recognized the right of people to gather "wood, bark, and coal" from the forests not only for home use but also to make a living, without having to pay "cheminage"—essentially a transport tax—if a person did not use a cart or horse. For the poor peasants who lived with what they could carry on their backs, "[t]his was one of the real, practical liberties for the poor promised by generalities in Magna Carta and then detailed in the Forest Charter."[6]

There were other benefits from these charters, for example, punishment proportionate to the crime. No longer would a person lose life or limb for killing a deer.

Remaining forest-law offenses no longer were capital crimes. Forest dwellers could protect themselves and hunt; possession and use of bow and arrow became recognized rights, and forest dwellers could keep smaller dogs such as spaniels without having them "lawed." While Magna Carta and the Forest Charter did not usher in a libertarian legal utopia of robust property rights, 22 of Magna Carta's 66 clauses did affect and strengthen property rights, as did the more specific clauses of the Charter of the Forest.

Then and Now

Some might say that the current era of statist environmental controls is new. It is an era in which the exercise of property rights and long-standing activities such as hunting are increasingly shackled by the national government as well as by a host of other state and local tyrants. Today, the federal government (through the Army Corps of Engineers, the Environmental Protection Agency, the Fish and Wildlife Service, and other agencies), state government departments of environmental protection and natural resources, and local planning and zoning boards are little more than updated versions of absolutist eleventh- and twelfth-century British royalty armed with late-twentieth-century rhetoric.

You can keep title to real property and pay taxes for legal possession of it, but use it and enjoy it only as an assortment of governmental entities deem permissible. We need a *robust* application of the federal and state constitutions' takings clauses throughout America. Perhaps we should draw inspiration from the history of old England in order to reinvigorate our constitutional respect for the human right of property ownership. □

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1. For more on this subject, see John Chodes, "The New Forest," *The Freeman*, April 1994.
2. William Sharpe McKechnie, *Magna Carta: A Commentary on the Great Charter of King John* (Glasgow: James Maclehose and Sons, 1905), p. 483.
3. Luis Kutner, "Charter of the Forest: Forgotten Companion of the Magna Carta," *The Common Lawyer*, January/February 1981, p. 4.
4. McKechnie, p. 483.
5. Ibid., pp. 498–99.
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THE FREEMAN
IDEAS ON LIBERTY

Global Warming— Hot Problem or Hot Air?

by Jonathan H. Adler

El Niño is the overhyped weather event of the decade. It has even made CNN's "Larry King Live." A natural warm spot in the Pacific Ocean that recurs every several years, El Niño exerts significant influence on global weather patterns; therefore, it's news. It was also an opportunity for Vice President Al Gore to bang the drums for a global-warming treaty.

Speaking at the "El Niño summit" in Santa Monica last fall, Gore said that "El Niño events have become much more common and much stronger," suggesting that human activity is warming the globe.[1] Preparing for the impacts of El Niño (which are typically mild in the United States), Gore said, will get people ready for the climatic disruptions brought by global warming.

This was not the first time that the Clinton administration linked global warming to the weather. In 1997, President Clinton suggested that flooding in North Dakota during the spring thaw was actually the product of global warming: "We do not know for sure that the warming of the earth is responsible for what seems to be a substantial increase in highly disruptive weather events; but many people believe that it is," he said.[2] Later in the year, Gore visited Glacier National Park in Montana and proclaimed that the glacier's hundred-year retreat was further evidence that human activity is causing the globe to overheat.

These speeches were more than presidential photo-ops. They were steps in a successful campaign for an international treaty to prevent climate change by controlling the use of fossil fuels. In Japan late last year, the administration signed the Kyoto Protocol, which, if ratified by the U.S. Senate, would require the United States to reduce carbon dioxide and other emissions an average of 7 percent below 1990 levels through 2012. (More on the effects of such a drastic reduction below.)

The Heat Is On

The push for a global-warming treaty got two big boosts in 1996, first from reports that 1995 was the hottest year on record and second from the publication of a United Nations report that purportedly demonstrated a scientific consensus behind global warming.

In January 1996 the British Meteorological Office reported that 1995 was the hottest year on record, edging out 1990 by a bare 0.07 degrees Fahrenheit. Temperature records have been kept in the United Kingdom since the nineteenth century and are compiled from a network of land-based measurements. Asked whether this was a sign of human-induced global warming, one British researcher commented, "I think we're beginning to see it."[3]

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Not really. The "warmest year on record" announcement was based on incomplete data. Because December readings were not yet available, the British team only used readings from the first 11 months of the year; December's temperature was estimated. But temperatures took a nosedive at the end of 1995. Indeed, it was the greatest December drop on record in the Northern Hemisphere. Global weather satellites, which have taken the earth's temperature since 1979, found that 1995 was actually an average year—only the eighth-warmest since the satellites began taking climate measurements.

Soon thereafter the United Nations Intergovernmental Panel on Climate Change (IPCC) published its long-awaited report, *Climate Change 1995* (the report was late, like most U.N. publications). The study, purportedly the work of 2,500 scientists worldwide, was heralded as proof positive of a scientific consensus that human activity was causing the earth to heat up. Yet here again, the hype was hollow.

The striking conclusion of the report was rather mild. In one chapter of the gargantuan study, the authors concluded that "the balance of evidence suggests that there is a discernible human influence on global climate."[4] That highly qualified sentence, quoted incessantly in the media as proof of global warming, is the strongest claim in the entire report. And yet even that wishy-washy conclusion was controversial. The sentence was added at the last minute by the chapter's editors, after the body of the report had already been approved by the IPCC, so that the report would more closely conform with the "policymaker's summary." Those who read the entire report realize that the scientific "consensus" is a lot more circumspect about humanity's affect than the summary suggests. As Harvard University's Peter Rogers told *Forbes*, the report "says we aren't sure what is happening, and we need at least five more years to study the problem."[5] Yet this cautious view made few headlines.

While major media outlets uncritically report the existence of a scientific "consensus" on climate change, surveys of climatologists suggest that there is still broad disagreement about the extent of human influence on the atmosphere. While Gore and Interior Secretary Bruce Babbitt characterize those who raise doubts about global warming as "immoral"[6] and "unAmerican,"[7] respectively, a 1997 poll of state climatologists finds substantial doubt among scientists. A clear majority of the climatologists surveyed disagreed with the statement, "The overwhelming balance of evidence and scientific opinion is that it is no longer a theory but now a fact that global warming is for real. There is ample evidence that human activities are already disrupting the global climate."[8] Who said that? President Clinton, opening a White House conference on climate change.

Is the World Warming?

Before proceeding, some background is in order regarding what the debate is really about. The greenhouse effect is unquestionably real. It is what keeps the earth's atmosphere livable. Certain atmospheric gases ("greenhouse gases"), including water vapor, carbon dioxide (CO_2), and methane, trap solar radiation and help warm the planet. Without the greenhouse effect, the earth would be a frigid, desolate place.

Scientists have long believed that as the concentration of greenhouse gases in the atmosphere increased, the earth's temperature might follow. The first prediction of such a greenhouse warming was made by the Swedish scientist Svante Arrhenius in 1896. He hypothesized that doubling the amount of CO_2 in the atmosphere would increase average temperatures by 6 degrees Celsius.

Today, global warming is an issue because the atmospheric concentrations of greenhouse gases have been increasing. Since the beginning of the Industrial Revolution, the CO_2 equivalent in the atmosphere has increased by 50 percent, largely due to the burning of fossil fuels, such as coal, oil, and gas. Also, since 1881, global average temperatures have increased by almost one degree Fahrenheit.

Environmental activists claim that this slight temperature increase over the last 100 years proves that global warming is upon us and that people are the cause. Yet most of the temperature rise *preceded* the increase in emissions. Two-thirds of the temperature increase occurred in the first half of the century, as the world emerged from the so-called "little ice age." Most of the industrial emissions of greenhouse gases occurred after World War II. For this reason, most climate scientists believe that the temperature changes over the last 100 years are due to natural climate fluctuations.

A possible explanation for recent climate changes, one that is gathering scientific support, is the sun. In particular, slight variations in solar output, combined with fluctuations in the earth's orbit, might be responsible for changes in global temperature. Sallie Baliunas of the Harvard-Smithsonian Center for Astrophysics reports that there is a remarkable correlation between solar cycles and surface temperatures over the past 240 years.[9] While the sun-climate connection needs more study, early results challenge premonitions of apocalyptic warming. As *Science* recently reported, "the sun could have been responsible for as much as half of the warming of the past century. If so, the role of greenhouse gases . . . would dwindle—as would estimates of how much they will warm the climate in the future as they continue to build up."[10]

Garbage In, Garbage Out

Lacking empirical evidence of human-induced warming in the temperature records, proponents of global warming point to the global circulation models, highly complex computer programs that seek to replicate how the atmosphere will respond to increases in industrial emissions. The computer models almost uniformly predict that increased human emissions will cause the earth to warm. But whereas the models suggest that the earth already should have warmed measurably over the past 20 years due to the buildup of CO_2 and other gases, the atmosphere has refused to cooperate. Global satellite measurements, which are precise enough to measure minuscule temperature fluctuations caused by the reflection of sunlight off the moon, find no warming trend whatsoever. Indeed, the satellites detect a slight global cooling over the past two decades, a finding confirmed by weather-balloon measurements.

Many scientists are skeptical of the models because they ignore a host of variables that affect the climate. For instance, few models come close to accurately replicating the role of clouds and precipitation in the climate system, and none adequately account for solar variability. David Legates, a climatologist at the University of Oklahoma, characterizes the computer simulations of precipitation as "exceptionally poor," in part because they are unable to replicate weather fronts.[11]

In May 1997, *Science,* America's most prestigious scientific journal, published a news story, "Greenhouse Forecast Uncertain," highlighting the raft of uncertainties that remain in predictions of global warming. The article concluded that "most [computer] modelers now agree that the climate models will not be able to link greenhouse warming unambiguously to human actions for a decade or more."[12] One month later, the *Bulletin of the American Meteorological Society* published a paper suggesting that computer models may be misrepresenting the effect of water-vapor feedback within the climate system.[13]

Indeed, as these models have become more accurate at estimating present temperatures, they have also forecast less extreme temperature rises due to the accumulation of greenhouse gases. Based on the models' findings, the IPCC predicts a warming of 0.8 to 3.5 degrees Celsius by the year 2100. That is significantly less warming than predicted in the apocalyptic scenarios with which we are all too familiar. Indeed, the IPCC's lower-bound warming estimate is just over half that predicted just a few years ago. Newer models predict *even less* warming over the next century.

None of this is to say that human activity is having no effect on the climate whatsoever. The reality is that human activity, from changes in land-use patterns to the combustion of fossil fuels, is probably having some effect on the world around us and will into the future. For example, the existence of an urban "heat island" effect is indisputable. Cities, with lots of cement and asphalt and little vegetation, tend to be significantly warmer than surrounding areas. Moreover, these "heat islands" often affect local rainfall patterns and thunderstorm activity, as does large-scale irrigation.

Human-induced changes are real, says warming skeptic Patrick Michaels of the University of Virginia, "but the changes are so small and of such a benign nature that they are insufficient to support any expensive or disruptive policy. If anything, they indicate that the best policy is probably to do nothing."[14]

Is Warming Bad?

The more that is known, the less it seems humans have to fear from global warming. Environmentalists recite a litany of horrors that it will produce: heat waves, hurricanes, drought, and disease. Such scare stories are way overblown, if not outright frauds.

It seems commonsense that if the earth were to get warmer, scorching summers would become the norm. Yet the majority of scientific evidence suggests quite the opposite. Any warming will occur in the winter and at night, making winters more benign rather than summers more intense. When scientists examined temperature records to see if higher global temperatures correlated with urban heat waves, they found no evidence of a link, environmentalist claims notwithstanding.[15]

What about storms? Scientific reviews of storm data cannot find any correlation between warmer temperatures and increased hurricane activity. If anything, the existing data show a slight decline.[16]

Is Warming Good?

Not only is the argument for an apocalyptic global warming exceedingly weak, but there are substantial reasons to believe that a modest warming will be beneficial. Nighttime warming should lengthen growing seasons at the same time that increased levels of CO_2 accentuate the growth of plants. A rise in soil moisture is more likely to occur than a rise in severe droughts. This will probably be a boon for agriculture.

"The farming, timber, and commercial energy sectors all benefit from warming," according to Robert Mendelsohn of the Yale School of Forestry and Environmental Studies.[17] Mendelsohn believes that the overall economic impact of warming will be small compared to the size of the American economy, but that gains will more than offset projected losses. Thomas Gale Moore of the Hoover Institution is even more optimistic. "History demonstrates that warmer is healthier," says Moore.[18] His examination of mortality rates in the United States indicates that "warmer temperatures reduce deaths" compared with colder temperatures.[19] He notes that over the past several centuries, the warmest periods have also been those of the greatest prosperity and technological advance.

Obviously, any changes in weather patterns could well prove disruptive, as are all unforeseen global changes. But most predictions of economic disaster assume that people are too stupid to adjust their behavior to mitigate the costs and enhance the benefits of a changing world. That view does not square with reality. Even if the worst IPCC prediction comes true, it is unlikely to spell disaster for civilization.

What's at Stake

Advocates of the global-warming treaty claim that the risks of human-induced warming are too great, and therefore preventative steps are necessary. Yet even a cursory examination of the policy options reveals that the costs of global warming would be dwarfed by the costs of a global-warming treaty.

Preventing any chance of climate changes brought about by industrial activity would require stabilizing concentrations of CO_2 and other greenhouse gases in the atmosphere. People could not put more greenhouse gases into the air than is removed by natural processes. Such a policy would require drastic reductions in greenhouse-gas emissions. Industrialized nations would have to cut their emissions in half, if not more, and developing countries would have to hold their emissions constant. That is a recipe for economic disaster and would require unprecedented government intervention in the marketplace.

Stabilizing greenhouse gases will require limitations on energy use. The burning of oil, coal, and natural gas will have to be constrained through the imposition of energy taxes, supply controls, or other regulatory measures. That means higher energy prices, which will increase the cost of everything from heating a home and cooking a meal to driving to work and buying groceries. It would be the 1970s energy crisis all over again, if not far worse.

Some environmentalists suggest that fossil fuels can be replaced with alternative energy sources at little cost. Such arguments are absurd. On the whole, alternative energy sources are more expensive and less reliable than their carbon-based counterparts.[20] Nuclear power might be an efficient non-emitting energy source, but environmental groups are unlikely to endorse its use anytime soon.

Despite the inadequacy of alternative energy sources, many people, including President Clinton, insist that a reduction in emissions can be achieved at little or no cost. Some even argue that it will produce a profit. This is not reality but an economic fantasyland in which government planners can radically reorganize human affairs on a global scale without causing severe pain and discomfort.

Better Safe than Sorry?

Despite the costs, some see cutting the emission of those gases as a form of insurance against a potential greenhouse world. Yet if the IPCC draft projections are to be taken seriously, then one must accept that much of the potential warming over the next century is a fait accompli. Lowering emissions will not prevent warming; at most it will modestly reduce the predicted temperature rise over the next century. More important, current projections suggest that there is little cost from delay.

As the value of a proposed insurance policy diminishes, and the cost of the premium increases, fewer will consider the policy a sound investment. Insurance in the form of choking off greenhouse emissions will come at tremendous cost, but if purchased today, it will provide only modest benefits—assuming that the results of global warming will be all bad. When one also considers the potential for adaptation and benefits like the increase in agricultural productivity that higher carbon-dioxide levels produce, it is possible that effects of global warming will be a wash. On the other hand, reducing economic activity by blocking its lifeblood—energy use—will have real adverse consequences. Health is a function of living standards; so too is environmental protection. Wealthier is healthier. Suppressing economic growth reduces the standard of living and increases mortality. This is especially true in the developing world, where the costs of the global warming treaty will be most severe.

Even though developing countries are exempted from the treaty, they will still suffer. "The markets to which these developing countries sell a large share of their exported goods will shrink, so that most developing countries would also be harmed by the adoption of emission limits" solely in industrialized nations, according to economist David Montgomery.[21] The costs of any treaty to control greenhouse gas emissions will be felt worldwide.

What to Do?

The arguments for dramatic greenhouse gas reductions are all variants of the precautionary principle that it is better to be safe than be sorry. If only it were that simple. It is true that economic growth and technological advance pose environmental risks. But stagnation is hardly a safer course. In the words of the late Aaron Wildavsky, "the results of doing too much can be as disastrous as doing too little."[22]

Policymakers should pursue the "safest" course, which in this instance is not greater government controls on economic activity, but fewer. Economic growth, market institutions, and technological advance are the best forms of insurance that a civilization can have. Free and open markets are also the best means to encourage greater efficiency in energy use and the development of non-emitting energy sources.

Copper wire was not replaced with sand, in the form of fiber optics, due to concerns about resource depletion or the environmental impacts of mining. Fiber optics were invented because the market creates incentives for innovation and entrepreneurial activity. The same is true with energy. Petroleum displaced whale oil before Greenpeace was ever founded, because price increases caused by overharvesting spurred the search for cheaper and more efficient alternatives. One day, fossil fuels will be displaced in much the same way without government intervention.

Some who support the global-warming treaty are no doubt motivated by a misguided desire to protect civilization from an uncertain environmental threat. They have succumbed to the fatal conceit that government planning can avert environmental disaster. Others, no doubt, see global warming as an opportunity to enact far-reaching economic policies.

"What we've got to do in energy conservation is try to ride the global warming issue," said former Senator Tim Wirth in 1988. "Even if the theory of global warming is wrong, to have approached global warming as if it is real means energy conservation, so we will be doing the right thing anyway in terms of economic policy and environmental policy."[23] Al Gore, in his book *Earth in the Balance*, suggested that all of modern civilization was "dysfunctional" and needed to make environmental protection its "central organizing principle" or risk ecological armageddon.[24]

The earth is not on the brink of environmental ruin. Even if it were, an international treaty and global bureaucracy could not save it. The treaty can, however, impoverish nations, diminish prosperity, and subvert economic liberty—none of which is good for environmental protection. Indeed, there is more to fear from a global warming treaty than from global warming itself. □

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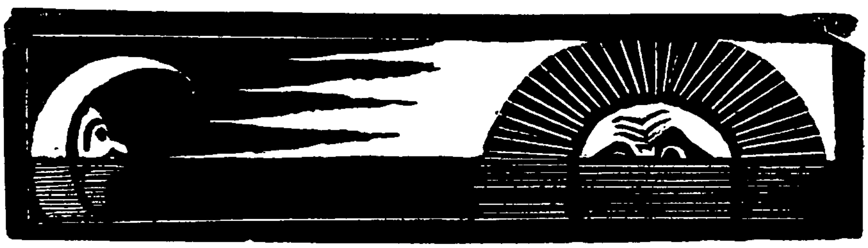

THE FREEMAN
IDEAS ON LIBERTY

There's Some Good in Gouging

by Karen Selick

The great ice storm of January 1998 left millions of residents of Quebec and eastern Ontario in Canada (and in the northeastern United States) without electrical power, some for several weeks. The storm itself was unprecedented, but it brought with it a phenomenon that's all too familiar in emergency situations: complaints of price "gouging" by merchants. Candles, formerly one dollar a box, were marked up as high as four dollars, reports say. Prices temporarily skyrocketed for batteries, firewood, propane, gasoline, bottled water, and a host of other items.

"No one should be permitted to profit from the misery of others," people raged. Canada's Industry Minister John Manley even suggested that oil companies should be giving away gasoline to customers instead of charging more for it. The Quebec Consumers' Association threatened to publish a "Roster of Shame" naming businesses that had been reported as gougers.

But Is It a Bad Thing?

The truth is, the sudden, dramatic price increases that occur in times of crisis serve a useful purpose. Instead of vilifying the so-called gougers for their greed, we should accept them as important and necessary players in the price system—the system that keeps the economy of a distressed region operating as smoothly and impartially as possible under the circumstances.

Take candles, for example. Ordinarily, most people have little use for them. During a power failure, everybody suddenly needs them. Storekeepers are as much taken by surprise as consumers. Proprietors have only enough candles in stock to satisfy their normal low demand. Faced with a sudden surge in demand, they have two choices: continue to sell candles at their normal price or raise the price.

If they continue selling at the normal price, they will quickly sell out. There will be no candles left for those shoppers who are slower than their neighbors in reaching the decision to buy candles. It won't matter how desperately the latecomers need candles—there won't be any available.

Suppose instead that merchants decide to quadruple the price of candles. Would-be purchasers will be shocked at the new stickers. Among those shoppers will be some who already have a supply of candles or some other alternative, such as kerosene lamps, and were merely intending to stock up just for good measure.

"Four dollars for a box of candles?" they'll say. "Phooey on that! I'll just use what I've got first and buy candles later when prices have returned to normal."

Others will say, "I was planning to buy three boxes, but at that ridiculous price I'll just take one."

The result? More candles will be left for the latecomers. Those who don't already have a supply, and therefore need them desperately, will be able to find some, even though the price may be steep. As well, all shoppers (both those who decide to buy and those who decide not to) will have been alerted to the fact that candles are in short supply—something they may not have realized if they had been able to purchase them at the normal price. They will become more sparing in their use of candles, knowing how expensive and difficult it will be to replace such goods dur-

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ing the immediate crisis. Spontaneous candle conservation will occur. The severity of the candle shortage will be alleviated.

Besides encouraging conservation, price increases play another beneficial role: they induce a rapid increase in supply. Storekeepers who find themselves able to make a windfall profit on candles will do their utmost to get in a new supply. People outside the stricken region who hear about the huge profits to be made on candles will rush to the area with a stock.

This will further assist in making the shortage more bearable. As supplies flow into the area, competition among vendors will soon reduce candle prices to their former level—just as it did before the crisis began.

The Alternatives Are Even Worse

Price increases are simply one method of allocating scarce goods among competing users. It's not perfect, but the alternatives are even worse. Suppose the government had passed a law making it illegal to sell candles at more than one dollar per box. Knowing that they will immediately sell out at that price, storekeepers would be able to pick and choose which customers they wish to favor. This would present an opportunity to curry favor with local politicians, bureaucrats, or other people of influence. A system that allocates goods by "pull" is surely no more fair than one that allocates goods by price. In normal times, we call this corruption.

Or suppose ration coupons had been issued for candles, so that everyone was entitled to buy an equal but restricted number at one dollar per box. This system would allocate candles to people who don't really need them and deny an adequate supply to people who need them most urgently. A black market in ration coupons would soon develop. Those who need more candles than their ration coupons permit would end up paying inflated prices for them anyhow, because they would first have to buy black-market ration coupons, then the candles. The only difference is that the windfall profit would go to those who sell their unneeded ration coupons, rather than to storekeepers. There is nothing to commend such an outcome as more fair than simply allowing candle prices to rise. And there is a major disadvantage to this rationing scheme: it eliminates the incentive for vendors and outsiders to rush in with increased supplies.

Is it unfair that some people get to use old one-dollar candles while others use new four-dollar candles? Not really. Everyone knows that candles (or alternatives) are useful to have on hand in case of an emergency. Those who maintained a supply were actually tying up a small portion of their capital, perhaps for years, to give themselves this extra security. They decided to forgo some other commodity, or interest on their capital, to keep a supply of emergency goods on hand. Compared with those who didn't stockpile any candles, they had already made a financial sacrifice. While this outlay may be negligible in the case of candles, it could be significant in the case of generators. Those who chose instead to be unprepared merely took their financial lumps later, in a more obvious and painful way.

Of course, there will always be some people who will complain bitterly about price increases no matter what arguments you present them with. Canadian newspapers were filled with stories about and letters from ice storm victims who pledged they would boycott merchants who had tried to gouge them. Consumer anger is as predictable as the so-called gouging itself, and is a factor that wise business people have to keep in mind when deciding what to do during a crisis.

What's important to remember is that just as customers are under no obligation to patronize a particular store, businesses are under no obligation to fulfill the needs of any particular customer. Each party exists to serve his own ends, not as the means to the ends of others. When a transaction takes place, it is only because each side attaches greater value to what he gets than to what he gives up. Customers certainly seem to understand that they have full ownership and control of their money and can choose not to part with it, but they often seem to forget that business people have equally valid rights of ownership in their candles and should be equally entitled to decide when to part with them. □

THE FREEMAN
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Will Kellogg: King of Corn Flakes

by Burton Folsom

The making of the first flaked breakfast cereal is a tale of sibling rivalry, a new church, and a health-food craze all in the small town of Battle Creek, Michigan. Today, Kellogg's Corn Flakes are a staple of the American diet, but few people know the story of Will Kellogg's rise to fame and fortune.

Kellogg's story begins with the Seventh-Day Adventist church, which in 1860 established its headquarters in Battle Creek. The Seventh-Day Adventists are Christians who celebrate the Sabbath on Saturday and who believe in healthful living. Avoiding coffee, tea, tobacco, and meat—together with substituting bread, fruit, vegetables, and lots of water—is part of the creed of the Seventh-Day Adventists.

They built an institute in Battle Creek to promote healthful living. John Preston Kellogg, Will's father, a broom maker, and an Adventist, gave $500, the largest contribution, to help build the institute. His other son, the talented John Harvey Kellogg, began writing for Adventist publications as a teenager. J.H., as he was often called, was precocious and confident. He pursued health as a career, and studied science at the University of Michigan and the Bellevue Hospital Medical College in New York City. He read the latest medical journals in French and German and became a master surgeon. When he returned to Battle Creek in 1876, he was well prepared to take over the Adventist institute and transform it into a first-class "University of Health."

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"The San"

First came a name change. J.H., ever the publicist, invented the word sanitarium, a twist of the Latin word sanitorium, and dubbed the small Adventist health institute the Medical and Surgical Sanitarium. Nicknamed "the San," Kellogg promoted it as a hospital, spa, and boarding house "where people [would] learn to stay well."

Kellogg pushed the Adventist recipe for good health and added many of his own ideas: count calories, avoid sugar, and get regular exercise. He called his health program "biologic living," and he put patients at the San through a daily regimen of calisthenics at 7 a.m., after which came cold-water baths, enemas, swimming, electroshock therapy, and a vegetarian diet. The day would often climax on the roof of the San with J.H. leading the patients in a march for good health.

Under J.H.'s confident and charismatic leadership, the San went from hosting a handful of patrons in 1876 to thousands each year by the early 1900s. He knew that most Americans could not afford the visit, so he wrote dozens of books to reach all the victims of poor diets. *Biologic Living* was a bestseller and earned Kellogg a national reputation. *What Is the Matter With the American Stomach?* and *Tobaccoism: Or How Tobacco Kills* were among his other literary efforts. His *Itin-*

erary of a Breakfast was a challenge to the fatty sausage-and-egg breakfast so popular among nineteenth-century Americans.

Kellogg was at home whether he was lecturing to an audience of lay people at the San or discussing surgical techniques with the finest physicians in Europe. His books made him one of the best-known physicians of his era, and his high degree of professionalism made him a respected member of the American College of Surgeons.

Not all of J.H.'s medical advice was sound. He condemned all spices, from mustard to salt. "Vinegar," he concluded, was "a poison, not a food." "Coffee cripples the liver," he insisted, and colas were "insidious poison." Nothing was more important than good eating, J.H. pronounced. To make his points, he often stunned listeners with overstatements. "If the whole truth were shown," he said, "it would appear that the causes of indigestion are responsible for more deaths than all other causes combined."

J.H. craved the limelight and reveled in publicity. He always wore white and moved about with an entourage of secretaries, nurses, and hangers-on. Sometimes he dictated essays and books to his secretaries, who frantically scribbled for ten hours at a time. If he had to travel by train, he liked to call the station and demand that the train be held until he arrived. There, several minutes late, before gawking passengers, the imperial Kellogg would arrive with his entourage.

As the San grew in popularity, J.H. found that he needed a business manager, someone reliable to answer mail, fix meals, screen patients, and repair the building while he was writing, lecturing, traveling, and showboating. That person would have to have J.H.'s full trust, but also would have to work for a small salary. (First-year nurses were expected to work for mere room and board; the pleasure of studying under J.H. was sufficient pay.) The manager would have to be competent but always subordinate to J.H.: strong egos need not apply. In fact, no one applied. Instead, J.H. drafted his younger brother Will Keith, or W.K., as many called him.

J.H. was eight years older than Will and never let him forget it. When they were growing up, J.H. gave him whippings from time to time and also used his backside as a foot warmer at night during Michigan's cold winters. Will was always shy and grew up in the shadow of J.H.'s stunning successes. Will could never match his older brother, and dropped out of school when he was thirteen. One teacher, he later wrote, "thought I was dim-witted." Apparently his family did, too. "My father," Will confessed, "was not insistent upon my attending school . . . regularly." So while J.H. was off at medical school mastering the techniques of surgery, Will worked at putting bristles in brooms. Even with that he had problems. When Will's broom business in Kalamazoo failed, he returned to Battle Creek looking for opportunities—just about the time J.H. was looking for a lackey.

Twenty-year-old Will became the perfect business manager for the San. His quiet bashfulness and rare smile offset his brother's flamboyance. At 5-foot-8, slim, and balding, Will was a regular sight most summer mornings jogging behind J.H., who pedaled his bike around Battle Creek detailing for Will his daily chores. A self-styled "flunkey" and errand boy, Will worked 80 and sometimes 120 hours a week packing books, mailing invoices, serving patients, and balancing ledgers. From pricing products to fixing meals, he had dozens of duties. "I was always notified when insane patients succeeded in getting away," Will lamented, because he was the one who had to spend the night tracking them down. "I was so overloaded with work," he later wrote, "that I am conscious that very little, if any of it, was performed satisfactorily."

Part of Will's crushing workload was inevitable. It wasn't easy keeping up with the energetic J.H., who started 30 companies and magazines in a 50-year span. Will was the one saddled with the details of making them profitable. What bothered Will more than the work was the atmosphere: he did the labor and J.H. reaped the glory. Will never had a title, and only grudgingly did J.H. give him an office and a top salary of $3 a day. "I did the work as business manager of the sanitarium," Will later wrote, "and got no glory and very little money."

Will was more a slave than an employee at the San. He had to call his brother "Dr. Kellogg." Reportedly, Will gave him a shave and shoeshine when needed. "Am afraid I will always be a poor man," Will confided in his diary.

Indeed, Will might always have been "a poor man" had it not been for the accidental invention of flaked cereal. Fixing, preparing, and even inventing foods was always important to the San's mission. The task was challenging, and Will sometimes joined his brother in food experiments. This was the case during 1894 when the two brothers fixed a mass of wheat dough, boiled it for different lengths of time, and put it through rollers to press it into large sheets.

A Flake Is Born

One night during these casual experiments, Will left the dough out overnight before he rolled it. When he later returned to the kitchen, he ran the dough through the rollers as before—but instead of forming a flat sheet, the dough broke up into flakes. Will was puzzled. The moisture had spread evenly to each individual wheat berry, and the dough had broken into flakes instead of binding together. Will could have thrown the flakes out and mixed up another batch of dough. Instead, he took them to his brother and suggested serving them at the San for breakfast. J.H. wanted to crush them into bits, but Will served the flakes whole.

The results seem to have surprised even Will. The folks at the San crunched happily during breakfast and asked for more. J.H. decided to patent the new process for flaked cereal. Meanwhile, Will also experimented with oat, barley, and corn flakes and served them regularly at the San. In fact, he had to start a small mail-order business to supply patients after they left the San. At 15 cents for each ten-ounce package, Will was doing a brisk business—he sold 113,400 pounds of flakes in 1896, the first full year of outside sales. That was especially impressive because the Kelloggs only told former patients and Adventists about their product.

Will urged J.H. to market flaked cereal on a massive scale. Will firmly believed that selling breakfast flakes was a remarkable way to make money and peddle good health as well. J.H., however, thought the risks were too high. "Let's be content with a small business," he told Will. J.H. also argued that such blatant commercialism might compromise his high standing in the medical community. In any

Will Kellogg making corn flakes.

case, he had already made his reputation. Why risk his fortune and his large house on a hazardous gamble with flaked cereals?

Will had a tough choice: Should he stay with his brother and live adequately or should he take a risk and enter the flaked-cereal business? He ended up staying for several more years. The high risks and his lack of self-confidence still held him back. "I am myself lamentably ignorant. . . ." he wrote his son. "The competition in the business world is such that the people with good educations are usually those who succeed." Besides, he was over 40 years old. He resented his brother, but stayed with him anyway.

Finally, J.H.'s highhanded management helped push Will out of the nest. During one of J.H.'s foreign trips, Will experimented by adding sugar (technically "malt flavoring"), which was strictly forbidden at the San, to his flakes. Will also raised money and built a new food-processing plant to serve the growing number of customers who ordered the Kelloggs' cereals. When J.H. came home he was furious: he condemned the use of sugar at the San and he ordered Will to pay for part of the new building out of his own pocket. At that point Will could take no more abuse. When the San burned down in 1902, Will told his brother he would help him rebuild it and then go out on his own. In 1906, at age 46, Will Kellogg would at last become his own boss.

Once freed of his brother, Will looked at the positive side. He had years of experience in business. He knew how to balance books, run a company, make cereal, and sell it on a small scale. If thousands liked flaked cereal, why not millions? Will slowly and methodically began raising the $200,000 start-up money from former San patients. In 1906, with capital in hand, Will pursued his dream of changing the nation's breakfast habits. He became a cheerleader for flaked cereal, but he also had to be a diplomat. To secure J.H.'s reluctant cooperation Will had to give him a majority of stock in the new company. As profits came in, Will bought the company back piece by piece, but for a while he had to endure his brother's continued meddling. Nonetheless, Will's new freedom boosted his spirit. He wrote Arch Shaw, his business partner, "I sort of feel it in

J.H. Kellogg
(1852–1943)

my bones that we are now preparing for a campaign on a food which will eventually prove to be the leading cereal of the United States, if not the world."

Such confidence and focus were needed to help him overcome early problems. Most people outside of Battle Creek were skeptical of flaked cereal and few grocers wanted to carry it. And even if they could be persuaded to do so, what kind of flakes should he send them? And how would he separate his product from the imitators on the market?

Will did some test marketing and concluded that corn flakes were his most popular brand of cereal. He was too small to diversify; therefore, he would make only corn flakes.

A Venture into Advertising

He also decided to stake everything on advertising. It became the major item in his budget. His first ad began, "This announcement violates all the rules of good advertising." He couldn't ask readers to buy his product because most grocers didn't carry it. Instead, he gave out coupons for free samples and then asked housewives to urge their grocers to stock Kellogg's corn flakes so that the coupons could be redeemed. Corn flakes, he promised, were nutritious and tasted great; they were more than just a health food. In October 1906, he ran a similar ad in 17 magazines with over six million readers. All new ads carried this trademark sentence: "The original has this signature—W.K. Kellogg." Will was not vain; he just wanted to separate himself from his brother and his imitators. By the end of the first year, Will had shipped out almost 180,000 cases of corn flakes and grocers were lining up to carry his product.

Skeptics told Will his corn flakes would never become a national product until he conquered the New York market. His response was a daring and risqué ad that read, "Wednesday is 'Wink Day' in New York." The ad promised that every housewife in New York who winked at her grocer on Wednesday would get a free box of Kellogg's Toasted Corn Flakes. Will first ran those ads in all major New York newspapers on Wednesday, June 5, 1907. "This advertising will arouse the curiosity of the entire city," Will predicted. And he was right. He sent posters to the grocers in New York to remind them that only Wednesday was Wink Day. "Don't give out samples before then. If anybody winks on Monday or Tuesday, tell them to wink on Wednesday." The Wink Day campaign boosted Will's sales in New York from two carloads a month to over 30.

Those who thought of Will as "J.H.'s flunkey" were startled by his success. He had always worked hard and he knew how to run the San, but where did this boldness, creativity, and confidence come from? Freed from his brother, Will showed entrepreneurial skills that few knew he had.

His boldness in advertising and his calm leadership were just the beginning. He promoted new products, such as Rice Krispies and All Bran; his research team worked to improve the crunch and the quality of corn flakes; and he improved his packaging and advertising to the point where Kellogg outdistanced all of his competitors. He changed breakfast habits around the nation, and his name became a household word. His electric billboards lit up New York City. Corn flakes were munched the world over.

Will Kellogg
(1860–1951)

Yet Will was never arrogant or boastful of his turned-around life. J.H. was his perfect model of how not to behave. Before and after his success, Will was quiet and avoided publicity.

When Will reached age 70 he began to think more about philanthropy and less about business. "I never desired to become extremely rich," he confessed, but he had become one of the wealthiest and most famous men in America. During the 1930s, he put about $50 million, most of his fortune, into the W.K. Kellogg Foundation to coordinate his giving. Will knew that J.H. could never match that.

Sibling Rivalry

As Will rose from errand boy to corn-flake king to world philanthropist, the one constant in his life was his rivalry with his brother. J.H., who once called Will a "loafer," was disdainful and jealous of the meteoric rise of Kellogg's Corn Flakes. J.H. pronounced himself to be the "real" Kellogg and accused Will of selfishly exploiting the Kellogg name, which he, J.H., had made famous. Will bristled when he heard this. "For twenty-two and one-half years, I had absolutely lost all my individuality in you. I tried to see things through your eyes and do things as you would do them. You know in your heart whether or not I am a rascal."

J.H. responded by adapting the Kellogg name for cereals he sold at the San. Will countered in 1910 with a lawsuit, claiming that J.H. was infringing on the brand name and confusing consumers. The Michigan courts decided in Will's favor, and J.H. was restricted in using the Kellogg name. In defeat, J.H. waited for the chance to punish his upstart brother. In 1916, he took Will to court to bar him from selling bran products first developed at the San. But Will won this "battle of the bran," too, and left his brother with large lawyer fees.

Will would need more than a couple of legal wins, however, to outshine his brother. J.H.'s dozens of books had sold over a million copies by the 1920s, and the San was a national landmark, a fashionable place for famous people to see and be seen. The most magnetic celebrity at the San, of course, continued to be J.H. himself. Dressed in white clothes, with white goatee, and a cockatoo on his shoulder, he would show reporters the San pool where Johnny Weissmuller, of Tarzan fame, broke a world's swimming record after dieting on San food. Or J.H. might be up in an airplane, courting photographers and discussing biologic living with Amelia Earhart. Occasionally J.H. would head off to Paris, to study new advances in X-rays, or to Russia to advise Ivan Pavlov, the Nobel Prize winner, on the physiology of digestion. Much to Will's disgust, J.H. pronounced himself philanthropist extraordinaire, a benefactor to all mankind.

Battle Creek was barely large enough to hold the two squabbling Kelloggs. The thousands who worked at the San or in the cereal factories knew better than to discuss one of the brothers in the presence of the other. After Will's wife died, he began to date and care deeply for Dr. Carrie Staines, a physician at the San. When J.H. found out, he threatened to fire her, which was proof to Will that he should marry her—and he did.

The sibling rivalry came to a head in the late 1920s, when J.H. undertook a multimillion-dollar expansion of the San. When the Great Depression hit, however, America's fashionable set stayed home and the San lost customers. Soon J.H. had to lay off workers to meet his payroll. While Will invested wisely and grew richer in the 1930s, the San went into receivership and had to be sold. As Will reached the peak of his career, he watched his brother relocate to a smaller building across the street. Ever the optimist, J.H. also opened a new health facility in Florida.

A Letter of Apology

As J.H. pondered his life and that of his brother, he began to feel remorse. He had misjudged Will and decided to make amends. In 1943, John Harvey Kellogg, possibly the most renowned physician in America, began to write a letter of apology. "I earnestly desire to make amends for any wrong or injustice of any sort I have done to you," J.H. stated. "I am sure that you were right as regards the food business. . . . Your better balanced judgment has doubtless saved you from a vast number of mistakes of the sort I have made and allowed you to achieve magnificent successes for which generations to come will owe you gratitude." There it was. J.H.'s recognition that his own star had almost faded, but that Will's would burn brightly for generations. J.H. closed his seven-page letter, gave it to his secretary to mail, and waited to see what Will would do.

Will's response, however, would never come. J.H.'s secretary read the letter, felt it was demeaning to her boss, and refused to mail it. That same year, J.H. died and the two brothers never reconciled. Five years later, when Will was 88 years old and near death, he was given the letter. At last, at the end of a long career, he realized he had won his brother's respect and blessing. In those last years, Will was blind. He liked nothing better than to be driven to the Kellogg plant, park there, and listen to the noises from the factory—*his* factory. He had gone from uneducated flunkey to world-renowned entrepreneur. Even more remarkable, he had won his brother's blessing. □

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THE FREEMAN
APRIL 1998

How Real Is the Asian Economic Miracle? A Reprise

"In retrospect, all fools become wise."
—LUDWIG VON MISES

In the November/December 1994 issue of *Foreign Affairs*, Stanford economist Paul Krugman wrote a controversial article titled "The Myth of Asia's Miracle." He argued that, like Stalinist Russia and other centrally planned economies of Eastern Europe, the Southeast Asian nations were authoritarian and engaged in "growth achieved purely through mobilization of resources" rather than real productivity. He predicted that growth would continue, but at a slower pace. In sum, these Asian tigers were subject to the law of diminishing returns.

In my July 1996 *Freeman* column, I disputed Krugman's thesis, countering that they had adopted sound principles of economics, such as budget surpluses, low taxes on investment, no welfare schemes, and high levels of saving and investment.

Krugman proved to be more accurate, although the reasons for the Asian crisis are more complex than either one of us realized.

As I see it, there were two factors at work that led to the collapse in the Asian markets and recession. First, overinvestment, and second, the strength of the U.S. dollar. Let's review each of these factors and the lessons we can learn from each.

Dr. Skousen is an economist at Rollins College, Department of Economics, Winter Park, Florida 32789, a Forbes *columnist, and editor of* Forecasts & Strategies. *He is also the author of* Economics on Trial *(Irwin, 1993), a review of the top ten textbooks in economics. He is currently working on his own textbook,* Economic Logic.

Malinvestment and the Boom-Bust Cycle

First, it is clear that most of the Southeast Asian economies, including Singapore, Thailand, Malaysia, the Philippines, and South Korea, suffered from overinvestment, or what Ludwig von Mises called "malinvestment." The authoritarian regimes engaged in a "forced savings" program, demanding its citizens and businesses to overinvest. When voluntary savings were deemed insufficient to build up the nation's infrastructure and capital formation, the state promoted industrial planning. Moreover, it created cheap credit policies and encouraged foreign investment at low interest rates. In sum, Southeast Asia created a classic inflationary boom.

The Austrian school has warned time and time again that an inflationary boom in capital investment not only causes prices to rise, but also makes unsustainable projects look attractive. Eventually, interest rates must rise and the economy is hit by a recession.[1]

The Dollar as a Quasi-Gold Standard

What brought about the crash in Asia? Strangely enough, it was the strength of the

U.S. dollar. While not predicting the Asian crisis, I did forecast a strong dollar in the second half of the 1990s.[2] I just failed to think through all the ramifications of a strong dollar around the world.

Most of the Southeast Asian currencies were tied to the dollar, and that was their demise. In some ways, it reminds me of the specie-flow mechanism under the gold standard. Under a classic gold standard, when a nation inflates, gold flows out of the inflationary country, forcing the economy to contract. That's more or less what happened in Southeast Asia, except that instead of gold, the standard was the U.S. dollar.

When the dollar rose 30 percent against the other major currencies, Southeast Asian economies that were export-oriented and linked to the dollar, were placed at a disadvantage. Their exports suddenly became 30 percent more expensive, and demand for their goods declined. Exports dropped, profits fell, and debts couldn't be repaid at current exchange rates. Consequently, their governments were forced to delink from the dollar and their currencies collapsed. The boom turned into a bust.

Silver Lining: Free-Market Reforms Coming

There is a silver lining in the Asian crisis. It is forcing Southeast Asian countries and their governments to adopt market capitalism. No longer can these authoritarian regimes afford to subsidize favored corporations or play political favorites. Inefficient or corrupt businesses must be allowed to go bankrupt. Easy credit is not the solution to a shortage of capital. In all this, *Business Week* has sounded the alarm and warned Asia not to fall back to angry nationalism or anti-capitalism. This is all the more amazing because *Business Week* has long had the reputation for being anti-free market. But it has changed for the better. To quote a recent editorial: "There is a strong chance that the Asian crisis can act as a solvent, dissolving authoritarian governments and economic practices while spreading democratic market capitalism" (January 26, 1998). Amen.

1. The best summary of the Austrian position can be found in *The Austrian Theory of the Trade Cycle and Other Essays*, Richard Ebeling, ed. (Auburn, Ala.: The Ludwig von Mises Institute, 1996 [1983]).
2. See my January 1995 issue, "The New Dollar Boom," *Forecasts & Strategies* (Potomac, Md.: Phillips Publishing).

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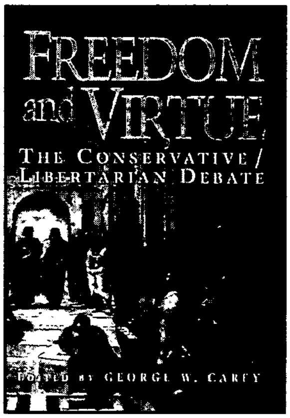

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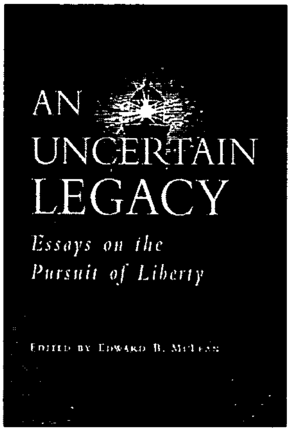

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BOOKS

The Teacher Unions

by Myron Lieberman

The Free Press • 1997 • 305 pages • $25.00

Reviewed by George C. Leef

Which organization is responsible for doing the greatest long-term damage to the socioeconomic fabric of the United States? There are several obvious contenders for this title, but I would name the nation's two big teacher unions, the National Education Association (NEA) and the American Federation of Teachers (AFT) as co-champs. They have gone from innocuous professional associations in the early 1960s to powerful, ever-aggressive unions that today promote educational mediocrity (and worse), advance a radically antimarket social agenda, trample upon individual rights, and do it all behind a smokescreen of professed concern for the welfare of children.

Most special-interest groups get their ill-gotten gains from the pockets of adults. That's bad enough. The teacher unions do make adults pay money, but the principal burden of their jihad against a free market in education falls upon millions of children whose deficient educations handicap them for life. That's enough to make your blood boil.

In *The Teacher Unions*, Myron Lieberman has written a detailed exposé of these organizations. A one-time candidate for the presidency of the AFT, Lieberman has spent decades researching and analyzing it and its larger rival, the National Education Association. In his last book, *Public Education: An Autopsy*, he argued that the rationale for public education is dead. (I contend that it was never alive.) In this book, he strips off the superficially attractive garments of these unions to reveal a hideous body underneath. These are unions at their ugliest: stifling dissent, suppressing competition, engaging in deception, breaking inconvenient laws, grasping for subsidies, and so forth. And because they are unions of government employees, well entrenched in most states, it will be a long time before their days of political dominance are over. The damage will continue.

This book is not a tract against public education. There are several excellent books arguing that the establishment of public education was a monumental blunder. *The Teacher Unions* is not this sort of work, although you could work backwards from the manifest undesirability of teacher union hegemony to the conclusion that we ought to have kept school and state separate, as the current sorry conditions could not have come about in a free educational marketplace.

What the author does give us is a meticulous, surgical attack on the NEA and AFT. This is no hatchet job. He sets up no straw men, waves no red herrings, engages in no hyperbole. The plain old truth is Lieberman's scalpel.

Teacher unions, like labor unions generally, are businesses. Their organizers benefit from the sale of their services in representing employees. Any harmony between union interests and the welfare of students is, Lieberman argues, purely coincidental. Moreover, he demonstrates, teacher union policies are often detrimental to many of the teachers they "represent," because it is inevitable that their collectivistic policies must be harmful to some. Union insistence upon single-salary schedules is a case in point. They adamantly oppose increased pay to attract capable math and science teachers, who frequently have more lucrative nonteaching options. Therefore, the pay of existing math and science teachers is held down, while at the same time depriving students of the possibility of better instruction. (Because of this market interference, math and science classes are sometimes taught by teachers with little or no background in the subjects.)

The most interesting part of the book, to this reviewer, at least, is Lieberman's analysis of possible tactics to weaken the unions. He suggests, among other things, trying to exploit internal fault lines within them. Toward this end, he proposes that in the states where teacher collective bargaining is mandated or allowed, legislators introduce bills to give teachers the option of choosing Local Only Teacher Unions (LOTUs). A large percentage of union dues goes to support the national union bureaucracy, mainly engaged in politicking. Some teachers would, no doubt, prefer to cut the cost of union representation by opting out of anything but a local union and any reduction in financial resources weakens the unions' ability to push their agenda. I would only suggest that legislators with real backbone go all the way and allow teachers to opt out of collective bargaining altogether.

The unions regard Myron Lieberman as a Benedict Arnold, but he knows the enemy's fortifications and it behooves us to pay attention to him. The road to a free market in education is blocked by the teacher unions. Read this book to learn what it will take to remove the obstructions. □

George Leef is president of Patrick Henry Associates: Liberty Consultants in East Lansing, Michigan, and book review editor of The Freeman.

The Ultimate Resource 2

by Julian Simon

Princeton University Press • 1996 • 734 pages • $35.00

Reviewed by E. C. Pasour, Jr.

In this powerful and unrestrained challenge to environmental doomsayers, Julian Simon has updated and further substantiated the conclusions of his 1981 book *The Ultimate Resource*. The standard of living has tended to rise along with increases in the world's population since the beginning of recorded time and he makes a persuasive argument that the trend toward a better life can continue indefinitely.

Simon's optimism is rooted in the belief that human imagination is the ultimate resource and the fact that knowledge has increased with population. He gleefully takes on the so-often-wrong pessimists, many of them authority figures such as Garrett Hardin and Paul Ehrlich. In an epilogue, he responds to critics of the first edition, showing many of their attacks to be personal.

The 40 chapters of this detailed, heavily documented, yet highly readable work are divided into three parts. In the first part, Toward Our Beautiful Resource Future, Simon debunks the popular theory of raw-material scarcity. In this view, energy and other resources are finite and are increasingly being depleted. Thus, we must budget their use. In contrast, Simon argues that the more resources we use, the better off we become because increased scarcity leads to the development of substitutes and lower prices. Hence, resources are, in the most meaningful sense, *created* and not finite.

In a famous encounter, Simon bet environmentalist Paul Ehrlich in 1980 that real prices (adjusted for inflation) of copper, chrome, nickel, tin, and tungsten would be cheaper rather than more expensive in 1990. Simon won the bet. Simon continues to put his money where his mouth is. He will bet a week's or a month's pay that "just about any environmental and economic trend pertaining to human welfare" over time will improve rather than get worse. The offer covers food and energy prices and a host of other perceived threats to mankind, including pollution, the rate of species extinction, and possible ill effects of any ozone-layer depletion and greenhouse warming.

The second part of the book explores the effect of population growth on resources and living standards. Simon's analysis, which considers population growth beneficial to human welfare, also is highly controversial. In the short term, a growing population can cause problems because at any given moment, resources are limited. Increased scarcity, however, creates opportunities for profit-seeking entrepreneurs, whose activities add to the stock of knowledge. As a result, social conditions are generally better than if the increased scarcity had not occurred. As evidence, Simon cites the increased abundance of goods and improvements in nutrition and health that have occurred over millennia as population has increased.

Simon challengingly asks: would we now have electric power, autos, penicillin, or our present life expectancy if the population had never grown beyond the four million of perhaps ten thousand years ago?

In the final part of *Ultimate Resource 2*, Simon argues, among other things, that increased immigration would be beneficial to the United States even under our present welfare programs. His data and argument put him in opposition not only to outright opponents of immigration but also to those who would curtail immigration only until the welfare state is dismantled.

Simon stresses the importance of economic and political freedom in providing an atmosphere in which the human mind can flourish. But while acknowledging that "ideas have consequences," he denies that ideas are decisive in the inexorable long-run trend toward "human betterment." In his view, the quality of ideas only influences the rate of progress in society. Bad ideas, such as those of Marxists and "anti-growthers," may slow down progress for extended periods, but history shows that real material progress will triumph in the end. This may be true. However, it provides little comfort to successive generations of people who suffer under the yoke of despotic regimes.

Generally, the bulk of the evidence is on Simon's side—although a rosy future is not guaranteed. The consumption of "irreplaceable resources," as F.A. Hayek emphasized, ultimately rests on an act of faith. History gives us confidence, however, that something new will be discovered before a resource is exhausted, so that we will continue to be at least as well off as before. In short, the optimism of *The Ultimate Resource 2* is a powerful antidote to the Malthusian gloom so typical today in the news media and among environmentalists. □

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Money for Nothing: Politicians, Rent Extraction and Political Extortion

by Fred McChesney

Harvard University Press • 1997 • 230 pages • $35.00

Reviewed by Roger Meiners

As F. A. Hayek explained in his introduction to *The Road to Serfdom,* a half-century ago the future of the world was bleak. Most economists believed in some form of state control of the methods of production, and more importantly, the rise and spread of fascism, communism, and other statist ideologies meant the loss of freedom and destruction of wealth.

Today, however, even many people who do not trust markets admit that they work better than state control of production. Economic analysis played a role in this victory (which was amply validated by evidence of what happens under state control). Unlike 30 years ago, when the virtues of state-controlled production were commonly preached, such sermons are now relegated to the Universities of Havana and Pyongyang and uttered by a few intellectually senile academics here.

But despite this victory for economic analysis, it has not penetrated as far in analyzing how government operates. Fred McChesney, a professor of law and economics at Cornell, has written an excellent book that enhances our understanding of the political economy of government. *Money for Nothing* neatly summarizes (in 170 pages of text plus 43 pages of notes and references) the research in the past 30 years (in which McChesney has played a key role) about "rent-seeking" and "rent extraction."

"Rent" is an economist's term that refers "to returns to the owner of an asset in excess of the level of returns necessary for him to continue using the asset in its current employment." Rent-seeking is the process of attempting to obtain rents by manipulating the political process to grab the wealth generated or owned by another. For example, environmental groups commonly pressure legislatures or regulatory bodies to reassign property rights in a way that reduces the wealth of property owners while advancing the groups' own goals (such as additional habitat for spotted owls). This is a nonmarket, but legal, transfer of wealth.

Paul's desire to have the state rob Peter and give the money to Paul (rent-seeking) is well understood. Less understood is *rent extraction*, which is the receipt of payments in return for a promise *not* to take or destroy private wealth, in other words, extortion. Private rent extraction, such as a Mafia protection racket, exists, but is trivial (and illegal) compared to public-sector rent extraction.

Legislators have nearly unlimited constitutional powers to impose taxes and regulations that reduce or destroy the wealth of a business. Politicians can, therefore, extract rent from owners in exchange for not imposing destructive taxes or regulations (political extortion). Peter will be willing to pay something not to be robbed.

Who is the key player in the political protection market? The politician. A politician is a political entrepreneur with the legal authority to bestow favors on Peter or Paul. Exercising such power has, in recent decades, become the primary role of government. Productive functions of government—such as law enforcement and national defense—take a small fraction of government resources; most government now involves wealth redistribution via taxing and entitlement schemes, or regulations that favor certain firms at the expense of consumers and other firms.

McChesney's book provides a readable and nontechnical explanation of the theory and practice of our political economy. His particular contribution to this literature is his work on politicians as entrepreneurs who manage the process that allows them to be "paid not to legislate—money for nothing."

There is already a large literature about politicians transferring wealth to win political support. McChesney has expanded our understanding of the extent of the politicians' damage done by focusing on how they can extract rents for themselves by promising to abstain from that activity.

His book is filled with stories of the kinds that will show ordinary citizens that politics is dominated by special interests. But as McChesney explains, politicians do not wait passively for rent-seekers to come to them with proposals. Politicians actively exploit the process, such as by giving taxpayer dollars to so-called "consumer groups" that request evermore regulation at hearings run by the same members of Congress. That provides a rationale for members of Congress to threaten new regulations unless industry mounts makes the appropriate effort (by PACs, etc.) to "convince" Congress of the "wisdom" of not acting.

The politicians cannot lose. The losers are citizens who see their freedoms and wealth consistently chiseled away by those who have developed the finest skills for getting money for nothing. Given the massive and expanding scope of government, McChesney's book is an important part of a comprehensive economic education. □

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The Paradox of Progress: Can Americans Regain Their Confidence in a Prosperous Future?

by Richard B. McKenzie

Oxford University Press • 1997 • ix + 244 pages • $27.50

Reviewed by Paul Heyne

Why do so many Americans today believe that the prosperity previous generations have enjoyed will not be available to future generations? In *The Paradox of Progress* Richard McKenzie tries both to answer that question and to demonstrate that pessimism with regard to our prospects for the future is unwarranted.

One reason we live in "the age of diminished expectations" is that we have just passed through an era of exaggerated and unsustainable expectations. Another is that pessimism sells better than optimism. Some people, including apparently most of McKenzie's university colleagues, find that gloomy projections buttress their political positions and particularly their contempt for the 12 years of Reagan and Bush. McKenzie maintains that, despite our current "sense of woe," prospects for the future are extremely bright for most of us. He makes extensive and effective use of the studies produced by Michael Cox and Richard Alm at the Federal Reserve Bank of Dallas to show that, in the title words of one Cox and Alm report, *these* are the good old days. By almost every measure we can devise, the physical and material well-being of Americans has improved in recent years. There are problems, of course, and for some among us the problems are severe. But as McKenzie observes, "People simply have a knack of extending themselves until they create problems that must be solved." Most people probably want challenge more than they want satisfaction; the latter would quickly produce boredom.

For the first half of this country's history, the frontier provided that challenge as well as opportunities and escape routes for those who were not satisfied with the limitations and constraints of their situations. Now, says McKenzie, a new frontier is opening before us, one not of geography but of "virtual reality." Computer technology is enabling us all to go more places, do more things, gather more knowledge, cooperate more easily, and further more effectively whatever projects happen to interest us. It is abolishing traditional constraints, including the constraints imposed by governments, which increasingly cannot even monitor the activities they would like to control. McKenzie finds the prospects liberating and exciting for those willing and able to take advantage of them.

Willingness seems to be more important than ability, in McKenzie's view, because he thinks willingness will usually create ability. He italicizes his advice to the workers of the world: *"Become more productive. Work harder and get smarter. Get more education and skills. Get competitive. Do more than others have been doing or will likely do. Stop complaining."*

But is this enough? Can Americans regain their confidence in a prosperous future by heeding these exhortations? McKenzie's ebullient tone becomes more restrained in the concluding chapters where he discusses the ethical or moral foundations of a prosperous society. Markets don't work well in a society whose members do not behave in accord with appropriate ethical rules: take responsibility for your actions, fulfill your promises, respect the rights of others. McKenzie fears, along with many others, that the moral infrastructure of American society has begun to collapse, and he doesn't know how to repair it. That, he admits, provides grounds for substantial pessimism.

This reviewer also doesn't know how to repair our collapsing moral infrastructure. But McKenzie makes the problem even more difficult than it is by assuming that ethical behavior will regularly be irrational and contrary to the interests of the person acting. He refers to Adam Smith as one who understood the importance of morality to the functioning of market systems; but he has badly misunderstood Smith on this point. Smith did not believe that acting in one's own interest was inconsistent with behaving ethically, because Smith thought that self-respect was a primary interest of most people and that self-respect ordinarily could not be obtained except by behaving in accord with a socially informed conscience, or what Smith called "the impartial spectator" or "the man within the breast."

"I have noted the difficulties some groups will likely experience if they don't adjust," McKenzie writes on the last page of his book, "if they cannot get their act together and abide by reasonable rules of conduct." The wicked will fail, in short—but it will be their own fault. He slights the distinct possibility that those individuals within a society who do *not* "get their act together" will ruin the system for those who do. The more disturbing feature of his argument, however, is his belief that the morality which is such an important prerequisite for the effective functioning of a market economy ultimately cannot be defended or argued for. Individuals and societies either have it or they do not. Those who have it will succeed, those who don't have it will fail.

Space does not permit an adequate discussion of the issue here. I shall only state that

McKenzie, who has been extensively influenced by Friedrich Hayek, seems to have surrendered to some of the unfortunate arguments Hayek put forward at the end of his career, especially in *The Fatal Conceit,* where he described ethical convictions as little more than the fortunate heritage of religious beliefs now largely abandoned. If the ethical rules that McKenzie and this reviewer deem vital to the effective functioning of a free, prosperous, and progressive society cannot be given a better defense than this, McKenzie's optimism about the future looks a great deal like wishful thinking. □

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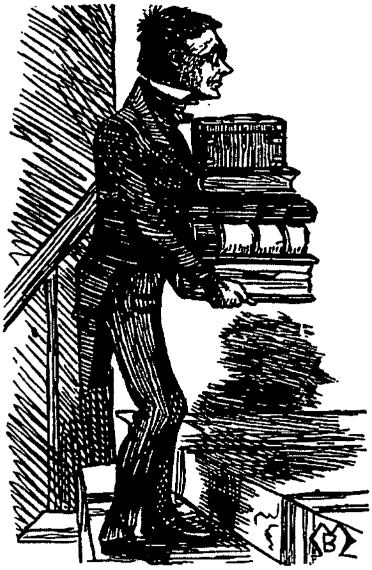

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Discrimination and Liberty

(Editor's Note: We herewith inaugurate a new monthly feature: The Pursuit of Happiness. *Its regular contributors will be Walter Williams, one of the most prominent defenders of liberty today, and Charles Baird, an economist specializing in the freedom of workers. Guest contributors will also occupy this space.)*

How much should we care if people discriminate? In answering this question, maybe it's a good idea to say what we mean by discrimination. The most internally consistent definition is that discrimination is the act of choice. Thus, discrimination is a necessary fact of life—people do and must choose. When a person selects a university to attend, he must unselect other universities—in a word, he must discriminate. When a person chooses a mate, he discriminates against other possible contenders. In the first instance, we call it university discrimination, in the second case mate discrimination. Thus, when the term discrimination is modified by words such as race, sex, university, or mate, we merely state the criterion upon which choice is being made.

Is there a moral distinction between selecting a university on the basis of arbitrary distinctions and selecting a mate, employee, or anything else on the basis of similarly arbitrary distinctions? In mate selection, people routinely discriminate by race. How does that act morally differ from choosing employees by race? We know that social sanction is granted when race is used in selecting a mate but not granted in the case of selecting employees.

Some people might offer that when people select mates by race there is no private or social harm done, whereas in the case of race discrimination in employment there is private and social harm. On further thought, it can be easily shown that such a proposition clearly does not hold. At the private level, when a black male indulges his racial preferences by marrying a black female, that act reduces the opportunity for white females who might have been attracted to and married the black male. At the social level, non-assortive mating (mating with those with similar attributes) has enormous consequences. Its racial component has helped perpetuate the large income and wealth differences between blacks and whites. If whites (generally having higher income and greater wealth) married blacks more often (who generally have lower income and wealth), the income distribution would be less skewed. The political rhetoric we often hear about differences between the haves and have-nots tells us that a smaller gap between black and white incomes would be socially desirable. But I have not heard calls for mandatory integration in marriage.

The fact that choosing by race reduces opportunity does not really distinguish racial discrimination from other kinds of discrimination. When people choose PC's, they "harm" the maker of Macs. When people indulge their preference for California wines, they "harm" Bordeaux manufacturers. We could produce an endless list of the "harms" done by people indulging their preferences by discriminating against one person, product, or service in favor of others.

In a free society, there should be support for people's right to choose. The true test of one's commitment to freedom of choice does not

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come when one allows others to choose in ways deemed right. The true test comes when one permits others to choose in ways he finds objectionable.

If there is a moral dimension to preference indulgence, it's when it involves threats, violence, and government subsidy. The clearest case where racial discrimination has no place is in government-financed services such as schools and libraries. If schools and libraries are publicly financed, every citizen, regardless of physical attributes, is entitled to access. If not, the government has committed the equivalent of theft, which is immoral, that is, requiring someone to pay for a service, then compounding the crime denying him its benefits.

There are numerous government acts that subsidize racial preference. One is price-fixing, such as minimum-wage laws. When the government dictates that an employer must pay a minimum of five dollars an hour to anyone he hires, that law reduces the cost of, and hence subsidizes, racial preference. Predictably people will engage in more of it. To make this more concrete, assume that ten people of equal productivity apply for a job. The employer plans to hire six of them. Since there is no economic criteria upon which to choose (he must pay the same wage to all), the employer must use non-economic criteria for his selection. A non-economic criterion might be race.

Greater indulgence in personal preferences in the wake of price-fixing is a general phenomenon. Consider a nonracial example. In a supermarket, filet mignon might sell for twelve dollars a pound, while chuck steak sells for seven. The cost of discriminating against chuck steak is five dollars a pound (the difference between its price and that of filet mignon). If a law was enacted requiring that both sell for twelve dollars, people would begin to discriminate against chuck steak. The reason is simple: the cost of indulging one's preferences goes to zero. The way that chuck steak effectively competes with what people prefer more—filet mignon—is by offering what economists call a compensating difference—a lower price.

The power of price-fixing to subsidize racial preferences has been recognized by racists throughout history. In apartheid South Africa, white unionists argued that "in the absence of statutory minimum wages, employers found it profitable to supplant highly trained Europeans by less efficient but cheaper non-whites." In 1919, the South Africa Mine Workers Union said, "It is now a question of cheap labour versus what is called dear labour and we consider we will have to ask the commission to use the word 'colour' in the absence of a minimum wage, but when the minimum wage is introduced, we believe that most of the facilities in regard to the coloured question will automatically drop out." In the United States, in 1918, the Brotherhood of Railway Trainmen said that "where no difference in the rates of pay between white and colored exists, the restrictions as to the percentage of Negroes to be employed does not apply." Testifying in favor of the Davis-Bacon Act (a super-minimum wage law), Representative Miles C. Algood said, "That contractor has cheap colored labor . . . , and it is labor of that sort that is in competition with white labor throughout the country." In each of these cases and many others, people who wanted to discriminate against blacks recognized that mandatory wage minimums were a valuable weapon.

Price-fixing is simply one of the ways that government subsidizes preferences. Other ways are taxes on profits, economic regulation, and occupational licensure. In general, preferences are subsidized whenever government dictates the terms and conditions of exchange.

While many of us, including me, find some aspects of racial discrimination morally repulsive, we must at the same time recognize that freedom of association should be our overreaching value. Valuing freedom of association does not mean that we are helpless in registering revulsion to various forms of discrimination. There are private social sanctions that can be exercised similar to those exercised when people behave impolitely, use vulgar language, or disrespect elders. But the largest contribution to racial harmony that we can make is to keep government limited to its legitimate or moral functions, namely, preventing force, fraud, theft, and the initiation of violence. □