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Ideas On Liberty

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Ideas On Liberty

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PERSPECTIVE

Leonard Read: Light Giver

September 26 marks the centenary of the birth of Leonard E. Read. Read's life is proof that one person can change things. In 1946 the prospects for individual liberty, private property, and free markets were bleak. The Great Depression and World War II had fostered an interventionist mentality in the United States. The unhampered market order, perhaps appropriate in an earlier day, was regarded as obsolete. Society was too complex, the business cycle was too severe, people were too selfish—whatever the excuse, one thing was clear: the era of government direction of economic affairs—indeed, of nearly all aspects of life—had arrived.

The Depression-era and wartime regulatory agencies by 1946 were fixtures of American life. To believe that the economy could regulate itself was to subject oneself to ridicule if not accusations of villainy. The deck was stacked against any re-emergence of a movement for freedom and capitalism.

Into that darkness stepped Leonard Read, trademark candle in hand. He lit that candle and fanned the flame until the light of true liberalism flowed in all directions. Thanks to Read and FEE, the scattered and isolated lovers of liberty had a place to draw intellectual sustenance and moral support. They could be assured that they were not alone. I recall hearing the late Murray Rothbard, the prolific libertarian writer, tell how as a young man he happened on a FEE pamphlet debunking rent control, "Roofs or Ceilings?," by two young economists, Milton Friedman and George Stigler. As a result, Rothbard contacted FEE and began a long association with Read and Ludwig von Mises.

A later generation was similarly influenced. When I was a college freshman, an acquaintance, having learned of my interest in free markets, urged me to contact FEE and to read *The Freeman*. There I encountered the names Mises, Henry Hazlitt, Israel Kirzner, and so many others. It was the beginning of a relationship that has spanned more than 25 years. Many libertarians my age tell the same story.

Leonard Read, whom we honor with this issue of *The Freeman*, left a legacy the highlight of which is the new appreciation of liberty that we can see all around us. The second half of the twentieth century would have been a far less inspiring time without him.

* * *

We begin our observance of the 100th anniversary of Leonard Read's birth with a biographical sketch by long-time FEE staff member Edmund Opitz, which follows Read from his days as a New Dealer to the start of his career as one of the most effective spokesmen for the freedom philosophy.

Next come reflections on Read's achievements and influence by Bettina Bien Greaves, who joined the FEE staff in 1951. She takes us back to the early days of the Foundation to give us a glimpse of the young, dynamic Leonard Read in action.

Our reprint this month from Leonard Read's collection of writings is "The Essence of Americanism," perhaps his favorite topic and one of his standard presentations during the long history of FEE seminars. It truly rates the description "classic."

In the first of three articles on environmentalism, Jo Kwong illustrates how individual rights and well-being are expected to give way to any and all environmental claims. Even bankrupting the elderly is not too high a price.

As if the interventionist legislation passed by Congress and local governments weren't bad enough, American citizens, writes Jarret Wollstein, are increasingly subject to United Nations treaties aimed at restricting and even reversing development in the name of protecting nature. A pitched battled between bureaucrats and property owners is brewing.

Environmental laws and treaties are usually said to foster "sustainable development," which sounds like something no reasonable person would oppose. But what does that term really mean? Jerry Taylor shows that some incoherent, not to mention bizarre, ideas are shrouded by the cozy words.

Last month Lawrence Reed looked at the economics of the Great Depression and the New Deal. This month Robert Higgs examines Franklin Roosevelt and the politics of the most interventionist administration in American history. Those who see FDR as a national hero may have to rethink their position.

How many times will governments raise excise taxes before they learn that the main outcomes are increased smuggling and violent crime? Many more times, apparently, according to John Attarian, who relates the experience of Michigan and its cigarette tax.

In our columns this month, Donald Boudreaux and Burton Folsom dissect a *Wall Street Journal* article comparing Microsoft to the old Standard Oil Company, which the federal government broke up using antitrust laws in 1911. To the assertion that both companies can be described as monopolies without competition, Boudreaux and Folsom proclaim, "It Just Ain't So."

Lawrence Reed anticipates that when people discover how poorly the return on Social Security compares to the return from private investment, they will clamor for privatization. Doug Bandow wonders whatever happened to conservatives who believe in limited government and small budgets. Dwight Lee describes the interdependency between freedom and markets. Mark Skousen points out that after years of disparagement, gold is winning new praise as a basis for the monetary system.

And in "The Pursuit of Happiness," guest columnist Sigfredo Cabrera tells the story of two French immigrants who mistakenly thought that in America you could run your hotel the way you liked.

Venturing out into the jungle of new books, our reviewers evaluate volumes on Islam and liberty, the United Nations and the power to tax, and the business cycle.

—SHELDON RICHMAN

It Just Ain't So!

The government's harassment of Microsoft has uncorked a gusher of silly journalism. On May 19, even the *Wall Street Journal* joined the flow. Alan Murray's front-page essay, "Reading Rockefeller and Busting Up Trusts," is a soup of errors and strained logic.

Murray is horrified by accounts of Standard Oil's large size and Rockefeller's "obsession for precision, tidiness and order." It's true that Rockefeller once controlled 90 percent of the oil-refining business. And he believed that several large oil companies would better serve producers *and* consumers than would hundreds of small companies.

But then Murray says, "Rockefeller was driven not to compete, but to crush competition. Only after the government busted the Standard Oil trust [in 1911] did anything like free-market competition return." Murray is wrong on several counts.

First, Rockefeller didn't crush competition. Most of his competitors crushed themselves. Sure, they extracted kerosene from their oil, but they did not imagine that the byproducts had value. Rockefeller's rival refiners dumped gasoline into the Cuyahoga River and threw out other byproducts such as naphtha and benzol. The key to Rockefeller's success was finding uses for all of the elements in a barrel of oil—and then giving customers the best service at the lowest price.

Contrary to Murray's implication, Rockefeller never had a monopoly. Dozens of other oil companies constantly competed with him—which was perfectly fine with Rockefeller. "Competitors we must have, we must have," said Rockefeller's partner Charles Pratt. "If we absorb them, be sure it will bring up another." And Rockefeller never engaged in predatory price-cutting, as economist John McGee has persuasively shown, because doing so would have hurt in the long run.

Of course, refiners who sold expensive oil often went broke. But even some of them were happy to be bought out by Rockefeller in return for rapidly appreciating stock in Standard Oil. One of the unhappy refiners was Ida Tarbell's father, who went out of business when customers stopped buying his high-priced oil. Ida Tarbell scathingly criticized Rockefeller in her history of Standard Oil, which sold widely and seems to have influenced the antitrust division.

What if Rockefeller had been less efficient? That might have kept Mr. Tarbell in business, but only temporarily. By the mid-1880s, the Russians had discovered deep, rich, and plentiful oil deposits at Baku. They then sold oil throughout Europe and elsewhere at prices so low that Rockefeller himself strained to survive. Only the most efficient could win the kerosene dollars of picky customers in this new world market. Rockefeller's innovative abilities ensured a competitive American oil industry.

In light of that stiff Russian competition, Murray is especially foolish when he talks about free-market competition returning "only after the government busted the Standard Oil trust." The free market worked well for consumers all over the world; oil prices steadily fell before 1911.

Even inside America, the free market, not government, was increasing competition in the early 1900s. Oil was discovered in Texas in 1901, but Standard Oil decided to drill elsewhere. Companies throughout Texas then formed to sell the newly discovered oil.

While the government prosecuted and convicted Standard Oil for allegedly restraining trade, one of Standard's new competitors, Gulf Oil, built pipelines from Texas to Oklahoma, experimented with offshore drilling, and developed the corner service station. "Thus even before the breakup of the combination," historians Ralph and Muriel Hidy observe, "the process of whittling Standard Oil down to reasonable size within the industry was already far advanced."

There's a general lesson here: the ability of people to exchange private-property rights within free markets is an effective antimonopoly policy. But despite the inability of economic historians to uncover much evidence that antitrust legislation has ever helped consumers, most of today's journalists share Murray's intuition that active antitrust enforcement is necessary to prevent monopoly.

The reason for this flawed intuition is easily identified: each journalist is, well, a journalist. Because the typical journalist (like the typical politician, bureaucrat, and judge) isn't an entrepreneur, he cannot imagine the commercial and industrial world being much different from what it is today. So the typical journalist sees Microsoft's large market share today in operating-system software and unimaginatively laments, "Oh, dear! The only hope is for government to mandate that Microsoft stand aside and make room for its rivals. Otherwise, Microsoft will remain forever dominant."

Imagining how a new product or new firm can successfully challenge Microsoft is indeed difficult—in the same way that all entrepreneurial activity is difficult. Only one or a handful of people ever "sees" the promise of any particular commercial or industrial advance. If this weren't true—if, instead, the ability to envision and implement market-improving changes were widespread—then Rockefeller, Henry Ford, Ted Turner, Bill Gates, and the other entrepreneurs who over the years have created market-improving changes would never have become household names. And they certainly wouldn't have earned much more wealth than the rest of us.

The essence of a competitive market economy is that it encourages each person with a vision of how consumers can be better served to act on that vision, even though literally no one else in the world might share it. All it takes is a single imaginative individual with a creative idea to make an established industry obsolete.

Of course, for anyone to bet on such visions requires not only personal gumption, but the potential for a big payoff. We celebrate today the entrepreneurs whose visions proved successful. But we don't celebrate, or even know of, the much larger group of entrepreneurs whose visions failed. There's no shame in these failures. Indeed, each performed a service by warning others of what consumers really didn't want, or of what methods of production really wouldn't work.

Like it or not, too few sane people will invest their wealth—not to mention their hearts and souls—in revolutionary new products or production processes without the possibility of handsome payoffs. Fortunately, America remains a country that permits entrepreneurs to reap (most of) the fruits of their successes.

The market's "process of creative destruction" (as economist Joseph Schumpeter called it) replaced the horse and buggy with the automobile—just as it replaced chamber pots and outhouses with indoor plumbing, typewriters with personal computers, telegraphs with telephones, passenger rail travel with air travel, and iron-lung machines with an effective vaccine against polio. It isn't even conceivable that salaried bureaucrats could have envisioned these and the millions of other innovations that make modern life possible.

As James DeLong wrote in the May 20 *Los Angeles Times*, "Gates is worth decabillions in part because he had a few big visions . . . but equally important has been his embrace of the fluidity of the future and an awesome ability to react to surprises. This is the opposite of the bureaucratic mind, which cannot stand uncertainty and fluidity and so makes the future predictable by stifling it."

Microsoft will eventually be replaced by a rival that better meets consumer demands. But the only sure way we'll know when this rival has arrived is by leaving the decision up to consumers. Alan Murray's belief that bureaucrats and judges can outguess the competitive market process just ain't so. □

—DONALD J. BOUDREAUX AND
BURTON W. FOLSOM

THE FREEMAN
Ideas On Liberty

Leonard E. Read: A Portrait

by Edmund A. Opitz

Leonard started out as a farm boy in the small town of Hubbardston, Michigan. There are always chores on a farm, and Leonard learned early on that time was not to be wasted. Leonard's father died when the boy was ten. From then on Leonard shouldered the role of a responsible adult. In addition to farm chores, Leonard also clerked in the local store. As he remembered those days, Leonard remarked that his was a 102-hour work week!

There was a one-room schoolhouse in Hubbardston and, of course, church on Sunday and Bible school. Meager resources, these, but they did feed Leonard's lust for knowledge and gave him the basic tools of learning: the three R's—reading, 'riting, and 'rithmetic. His high-school years were spent at nearby Ferris Institute, where he earned his way by keeping the building in shape, looking after the furnace, and grooming the grounds. He had a room and cooked his own meals. He graduated from Ferris and joined the Air Corps.

During World War I, his troopship, the *Tuscania*, was sunk off the coast of Scotland. Leonard was among the survivors and went to an airbase in England. After the war, Leonard was sent to Germany to serve for another year in the army of occupation. He was about 20 years of age when he returned to his home state and opened a wholesale produce business in Ann Arbor. Before dawn he drove to the Detroit wholesale market and back to Ann Arbor to sell his commodities to grocery stores, fruit stands, and the like. It was back-breaking, heartbreaking work, but he stuck to it till he realized that the market was trying to tell him that peddling groceries was a misuse of his unique talents.

Leonard E. Read as a young man.

So he packed his wife and two sons into his car and drove to California. He eventually was able to get a job with the tiny Burlingame

The Reverend Mr. Opitz, a contributing editor of The Freeman, *was a senior staff member of the Foundation for Economic Education until his retirement in 1992. He was book review editor of* The Freeman *for many years.*

Chamber of Commerce outside of San Francisco, where he did well enough to be invited to head the much more active Palo Alto Chamber. He was now on the first rung of his remarkable career. Destiny, it seems, had tapped him on the right shoulder.

Leonard was now in his mid-twenties; handsome, strongly built, articulate, suave, well-groomed, energetic, and well-spoken. The total package was attractive to men and women alike, especially so because one sensed that this man had ordered his soul aright and had his priorities straightened out. His dedication was palpable, which made him all the more persuasive.

Mr. Herbert Hoover lived near Palo Alto and was already acknowledged to be the likely Republican candidate in the 1928 race for office of President of the United States. He won, which fact gave Leonard an impossible dream: why not hire a train to take a crowd of people from California to Washington to participate in the inaugural ceremonies? Could be a flop, of course; but when Leonard evolved a strong belief in something, a mysterious alchemy would somehow transform his vision into reality. It may be presumed that Leonard sounded out some of his friends and acquaintances, got some positive responses, and decided to go for broke; the whole package included a luxury Pullman with 16 cars, quality service and gourmet meals, nurse and doctor aboard, and a daily mimeographed bulletin, which Leonard edited. Once in the nation's capital there would be special rates in first-class hotels, tickets for the parade, reservations for the Inaugural Ball . . . and who knows what else? It caught the eyes of the nation's press, and the young man from Palo Alto was praised for his innovative mind and the sagacity he displayed in the execution of his plans.

Mr. Hoover conveyed his best thanks to Leonard, and the two saw each other occasionally until the death of the ex-president in 1964. There's a story that Mr. Hoover submitted (decreed?) an article for publication in *The Freeman*—which Leonard turned down. Mr. Hoover accepted the rejection slip gracefully!

Leonard's next move was to Seattle as assistant manager of the Western Division of the U.S. Chamber of Commerce, which extended its jurisdiction over the huge wedge of territory in our Northwest. From there Leonard moved back to San Francisco as manager of the Western Division, a portent perhaps, of even bigger things to come.

California is a state of mind, or a mental state—take your pick. There was—especially in southern California—a mixed bag of share-the-wealth enthusiasts: Marxists, socialists, social creditors, Townsendites, technocrats, followers of Upton Sinclair, and the like. The New Deal, with its myriad alphabet agencies, was sending its tentacles in every direction. The Chamber of Commerce would have nothing to do with the communists or socialists, but Chamber policy tended to favor national recovery programs, which seemed to be lending a helping hand to some sectors of business, as well as offering aid to farmers. And Chamber policies were, for young Read, gospel truth. If the Chamber favored some New Deal policies, so did Read!

Meeting Bill Mullendore

But there was in the Los Angeles area a small cadre of businessmen who were critical of all New Deal policies. The most articulate man in this group was W.C. Mullendore, an executive with Southern California Edison. Leonard journeyed to Los Angeles to meet with this man Mullendore and straighten him out. As Leonard tells this story, he spent ten minutes explaining Chamber policies, and the next few minutes trying to rationalize them. And began to stumble! His sound instincts began to send up warning signals. At which point Mr. Mullendore took over, ripped the Chamber's position to shreds, and went on to demonstrate that the New Deal was riddled with fallacies and fantasies. Money is unjustly taxed away from those who earn it and unjustly given to those who lobby for it. And in effecting these transfers government itself becomes rich and powerful while the country at large suffers a drop in productivity, as well as an impairment of personal freedom.

Whatever the words uttered by Mr. Mullendore, they had an overwhelming effect on Read; they changed his life by altering his thinking. He began to study and then wrote a book in order to clarify his philosophy. The result was *The Romance of Reality*, published in 1937 by Dodd, Mead Company.

Under the prodding of Mr. Mullendore and others of like mind, Chamber policy began to shift away from campaigns that touted the climate, the oranges, the movies, and such, to serious efforts to change the climate of opinion by means of the written and the spoken word. The man to guide the Los Angeles Chamber in its new orientation was to be, of course, Leonard Read, who became general manager of the nation's largest Chamber in 1939, when he was 41 years old. He was the right man, at the right time, in a strategic post. It was important that the *Los Angeles Times* was what we might call a conservative paper, which gave Read a fairly friendly press. The *Register* of Orange County was outspokenly libertarian; its publisher, R.C. Hoiles, was a dynamo. He and Read must have become allies early on.

And Leonard's pastor, Reverend James W. Fifield, minister of the 4,000-member First Congregational Church of Los Angeles, with a Saturday evening radio hour heard from San Francisco to San Diego, was a foe of the New Deal and critical of the "Social Gospel" trend in the churches. To counter the "Social Gospel" Fifield sent a black minister, the Reverend Irving Merchant of his staff, around the country to meet with ministerial associations and explain its errors. Pastor Merchant collected some 17,000 signed cards of endorsement from ministers affirming their allegiance to a resistance movement (I've seen the cards!), which came to be called "Mobilization for Spiritual Ideals." In short, the vineyard in southern California had reached a stage where a man like Leonard could make optimum use of his talents with support offered by the business and ecclesiastical communities. Leonard served on the board of First Church.

Enter Bastiat

And now Bastiat enters the picture. Thomas Nixon Carver, distinguished professor of economics at Harvard who championed the free-market economy during the '20s and '30s, had retired to southern California. Carver attended a luncheon at which Leonard was the speaker. After the talk Carver approached Leonard and said, "Mr. Read, you sound like Frederic Bastiat." "Who is Bastiat?" inquired Leonard. Carver responded and promised to mail Bastiat's booklet titled "Communism versus Free Trade." Leonard loved it and soon issued it under the imprint of Pamphleteers, Inc., a small group of friends of liberty within the Chamber orbit who, in their "ninth-floor underground," occasionally chipped in to print short works that otherwise might be neglected, like Rose Wilder Lane's *Give Me Liberty* and Ayn Rand's *Anthem*. Not long after this, Mr. Hoiles reprinted three of Bastiat's books in the English translation of about 130 years ago. Several years after founding FEE, Leonard published Dean Russell's robust translation of Bastiat's *The Law*. Well over 500,000 copies have been circulated.

The public (or government) schools of Leonard's boyhood offered a fairly sound curriculum; students were exposed to the basic public documents of this nation. The Declaration of Independence was Leonard's favorite. Permit me to quote from Read's interpretation of a portion of one sentence. ". . . in the fraction of one sentence written into the Declaration of Independence," Read declared, "was stated the real American Revolution, the new idea, and it was this: 'that all men are created equal; that they are endowed by their Creator with certain unalienable Rights; that among these are Life, Liberty, and the Pursuit of Happiness.' That was it. This is the essence of Americanism. This is the rock upon which the whole 'American miracle' was founded.

"This revolutionary concept was at once a spiritual, a political, and an economic concept. It was spiritual in that the writers of the Declaration recognized and publicly proclaimed that the Creator was the endower of man's rights, and thus the Creator is sovereign.

"It was political in implicitly denying that the state is the endower of man's rights, thus declaring that the state is not sovereign.

"It was economic in the sense that if an individual has a right to his life, it follows that he has a right to sustain his life—the sustenance of life being nothing more nor less than the fruits of one's own labor."

These words are lifted from Leonard's lecture "The Essence of Americanism," his opening speech at virtually every one of our several hundred seminars (see page 527).

Liberty Cannot Be Sold

During Leonard's five years as general manager of the Los Angeles Chamber, his mind sharpened and deepened; he grew and he outgrew. New insights developed as he pondered the question of how the freedom philosophy could best be advanced. In his earlier professional positions he had become well acquainted with advertising and promotional techniques. But the idea of individual liberty cannot be "sold" as if it were a cake of soap; it has to be explained—and explained in such a manner that the reader or hearer gains an intimate insight into the plain truth of the matter. The idea of "freedom" is more caught than taught; it's analogous to a benign contagion spreading from person to person, until a few begin to say: "By George, I think I've got it!"

It was some years later that Leonard came across a confirmation of his own thoughts in a few words from Albert Schweitzer's great 1923 book, *Civilization and Ethics*: "Civilization can only revive when there shall come into being in a number of individuals a new tone of mind independent of the one prevalent among the crowd and in opposition to it. A new public opinion must be created privately and unobtrusively. The existing one is maintained by the press, by propaganda, by organization, and by financial and other influences at its disposal. . . . This unnatural way of spreading ideas must be opposed by the natural one, which goes from person to person and relies solely on the truth of the thoughts and the hearer's receptiveness for new truth."

Albert Jay Nock's widely circulated essay, "Isaiah's Job," conveyed much the same message as the words of Schweitzer. Leonard has said that the unique stance of FEE was inspired by reading this essay by Nock. The first contact between the two men may have been in 1935 or 1936. Leonard told me that he read Nock's *Our Enemy, the State* shortly after it came out and wrote a letter to Mr. Nock: "I've just read your *Our Enemy, the State*. It is a perfectly splendid book. But how can a brilliant man like you advocate the Single Tax?" Back came a letter from AJN: "Dear Mr. Read: I do not *advocate* the Single Tax: I merely believe in it." Yours very truly, Albert Jay Nock. Leonard was, from then on, free from the distemper of mere advocacy.

The ice once broken, the relationship between the two men strengthened. Whenever Leonard came to New York he tried to arrange to have dinner with AJN. Nock published his magnificent *Memoirs of a Superfluous Man* in 1943. He sent a copy to Leonard inscribed, "If this book is good enough for Leonard E. Read, it's good enough for me." Signed, Albert Jay Nock. FEE is now the central source for Nock's books; and there is a Nockian Society at 42 Leathers Road, Fort Mitchell, Kentucky 41017.

Leonard finally came to the conclusion that the institution he envisioned as a proper vehicle to advance the freedom philosophy could not operate as a facet of another type of institution . . . it had to be autonomous.

The bout with Bill Mullendore started it all. Leonard continued his own search for wisdom, reaching for new ideas and better ways to present them. He firmly grasped the profound truth that the advancement of human liberty is a learning process and *not* a selling problem.

What the freedom philosophy needed was "a local habitation and a name." Fifty-two years ago, in 1946, it found both in Irvington, New York. FEE has been a wellspring of ideas of liberty since its inception—and the tradition continues.

Postscript: A fine, full-scale biography of Leonard Read written by Mary Sennholz, his secretary in the early days of FEE, is available from the Foundation. Highly recommended. □

THE FREEMAN
Ideas On Liberty

Leonard E. Read, Crusader

by Bettina Bien Greaves

If you had known Leonard E. Read in the 1930s, you would probably not have picked him as a future crusader for the freedom philosophy. Charismatic, energetic, debonair, he was a businessman, an organization man, a Chamber of Commerce man. In 1932, in the depth of the Depression, he became manager of the Western Division of the U.S. Chamber of Commerce, headquartered in San Francisco. Some Chamber members were alarmed at the direction government was taking. But not Read and not the U.S. Chamber, which adopted a policy of going along to get along.

Then Read called on a prominent California businessman who had been criticizing the Chamber's position, William C. Mullendore, executive vice president of Southern California Edison. Read left Mullendore's office a changed man, "liberated," as he would phrase it later, from accepting blindly the popular worldview. He started to consider and ponder ideas that had never concerned him before. (See Edmund Opitz's account on page 519 of this issue.)

Freedom-Tinted Glasses

As Read examined the world through his newly acquired "freedom-tinted" glasses, he realized that the New Deal's spending and inflation, its economic distribution programs, and its pro-union Wagner Act and minimum-wage legislation all restricted the freedom of individuals and hampered economic recovery. He was aghast at the violations of private property he saw around him. He embraced enthusiastically the freedom philosophy Mullendore had expounded, became convinced it held the answer to the country's economic depression, and began to look for ways to share his newly found philosophy with others. In the process he became a crusader.

Read could not spread his pro-freedom ideas to the extent he wished within the Chamber. So he started an outside publishing venture, Pamphleteers, Inc., through which he released pamphlet versions of several pro-freedom works—Frederic Bastiat's *The Law,* Rose Wilder Lane's *Give Me Liberty,* Andrew Dickson White's *Fiat Money Inflation in France,* Ayn Rand's *Anthem,* and Virgil Jordan's *Freedom in America.* But Read felt frustrated. He realized he was trying to serve two masters—his employer and his freedom philosophy.

Just before the war ended in Europe, Read resigned as general manager of the L.A. Chamber to take a position in New York City as vice president with the National Industrial Conference Board (NICB). His job was to raise funds for its educational program, through which he hoped to promote the freedom philosophy. But the NICB's idea of "education" was not Read's. It wanted to present "both sides" of every issue. In a world where "the other side" was already being presented everywhere, in newspapers, radio, films, schools, universities, and books, "the freedom

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Bettina Greaves, resident scholar at FEE, joined the Foundation staff in 1951.

side" would receive short shrift. Disappointed once more, Read resigned.

The Founding of FEE

By that time, Read, through his work with the Chamber of Commerce and the NICB, had many contacts who shared his faith in freedom and his belief in the importance of finding some way to counteract the New Deal thinking. By 1946, Franklin Roosevelt's interventionist ideas had been further entrenched by price, wage, and rent controls and other wartime emergency legislation. So, with the backing and support of some of his friends, Read decided to set up his own organization. That spring Read established the Foundation for Economic Education (FEE).

It is one thing to believe in, and to dream of, promoting the freedom philosophy; it is quite another thing to actually do so. Without an organization to put outreach schemes into practice, there could be no promotion of the freedom philosophy, except in a very limited way through personal contacts. It takes an organization to publish books, briefs, and pamphlets, to hire speakers, to schedule lectures, and to arrange seminars. This is what Read had in mind for his foundation. And he was well-prepared for the task. He was a rare mix of crusader, businessman, administrator, and money-raiser. As crusader, the sincerity of Read's belief in moral principles infected others. His zeal and enthusiasm for the freedom philosophy persuaded listeners to support his cause. As businessman, Read realized that if an organization is to succeed its income must exceed its outgo. Establishing and maintaining an organization also required Read's talents for money-raising and administration.

As there had been controls on rents and practically no construction during the war, office space in New York City was scarce or non-existent. When a real estate agent suggested that Read look at suburban property, he found and purchased a large private estate, still FEE's home, which had been vacated by the owner during the war because of the difficulty of getting help.

To staff the Foundation, Read sought to assemble a group of persons who shared his goal. Read turned first to V. Orval Watts, who had been with him at the L.A. Chamber and had written some of its most effective anti-big-government tracts. Then, from Cornell University, he hired F.A. Harper, W.M. Curtiss, Paul L. Poirot, and Ivan R. Bierly. I came to FEE in 1951 and Edmund A. Opitz arrived four years later. Other staffers came and went over the years. When they left FEE, many continued to promote the freedom philosophy in one way or another, in business, in colleges and universities, and through other free-market think tanks.

Read was a moral philosopher, not an economist, though his principles made him a pretty good free-market economist. He reasoned that if it is moral to respect the life and property of individuals, then it is immoral to violate their rights to life and property; if it is moral to deal peacefully with others, then it is immoral to use force, fraud, or threat of force to impose one's wishes on others; if voluntary transactions among private-property owners are moral, then to hinder or prevent voluntary transactions among willing traders is immoral. No one, neither private individual nor public agency, should take property by force or coercion from one person for the benefit of another. These principles led Read logically to believe in the morality of private-property rights, a free-market economy, and free trade, and to the conviction that government intervention that violates private property, hampers free markets, and interferes with free trade is immoral. His proverbial answer when asked how to solve any economic problem was: "Get the government out of it."

For Leonard Read, the difference between what was permissible and what was impermissible was simple. *Anything That's Peaceful* (the title of one of his many books) was permissible. Read was always ready to point out that the voluntary way was not only right but beneficial. Obviously, it benefited those directly concerned. But eventually it helped everyone through increased cooperation, production, and well-being. On the other hand, the use of force to coerce others against their will was wrong, immoral. Moreover, while the use of force might help some, it inevitably hurt others.

Read's goal was to counteract, through FEE, the anti-freedom, pro-socialist, New Deal philosophy of post-World War II America. The problem was to reawaken in the people a belief in the morality of freedom. Since people cannot be forced to be moral, their ideas must be changed—through education. Read's whole life became devoted to this task, to free-market education in the broadest sense of the word.

Promoting Bastiat

One of the ways Read engaged in free-market education was through the distribution of the works of Bastiat. It was "love at first sight," or should I say "love at first reading," when Read first encountered Bastiat during his Chamber of Commerce days. Bastiat (1801–1850), economist, journalist, and member of the French Chamber of Deputies, had fought long and hard against the socialist ideas of his day. Bastiat's moral approach to freedom appealed to Read. And his anti-socialist arguments were relevant to Read's struggle against Roosevelt's New Deal.

As noted, Read, while still in California, reprinted the English translation of one of Bastiat's small books, *The Law.* Bastiat had proclaimed that life—physical, intellectual, and moral—was a gift from God, not government. "Each of us has a natural right—from God—to defend his person, his liberty, and his property. . . . If every person has the right to defend—even by force—his person, his liberty, and his property, then it follows that a group of men have the right to organize and support a common force to protect these rights constantly." However, according to Bastiat, that common force, government, had been used to destroy the rights of individuals and to take the property of some for the benefit of others. This would be considered "plunder" if done by gangsters or thieves. When done in the name of government, it was still "plunder"—Bastiat called it "legal plunder." His book cited many examples of government-sanctioned "legal plunder."

Read had been disappointed by the reception accorded *The Law.* He decided the rather archaic British prose of the translation must have prevented others from sharing his enthusiasm. So he set Dean Russell, a journalism graduate student recently mustered out of the Army Air Corps, to translating it into modern English prose. Russell's translation, published in 1950, just a century after the book first appeared in French, introduced Bastiat's writings on freedom to new generations of readers. It has since sold a half million copies and is still one of FEE's best sellers. FEE has also published newly translated versions of Bastiat's other books, *Economic Sophisms,* a collection of short pieces on free trade (most notably "The Candlemakers' Petition," a satirical attack on tariffs), *Economic Harmonies,* and *Selected Essays in Political Economy.* Bastiat's valuable and readable works might have been forgotten were it not for Read.

Spreading the Word of Mises

When Read needed economic advice, he relied on others, especially Austrian-born economist Ludwig von Mises, who had joined FEE in the very beginning. Mises, a refugee from war-torn Europe, had arrived in the United States in 1940, jobless and practically broke. Mises had been well known and well established in Europe, but in this country where Keynesian big-government, big-spending ideas reigned supreme, his free-market ideas were considered old-fashioned. One of FEE's founding trustees, economic journalist Henry Hazlitt, urged Read to take Mises on as economic adviser.

The Hazlitt-brokered relationship benefited all concerned: Read, FEE, and Mises. Mises lent advice and prestige to the Foundation. Through the years, the Foundation spread Mises's teachings by providing a platform for him to speak at seminars and to write for its magazine, *The Freeman.* FEE also helped with Mises's 800-plus-page economic opus, *Human Action.* A FEE secretary finished typing the manuscript and staffers prepared it for publication by Yale University Press, which occurred in 1949. Once it was published, FEE helped to place it in libraries. The Foundation itself has also published some of Mises's books—the first was *Planned Chaos* (1947)—and assisted in the publication of others.

The FEE Seminars

Read felt that one of the most effective ways to bring the freedom philosophy to people was through personal contact. The give-and-take of discussions, with the opportunity to ask questions, sparks interest. So in the 1950s, FEE began holding seminars, sometimes at its headquarters in Irvington, but frequently off-site around the country through arrangements made by local supporters of the freedom philosophy. Most were held on weekends—Friday evening to Sunday noon—with a three-man team of speakers—Leonard Read plus two others, perhaps Ed Opitz of FEE's staff; Dean Russell; Jim Rogers, a dynamic spokesman for freedom; Ben Rogge, Wabash College professor; Hans Sennholz of Grove City College and later FEE's president from 1992 to 1997; Percy Greaves, freelance economist and historian; George C. Roche III, FEE seminar director and now Hillsdale College president; or Bob Anderson, for many years FEE's executive secretary.

Many seminars were aimed at the general public, but others have been intended to reach various special groups—high-school or college teachers, college undergraduates, ministers, students of journalism, and so on. Seminars have played an important part in FEE's activities and, thanks to them, freedom has made friends all over the world.

Read lived, breathed, and thought the freedom philosophy. Wherever he went, he looked for, or made, opportunities to present his ideas. When he flew—and he did a lot of flying back and forth across the country to fulfill speaking engagements and to meet potential supporters—he would tantalize his seatmate with hints of where he had been, what he had done, and persons he had met. Out of curiosity, his seatmate would ask, "What *do* you do, Mr. Read?" And that opened the door for Read to talk about FEE and the freedom idea.

For Read, variety was the spice of life; he considered individual diversity "a blessing." Everyone should be free to try anything, so long as he didn't interfere with the equal rights of others. That way lay progress and economic development! Read had profound confidence that individuals could accomplish almost anything if left alone. He saw the "Miracle of the Market" (an article title) as the outcome of the actions and ideas of countless individuals.

Leonard Reed, 1965

As a boss, Read left his staff pretty much alone, counting on their self-motivation to contribute, each in his or her own way, to the freedom philosophy. But he insisted on several points. FEE should present a favorable impression to the public. All publications should be attractive. And anyone who wrote to FEE should receive a serious and courteous answer.

The Read Touch

One day the mail brought a vicious three-page diatribe from a labor-union organizer who attacked Read's position, expressed in an article about a recent airline dispute, that there was no moral right for workers to strike, that is, to forcibly prevent willing workers from occupying vacated jobs. Read took no notice of the correspondent's ill temper, but used a "turn-the-other-cheek approach"; he sent a serious and courteous reply with two small books. Some weeks later the union man, "Whitey," wrote authorizing Read "to become my director of reading. Send me anything which in your judgment will help my thinking, and with invoice." Whitey changed his occupation and eventually the two men met in Seattle when Whitey drove Read to the airport after a lecture. Read reminded Whitey of his first letter. Read wrote later that Whitey felt "crushed to think he had written in such a vein to one who reacted as [Read] had."

"Suppose I had replied in kind?" Read recalled asking. "Would you and I be riding together?"

"I'll say we wouldn't!"

"Whitey, let me explain what I did to you." Holding his plane ticket against the windshield, Read asked, "What holds it there?"

"The tension of your finger."

"You are right, Whitey. It is known as the law of polarity or the tension of the opposites. Now observe what happens when the tension is removed." The ticket fell to the floor. "Well, that's precisely what I did to you. I removed the tension; I gave you nothing to scratch against." Read then quoted an old Arab proverb, "He who strikes the second blow starts the fight." "When I didn't strike back," Read said, "there was no fight; you and I could become friends."

This story has a sequel. "Perhaps two years later, there came a period of three months with no word from Whitey—most unusual. Finally, a letter arrived, explaining that he had been in a head-on auto collision. He was still in the hospital after 90 days. And then this: 'but, Mr. Read, you should see the interest my three doctors are showing in *our* philosophy.'"

What We Do Not Know

Read had an immense respect for what we do not know. "The Wisdom in Knowing I Know Not" and "The Importance of Awe" were titles of two articles. He considered ideas all-important. He advocated self-education, urged everyone to do his "homework," to strive to become the best that he could, and to live up to his potential.

Read was not above a little showmanship. When he wound up a lecture he often had the lecture room darkened. Then he would light a small electric candle. The eyes of everyone in the audience would be riveted to that small flame. "No amount of darkness," he said, "can extinguish that tiny light." Then gradually Read would turn up the intensity of the candle until the whole room was flooded with light. "A good idea," Read said, "is similar. Once abroad in the world it lives; it cannot be extinguished or put back in a bottle. And an idea whose time has come can spread in time to encompass the entire world." And so it would be, Read believed, with the freedom idea. In spite of the refusal of the general public to accept the freedom philosophy, Read remained eternally optimistic, convinced that freedom would win in the end.

Leonard Read's Influence

Read died in 1983. But FEE has endured. It celebrated its 50th anniversary in 1996. And it continues along the path down which Read pointed. Thanks in part to Read and to FEE, the freedom philosophy and free markets are now more widely discussed and more respectable than they were in the years immediately following World War II. The founders of many recently established free-market think tanks give credit to Read and to FEE for having helped to inspire them. Some New Deal and World War II interventions, FEE's targets in the early years, have expired or been repealed. But others remain, and new interventions are proposed daily. Government regulations and controls go on and on. The struggle against the welfare-state philosophy is by no means won.

Until people understand economic principles clearly enough to realize that government should not intervene in the private affairs of peaceful persons, and that government's role should be limited to protecting life, property, and voluntary social cooperation, and adjudicating disputes, Read's work will not be done. Until that day arrives, there will be plenty of work for FEE's staff and other free-market-minded thinkers, writers, and teachers. The freedom philosophy remains a dream, an ideal, but one well worth striving for. □

The Essence of Americanism

by Leonard E. Read

Someone once said: It isn't that Christianity has been tried and found wanting; it has been tried and found difficult—and abandoned. Perhaps the same thing might be said about freedom. The American people are becoming more and more afraid of, and are running away from, their own revolution. I think that statement takes a bit of documentation.

I would like to go back, a little over three centuries in our history, to the year 1620, which was the occasion of the landing of our Pilgrim Fathers at Plymouth Rock. That little colony began its career in a condition of pure and unadulterated communism. For it made no difference how much or how little any member of that colony produced; all the produce went into a common warehouse under authority, and the proceeds of the warehouse were doled out in accordance with the authority's idea of need. In short, the Pilgrims began the practice of a principle held up by Karl Marx two centuries later as the ideal of the Communist Party: from each according to ability, to each according to need—and by force!

There was a good reason why these communalistic or communistic practices were discontinued. It was because the members of the Pilgrim colony were starving and dying. As a rule, that type of experience causes people to stop and think about it!

Anyway, they did stop and think about it. During the third winter Governor Bradford got together with the remaining members of the colony and said to them, in effect: "This coming spring we are going to try a new idea. We are going to drop the practice of 'from each according to ability, to each according to need.' We are going to try the idea of 'to each according to merit.'" And when Governor Bradford said that, he enunciated the private property principle as clearly and succinctly as any economist ever had. That principle is nothing more nor less than each individual having a right to the fruits of his own labor. Next spring came, and it was observed that not only was father in the field but mother and the children were there also. Governor Bradford records that "Any generall wante or famine hath not been amongst them since to this day."

It was by reason of the practice of this private property principle that there began in this country an era of growth and development which sooner or later had to lead to revolutionary political ideas. And it did lead to what I refer to as the real American revolution.

I do not think of the real American revolution as the armed conflict we had with King George III. That was a reasonably minor fracas as such fracases go! The real American revolution was a novel concept or idea which broke with the whole political history of the world.

Leonard E. Read established FEE in 1946 and served as its president until his death in 1983. "The Essence of Americanism," first delivered as a speech in 1961, was Mr. Read's traditional opening address at dozens of FEE seminars.

Up until 1776 men had been contesting with each other, killing each other by the millions, over the age-old question of which of the numerous forms of authoritarianism—that is, man-made authority—should preside as sovereign over man. And then, in 1776, in the fraction of one sentence written into the Declaration of Independence was stated the real American Revolution, the new idea, and it was this: "that all men are created equal; that they are endowed by their Creator with certain unalienable Rights; that among these are Life, Liberty, and the Pursuit of Happiness." That was it. This is the essence of Americanism. This is the rock upon which the whole "American miracle" was founded.

This revolutionary concept was at once a spiritual, a political, and an economic concept. It was spiritual in that the writers of the Declaration recognized and publicly proclaimed that the Creator was the endower of man's rights, and thus the Creator is sovereign.

It was political in implicitly denying that the state is the endower of man's rights, thus declaring that the state is not sovereign.

It was economic in the sense that if an individual has a right to his life, it follows that he has a right to sustain his life—the sustenance of life being nothing more nor less than the fruits of one's own labor.

It is one thing to state such a revolutionary concept as this; it's quite another thing to implement it—to put it into practice. To accomplish this, our Founding Fathers added two political instruments—the Constitution and the Bill of Rights. These two instruments were essentially a set of prohibitions; prohibitions not against the people but against the thing the people, from their Old World experience, had learned to fear, namely, overextended government.

Benefits of Limited Government

The Constitution and the Bill of Rights more severely limited government than government had ever before been limited in the history of the world. And there were benefits that flowed from this severe limitation of the state.

Number one, there wasn't a single person who turned to the government for security, welfare, or prosperity because government was so limited that it had nothing on hand to dispense, nor did it then have the power to take from some that it might give to others. To what or to whom do people turn if they cannot turn to government for security, welfare, or prosperity? They turn where they should turn—to themselves.

As a result of this discipline founded on the concept that the Creator, not the state, is the endower of man's rights, we developed in this country on an unprecedented scale a quality of character that Emerson referred to as "self-reliance." All over the world the American people gained the reputation of being self-reliant.

There was another benefit that flowed from this severe limitation of government. When government is limited to the inhibition of the destructive actions of men—that is, when it is limited to inhibiting fraud and depredation, violence and misrepresentation, when it is limited to invoking a common justice—then there is no organized force standing against the productive or creative actions of citizens. As a consequence of this limitation on government, there occurred a freeing, a releasing, of creative human energy, on an unprecedented scale.

This was the combination mainly responsible for the "American miracle," founded on the belief that the Creator, not the state, is the endower of man's rights.

This manifested itself among the people as individual freedom of choice. People had freedom of choice as to how they employed themselves. They had freedom of choice as to what they did with the fruits of their own labor.

But something happened to this remarkable idea of ours, this revolutionary concept. It seems that the people we placed in government office as our agents made a discovery. Having acquisitive instincts for affluence and power over others—as indeed some of us do—they discovered that the force which inheres in government, which the people had delegated to them in order to inhibit the destructive actions of man, this monopoly of force could be used to invade the productive and creative areas in society—one of which is the business sector. And they also found that if they incurred any deficits by their interventions, the same government force could be used to collect the wherewithal to pay the bills.

I would like to suggest to you that the extent to which government in America has departed from the original design of inhibiting the destructive actions of man and invoking a common justice; the extent to which government has invaded the productive and creative areas; the extent to which the government in this country has assumed the responsibility for the security, welfare, and prosperity of our people is a measure of the extent to which socialism and communism have developed here in this land of ours.

The Lengthening Shadow

Can we measure this development? Not precisely, but we can get a fair idea of it by referring to something I said a moment ago about one of our early characteristics as a nation—individual freedom of choice as to the use of the fruits of one's own labor. If you will measure the loss in freedom of choice in this matter, you will get an idea of what is going on.

There was a time, about 120 years ago, when the average citizen had somewhere between 95 and 98 percent freedom of choice with each of his income dollars. That was because the tax take of the government—federal, state, and local—was between 2 and 5 percent of the earned income of the people. But, as the emphasis shifted from this earlier design, as government began to move in to invade the productive and creative areas and to assume the responsibility for the security, welfare, and prosperity of the people, the percentage of the take of the people's earned income increased. The percentage of the take kept going up and up and up until today it's not 2 to 5 percent. It is now [1961] over 35 percent.

Whenever the take of the people's earned income by government reaches a certain level—20 or 25 percent—it is no longer politically expedient to pay for the costs of government by direct tax levies. Governments then resort to inflation as a means of financing their ventures. This is happening to us now! By "inflation" I mean increasing the volume of money by the national government's fiscal policy. Governments resort to inflation with popular support because the people apparently are naïve enough to believe that they can have their cake and eat it, too. Many people do not realize that they cannot continue to enjoy so-called "benefits" from government without having to pay for them. They do not appreciate the fact that inflation is probably the most unjust and most cruel tax of all.

Inflation is the fiscal concomitant of socialism or the welfare state or state interventionism—call it what you will. Inflation is a political weapon. There are no other means of financing the welfare state except by inflation.

So, if you don't like inflation, there is only one thing you can do: assist in returning our government to its original principles.

One of my hobbies is cooking and, therefore, I am familiar with the gadgets around the kitchen. One of the things with which I am familiar is a sponge. A sponge in some respects resembles a good economy. A sponge will sop up an awful lot of mess; but when the sponge is saturated, the sponge itself is a mess, and the only way you can make it useful again is to wring the mess out of it. I hope my analogy is clear.

Inflation in the United States has ever so many more catastrophic potentials than has ever been the case in any other country in history. We here are the most advanced division-of-labor society that has ever existed. That is, we are more specialized than any other people has ever been; we are further removed from self-subsistence.

Indeed, we are so specialized today that every one of us—everybody in this room, in the nation, even the farmer—is absolutely dependent upon a free, uninhibited exchange of our numerous specialties. That is a self-evident fact.

Destroying the Circulatory System

In any highly specialized economy you do not effect specialized exchanges by barter.

You never observe a man going into a gasoline station saying, "Here is a goose; give me a gallon of gas." That's not the way to do it in a specialized economy. You use an economic circulatory system, which is money, the medium of exchange.

This economic circulatory system, in some respects, can be likened to the circulatory system of the body, which is the blood stream.

The circulatory system of the body picks up oxygen in the lungs and ingested food in the midsection and distributes these specialties to the 30 trillion cells of the body. At those points it picks up carbon dioxide and waste matter and carries them off. I could put a hypodermic needle into one of your veins and thin your blood stream to the point where it would no longer make these exchanges, and when I reached that point, we could refer to you quite accurately in the past tense.

By the same token, you can thin your economic circulatory system, your medium of exchange, to the point where it will no longer circulate the products and services of economic specialization.

Those of you who are interested in doing something about this have a right to ask yourselves a perfectly logical question: Has there ever been an instance, historically, when a country has been on this toboggan and succeeded in reversing itself? There have been some minor instances. I will not attempt to enumerate them. The only significant one took place in England after the Napoleonic Wars.

How England Did It

England's debt, in relation to her resources, was larger than ours is now; her taxation was confiscatory; restrictions on the exchanges of goods and services were numerous, and there were strong controls on production and prices. Had it not been for the smugglers, many people would have starved!

Something happened in that situation, and we ought to take cognizance of it. What happened there might be emulated here even though our problem is on a much larger scale. There were in England such men as John Bright and Richard Cobden, men who understood the principle of freedom of exchange. Over in France, there was a politician by the name of Chevalier, and an economist named Frederic Bastiat.

Incidentally, if any of you have not read the little book by Bastiat entitled *The Law*, I commend it as the finest thing that I have ever read on the principles one ought to keep in mind when trying to judge for oneself what the scope of government should be.

Bastiat was feeding his brilliant ideas to Cobden and Bright, and these men were preaching the merits of freedom of exchange. Members of Parliament listened and, as a consequence, there began the greatest reform movement in British history.

Parliament repealed the Corn Laws, which here would be like repealing subsidies to farmers. They repealed the Poor Laws, which here would be like repealing Social Security. And fortunately for them they had a monarch—her name was Victoria—who relaxed the authority that the English people themselves believed to be implicit in her office. She gave them freedom in the sense that a prisoner on parole has freedom, a permissive kind of freedom but with lots of latitude. Englishmen, as a result, roamed all over the world achieving unparalleled prosperity and building an enlightened empire.

This development continued until just before World War I. Then the same old political disease set in again. What precisely is this disease that causes inflation and all these other troubles? It has many popular names, some of which I have mentioned, such as socialism, communism, state interventionism, and welfare statism. It has other names such as fascism and Nazism. It has some local names like New Deal, Fair Deal, New Republicanism, New Frontier, and the like.

A Dwindling Faith in Freedom

If you will take a careful look at these so-called "progressive ideologies," you will discover that each of them has a characteristic common to all the rest. This common characteristic is a cell in the body politic which has a cancer-like capacity for inordinate growth. This characteristic takes the form of a belief.

It is a rapidly growing belief in the use of organized force—government—not to carry out its original function of inhibiting the destructive actions of men and invoking a common justice, but to control the productive and creative activity of citizens in society. That is all it is. Check any one of these ideologies and see if this is not its essential characteristic.

Here is an example of what I mean: I can remember the time when, if we wanted a house or housing, we relied on private enterprise. First, we relied on the person who wanted a house. Second, we relied on the persons who wanted to compete in the building. And third, we relied on those who thought they saw some advantage to themselves in loaning the money for the tools, material, and labor. Under that system of free enterprise, Americans built more square feet of housing per person than any other country on the face of the earth. Despite that remarkable accomplishment, more and more people are coming to believe that the only way we can have adequate housing is to use government to take the earnings from some and give these earnings, in the form of housing, to others. In other words, we are right back where the Pilgrim Fathers were in 1620–23 and Karl Marx was in 1847—from each according to ability, to each according to need, and by the use of force.

As this belief in the use of force as a means of creative accomplishment increases, the belief in free men—that is, men acting freely, competitively, cooperatively, voluntarily—correspondingly diminishes. Increase compulsion and freedom declines. Therefore, the solution to this problem, if there be one, must take a positive form, namely, the restoration of a faith in what free men can accomplish. The American people, by and large, have lost track of the spiritual antecedent of the American miracle. You are given a choice: either you accept the idea of the Creator as the endower of man's rights, or you submit to the idea that the state is the endower of man's rights. I double-dare any of you to offer a third alternative. We have forgotten the real source of our rights and are suffering the consequences.

Millions of people, aware that something is wrong, look around for someone to blame. They dislike socialism and communism and give lip service to their dislike. They sputter about the New Frontier and Modern Republicanism. But, among the millions who say they don't like these ideologies, you cannot find one in ten thousand whom you yourself will designate as a skilled, accomplished expositor of socialism's opposite—the free market, private property, limited government philosophy with its moral and spiritual antecedents. How many people do you know who are knowledgeable in this matter? Very few, I dare say.

Developing Leadership

No wonder we are losing the battle! The problem then—the real problem—is developing a leadership for this philosophy, persons from different walks of life who understand and can explain this philosophy.

This leadership functions at three levels. The first level requires that an individual achieve that degree of understanding which makes it utterly impossible for him to have any hand in supporting or giving any encouragement to any socialistic activities. Leadership at this level doesn't demand any creative writing, thinking, and talking, but it does require an understanding of what things are really socialistic, however disguised. People reject socialism in name, but once any socialistic activity has been Americanized, nearly everybody thinks it's all right. So you have to take the definition of socialism—state ownership and control of the means of production—and check our current practices against this definition.

As a matter of fact, you should read the ten points of the *Communist Manifesto* and see how close we have come to achieving them right here in America. It's amazing.

The second level of leadership is reached when you achieve that degree of understanding and exposition which makes it possible to expose the fallacies of socialism and set forth some of the principles of freedom to those who come within your own personal orbit. Now, this takes a lot more doing.

One of the things you have to do to achieve this second level of leadership is some studying. Most people have to, at any rate, and one of the reasons the Foundation for Economic Education exists is to help such people. At the Foundation we are trying to understand the freedom philosophy better ourselves, and we seek ways of explaining it with greater clarity. The results appear in single-page releases, in a monthly journal, in books and pamphlets, in lectures, seminars, and the like. Our journal, *The Freeman*, for instance, is available to students and libraries on request.

The third level of leadership is to achieve that excellence in understanding and exposition which will cause other persons to seek you out as a tutor. That is the highest you can go, but there is no limit as to how far you can go in becoming a good tutor.

When you operate at this highest level of leadership, you must rely only on the power of attraction. Let me explain what I mean by this.

On April 22 we had St. Andrew's Day at my golf club. About 150 of us were present, including yours truly. When I arrived at the club, the other 149 did not say, "Leonard, won't you please play with me? Won't you please show me the proper stance, the proper grip, the proper swing?" They didn't do it. You know why? Because by now those fellows are aware of my incompetence as a golfer. But if you were to wave a magic wand and make of me, all of a sudden, a Sam Snead, a Ben Hogan, an Arnold Palmer, or the like, watch the picture change! Every member of that club would sit at my feet hoping to learn from me how to improve his own game. This is the power of attraction. You cannot do well at any subject without an audience automatically forming around you. Trust me on that.

If you want to be helpful to the cause of freedom in this country, seek to become a skilled expositor. If you have worked at the philosophy of freedom and an audience isn't forming, don't write and ask what the matter is. Just go back and do more of your homework.

Actually, when you get into this third level of leadership, you have to use methods that are consonant with your objective. Suppose, for instance, that my objective were your demise. I could use some fairly low-grade methods, couldn't I? But now, suppose my objective to be the making of a great poet out of you. What could I do about that? Not a thing—unless by some miracle I first learned to distinguish good poetry from bad, and then learned to impart this knowledge to you.

The philosophy of freedom is at the very pinnacle of the hierarchy of values; and if you wish to further the cause of freedom, you must use methods that are consonant with your objective. This means relying on the power of attraction.

Let me conclude with a final thought. This business of freedom is an ore that lies much deeper than most of us realize. Too many of us are prospecting wastefully on the surface. Freedom isn't something to be bought cheaply. A great effort is required to dig up this ore that will save America. And where are we to find the miners?

I think we will find these miners of the freedom ore among those who love this country. I think we will probably find them in this room. And if you were to ask me who, in my opinion, has the greatest responsibility as a miner, I would suggest that it is the attractive individual occupying the seat you are sitting in. □

If Rates of Return Matter, Social Security Is a Goner

When President Clinton called for "a national conversation" on Social Security a few months ago, he probably didn't expect that privatizing the whole thing would quickly become the talk of the country. But that's exactly what has happened. The new national willingness to explore options that previously were politically untouchable now seems so promising that privatization of the federal government's biggest welfare program may actually happen before the turn of the millennium. For Americans to embrace the most sweeping reform since Social Security was enacted in 1935, however, advocates of privatization will have to convince them that they'll be better off financially trusting their retirement savings to private investment.

On the face of it, that shouldn't be a difficult task. In just 15 years, Social Security will start running deficits as baby boomers retire in large numbers and benefits begin to outstrip revenues. Lest anyone think that there are billions of dollars waiting in a trust fund for the system to tap, forget it. The Social Security Trust Fund consists of four brown file folders in Parkersburg, West Virginia, containing receipts for $650 billion in U.S. Treasury bonds. The trust fund has been spent. It is nothing more than an accounting gimmick, and redeeming the bonds to pay benefits after 2012 will require a huge tax increase on young workers.

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When Social Security started, 30 Americans supported each beneficiary. Today, that ratio is just three to one, and in barely another generation, there will be just two payers for every recipient. This intergenerational Ponzi scheme will collapse before then in an actuarial nightmare, harming all Americans, unless Congress acts soon to return control of retirement decisions to citizens instead of politicians.

Social Security has probably reached the end of the line as far as the public's tolerance of further payroll tax hikes is concerned. An Associated Press poll taken in March found nearly 76 percent of all Americans opposed to raising taxes to fund the system. And nearly 90 percent of younger workers—those "Generation X" citizens between ages 18 and 34—want to shift at least some of their Social Security tax payments into private investment accounts. President Clinton himself has ruled out any further tax increases to solve the problem. Thus, the risk of depending on Social Security would seem to be very high, indeed. Those who still say we're safer if we put our eggs in the government's basket had better start coming up with better arguments.

No wonder 90 percent of Generation X'ers oppose any more tax hikes for Social Security. According to economists Laurence Kotlikoff and Willi Leibfritz in a recent paper for the National Bureau of Economic Research, a 25-year-old worker can expect to pay $175,000 more in Social Security taxes over his lifetime than he can expect to receive in Social Security benefits. Even today's 55-year-olds will end up, on average, paying in

$4,000 more than they'll ever get back. Only people in their late 50s and older can hope for a positive return—if they don't die before reaching average life expectancy.

William W. Beach and Gareth G. Davis, in a January 1998 document from the Heritage Foundation called "Social Security's Rate of Return," argue that it isn't enough to contrast what workers will pay in with what they'll take out. Beach and Davis say the most meaningful analysis would compare what workers will get from Social Security with what that same amount of money could earn in private investment. When younger workers examine those numbers, they will be horrified by the raw deal that this New Deal government program really is:

> A single male earning what the Social Security Trustees call "an average income" (or $25,723 in 1996) is particularly hard-hit by Social Security's low returns. A 21-year-old single male making an average income throughout his lifetime can expect to lose $309,400 in potential retirement income by staying in Social Security when compared with what he would earn if he invested his payroll taxes in a safe, conservative private retirement fund made up of 50 percent equities and 50 percent government bonds.

Beach and Davis show convincingly that for almost every type of worker and family, retirement under the current Social Security system means "receiving fewer dollars in old age and passing on less wealth to the next generation than they could if allowed to place their current Social Security tax dollars in private retirement investments."

Partial or total privatization of retirement systems is a trend that is sweeping the world for the same reason it's now being seriously considered here: government programs with their low rates of return for younger workers were inherently too expensive and headed for insolvency. Chile was the first country in this hemisphere to adopt a national, government-sponsored social security program (in 1924) and the first in the world (in 1981) to end it by substituting a privately funded and administered plan. Chilean workers have earned an astounding average annual rate of return, after inflation, of 12 percent during the past 15 years. Great Britain and Australia have joined the privatization bandwagon, as have Argentina, Peru, Hungary, Romania, Croatia, and even Russia and several other nations. If they can do it, why can't America?

How risky would it be for American citizens to invest their own retirement savings in the stock market? An analysis of the historical performance of stocks from the prestigious Wharton School in Pennsylvania shows that while there certainly have been single-year periods and even five-year periods in which the stock market averaged a negative return, the longer stocks are held, the less the risk. Never in American history did stocks produce a loss—in real terms—over a 20-year period. The very best return on stocks in any 20-year period was 12.6 percent; the very worst—1 percent—was still much better than today's younger workers can expect from the Social Security system!

As it is, six million Americans already do not participate in Social Security. More than a dozen states exempt from 20 percent to all of their public workers from it. And nearly three-quarters of the nation's police and firemen are not in the system.

Paul Farago, a senior adviser to the Oregon-based Cascade Policy Institute, notes that the original Social Security act allowed municipal governments to go on their own. As recently as 1981, employees of Galveston County, Texas, voted by a margin of 78 percent to 22 percent to leave the federal program for a private alternative. Two other nearby counties soon followed. Congress eliminated the opt-out provision in 1983. But today, Farago points out, the thousands of Texas county workers who opted for the private plan, and who paid about the same in contributions as they would have with Social Security, are getting several times the return.

Social Security advocates have long buttressed their case for continuation of the program with phony claims that workers could count on safety and a decent return on their money. Now that the truth is known, privatization ought to be a no-brainer. □

An Environment of Freedom

by Jo Kwong

For 16 years, Wirthlin Worldwide has published monthly survey results to track public opinion about environmental policy. Commenting on recent results that show ever-higher support for continuing environmental improvements, regardless of cost, the report noted that "environmentalism has become deeply rooted in the U.S. national psyche. Since its extremist beginnings 30 years ago, environmentalism has matured, gaining popular support and becoming a part of the mainstream. In the process it has gained a great deal of momentum."[1]

Indeed, environmentalism has gained a tremendous amount of momentum, well beyond what most people could have imagined 30 years ago. And that momentum has important consequences, particularly for those who value a free society. Thanks to the seemingly harmless and universal appeal of environmental preservation, the issue offers an opening to areas with only tenuous links to true environmentalism. There are indeed serious environmental issues and each of these should be dealt with in the light of good science and the inevitability of tradeoffs. But we also need to recognize the seriousness of freedom as an ideal.

I am speaking about the insidious nature and the amorphous shape of what we call "the environment." Environmentalism has come to mean anything and everything that any social advocate wants it to be. And that, I contend, is dangerous to the ideal of freedom. If we continue to embrace a way of thinking that allows environmental values to trump all, we stand to lose many other values, such as liberty, that are also vital to human flourishing.

What is at stake if we fail to clarify our vision of an environment of freedom? A look at a few current stories will give us some idea.

Environmentalism Trumps All

In 1989, John Shuler, a Montana rancher who had been losing sheep from wildlife attacks, heard the sounds of grizzly bears in his yard. He grabbed his rifle and ran out near the pens, where he saw three bears within range. Shuler fired some shots in the air and scared them off. As he turned to go back in the house, he was confronted by another grizzly that rose on its hind feet, spread its paws, and roared. Shuler did what most clear-thinking folks would do in that situation. He shot and fatally wounded the bear.

Thinking he did nothing wrong, he notified the U.S. Fish and Wildlife Service. It promptly charged him with violating the Endangered Species Act (ESA), which makes it a federal offense to harm officially "endangered" plants and animals, and fined him $7,000 ($5,000 for the value of the bear—even though the Fish and Wildlife Service admitted that it

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would kill the bear if it killed livestock again—and $2,000 for the federal government's cost of investigating the incident). At a hearing, an administrative law judge from the U.S. Department of the Interior accepted Shuler's argument that his life was in danger, but nonetheless declared that Shuler could not claim self-defense under the ESA because he had purposely "introduced himself into the zone of imminent danger." He fined Shuler $4,000. This fine was upped to $5,000 by an ad hoc appeals board employed by Interior Secretary Bruce Babbitt, which rejected the self-defense claim because Shuler's dog, by alerting Shuler to the bear's presence, had "provoked the bear."

Seven years after the attack, Shuler was able to file a lawsuit against Babbitt charging that the previous holdings conflicted with well-settled principles of law—self-defense and the right to carry weapons on one's own property and use them when one's life is in danger.

Fortunately, this story ends in victory. With help of the Mountain States Legal Foundation, in March 1998, the U.S. District Court in Montana ruled for Shuler, vacating both his conviction and fine. But consider the costs in terms both of money and anguish. To protect his basic right of self-defense, John Shuler had to endure nine years of battle with the federal government. The story deserves to be told over and over again, for it illustrates how environmental laws are whittling away our most basic rights.

Another story concerns wilderness areas, but it's not the typical battle over whether mountain bikes, horses, or snowmobiles are trampling the wilderness cathedral. In December 1996, Bobby Unser, three-time winner of the Indianapolis 500, lost his way in a blizzard while snowmobiling. He was charged with violating the Wilderness Act of 1964. Although it was sunny at the start of the trip, a howling wind and blizzard engulfed Unser and a companion. They became disoriented and lost, and eventually may have strayed into the San Juan Wilderness Area. For a day and a half they wandered, surviving only by resourceful use of a snow cave and other techniques. Eventually they found a barn and called for help. When Unser approached the Forest Service for his snowmobiles, it cited him for use of a motorized vehicle in a wilderness area, a violation of federal law.

At a trial in Denver, Unser was found guilty and fined $75. According to the Mountain States Legal Foundation (MSLF), the judge, alone in his chambers, used a piece of picture-hanger wire and a topographical map to "measure" the distance that the snowmobiles traveled, based on odometer readings. He concluded that Unser was indeed inside the wilderness area. What's interesting from a rights-based perspective is that it made no difference to the judge whether Unser entered the area accidentally in an emergency. As the foundation points out, this ignores a centuries-old fundamental principle—that a crime requires criminal intent. Incredibly, the government attorneys argued that the use of a motorized vehicle there is a "public welfare offense," not requiring criminal intent, because it affects people's "primitive enjoyment of wilderness areas." The MSLF has asked for oral arguments in this case, so stay tuned.

While these kinds of stories are often dismissed as right-wing jabbering, it's encouraging to see that they are appearing more frequently in the mainstream press. The following story appeared recently in *Newsweek* magazine.

Superfund

Although no adverse health effects have ever been traced to a Superfund waste-dump site, 84-year-old Mrs. Scott of Oregon nonetheless received a certified letter from the authorities informing her that a little building she bought soon after her husband's death 46 years earlier was potentially responsible for contaminating the city's groundwater.

The building opened in 1952 with a children's clothing store on one side and a dry cleaners on the other. The stores operated for 25 years until the owners retired and were later replaced by a flower shop. All along, Mrs. Scott felt secure that this building would provide retirement income. And this it did until that letter came from the state. Although the dry cleaner had ceased operations 20 years ago, the state claimed that it was a likely source of water contamination.

With an appraised value of $70,000, Mrs. Scott's building, plus her home and savings, could not come close to covering the $200,000-plus that state examiners warned her it would cost for testing and cleanup. Given Superfund's joint-and-several-liability provisions, she was advised to take action against the dry cleaner and seek payment from companies that supplied his chemicals. She could also attempt to identify the insurers of the building before environmental hazards were written out of liability coverage. But she had to pay the costs regardless of what action she took. Her daughter writes of the incident: "The crippling realization that she could at any time be stripped of the means to support herself financially seems to have invaded her very cells. Her legs ache. Some days now, she leans on a chrome walker, unable to carry her own weight for the first time in her adult life. Surely this was not what we intended when we assessed the environmental transgressions of our past and set out to clean up the errors we made as a society on our way to the American Dream."[2]

If there's any sympathy at all for Mrs. Scott, it's likely because she's a little old lady, or because she's a lone human being. Substitute Wal-Mart or any other symbol of corporate America, and preconceived notions of capitalism rise to obscure the basic situation: a system of perverse incentives with little value in individual rights.

Greens on the Green

On a trip a while back, I leafed through the airlines magazine *Hemispheres*. It carried another article about one person's shock at how environmental regulations interfere with the right to build golf courses.

Golf-course developers are familiar with the battery of environmental requirements dealing with wildlife habitats, wetlands preservations, water resources and runoffs, and chemical usage and storage: environmental impact statements, water catchment plans, U.S. Army Corps of Engineers approval forms, contained runoff designs, and wetlands protection covenants—all of which must be prepared and approved by local, state, and national agencies. As usual, the regulations are not just a complex nuisance, they add millions of dollars to the cost of development.

Even then, there are no guarantees. When Peter Dye built the Ocean Course at Kiawah Island, South Carolina, for the 1991 Ryder Cup matches, he carefully constructed several hundred acres of "new" wetlands areas. Yet two years later the owners faced a court case in which environmental groups alleged that the course harmed wildlife along the Carolina shore.

When John Naumann decided to build a golf course on Sanibel Island, Florida, he knew he would face an uphill battle. He carefully routed his holes on the bay side of the island, avoiding a gopher-tortoise site. But the worst wildlife situation imaginable occurred: a family of bald eagles set up home in the middle of the golf course. All kinds of agencies descended to prohibit construction during the winter breeding. Bulldozers worked double shifts to try to get some fairways completed before breeding. The city of Sanibel assigned a full-time nature policeman to spend his days on the construction site watching every move.

Construction, originally budgeted for one year with $1 million for permitting, turned into a three-year, $3.5 million permit project. Naumann had to fight over zoning densities and agree to build a new $2 million sewage-treatment plant for the city. He also pledged to set aside a permanent eagle boundary that cost $7.5 million in developable land and to donate 200 acres of waterfront land for a federally managed preserve.

Some developers see such handovers as nothing short of extortion. One developer decided to check a hunch. He set up a sting operation for environmental groups protesting his plans to build a course in Purchase, New York. When the "enviros" promised to help a fictitious investment group obtain the property, in return for hefty donations, to deny it to the developer, he sued. The enviros went away. Good intentions or just plain blackmail? Such stories led to the title of the *Hemispheres* article, "How Green Are the Greens?"—a growing question among people looking for solutions to real environmental problems and who find themselves blocked at every step of the way by environmental advocacy groups.[3]

Religious Freedom

Religion plays a growing role in the environmental movement as more and more church leaders preach about the benefits of recycling or the need to boycott industry. A brochure displayed in my church narthex, written by an author of books on religious and ethical aspects of environmental responsibility, advised parishioners to "Become an advocate for the earth." She continued, "I hope to be a gentle advocate every day for the earth. I don't want to be nasty or preachy, but neither am I willing to stand silently by and say nothing to merchants who use Styrofoam packaging or local manufacturing firms that burn toxic wastes in their incinerators." She also advises that "If you interact with children, take seriously the responsibility to raise a new generation of concerned caretakers of the earth."

Last year, our litany for Independence Day asked God's forgiveness for pollution. We were to say, "O God, forgive our mindless exploitation of this bountiful land. Forgive us for fouling our air, contaminating our water, disfiguring our landscape. And grant us vision and courage to right these wrongs."[4]

An insert in another church bulletin asked, "Where on Earth Are We Going?" and urged the congregation to attend programs on "Environmental Politics and Justice" and "Sustainable Agriculture, Population, and the Environment" hosted by the Worldwatch Institute. Sponsors, by the way, of the programs, included the Community Ministry of Fairfax County, Virginia, the North American Coalition on Religion and Ecology, the Green Coalition, the Sierra Club, and Help Others Protect the Environment—a rather descriptive call-it-as-it-is name for the local environmental club.

Environmentalism Justice

Moving a bit higher on the outrageous scale, let's take a look at the freedom currently being tested under the claim of environmental justice. How are everyday choices of supposedly free men and women being interfered with?

Some black residents of Convent, Louisiana, are reportedly irate at the Environmental Protection Agency for delaying approval of a proposed plastics plant. In 1997 EPA, acting on a Clean Air Act petition, prohibited construction of Shintech's PVC facility. It was the EPA's first ruling based on President Clinton's 1994 executive order challenging "environmental injustice," or "environmental racism"—the notion that polluting industries locate in minority areas because the residents are powerless to stop them.

The $700-million manufacturing facility would have hired 35 percent of its work force, 165 people, from the predominantly black surrounding population at $12 to $16 dollars an hour. The local NAACP chapter conducted a poll and found that 73 percent of the people in the communities near the proposed plant favored it. All the town's councilmen voted for the plant.[5] Findings about safety and job creation have been disputed by Greenpeace and other environmental groups which argue that the facility threatens the people and local environment through its production of vinyl chloride. Complaints also include the facility's high energy requirements, the potential for leaks, and high rates of worker-related illnesses. But beyond the technical issues regarding pollutants and toxics, the environmental-justice claims open up an entirely new can of worms. Again, stay tuned to see if loosely defined community rights to justice trumps everything else.

It Takes a Village

Hillary Clinton's favorite phrase, "It takes a village," is catching on, though not quite the way she means it. The Alliance for America's newsletter reports that since November 1997, over a dozen "They're Taking Our Village" meetings have been held throughout western

Montana to discuss the impact of federal land management on the social and economic well-being of the rural resources-dependent culture. These meetings, hosted by county commissioners, local businesses, chambers of commerce, and other grassroots groups, have drawn hundreds of people united with a passion. As the Alliance's Bruce Vincent writes, "The policies of this Administration are not only ripping apart our current village economic and cultural fabric; they are disempowering local self-determination as we gallantly attempt to piece together the economic and cultural jigsaw puzzle of our future."[6]

The umbrella of environmental issues is certainly providing a growing pretext for curtailing our freedoms. Charles Murray recently wrote about some potential consequences. As more and more regulations are imposed, he observed, just about everyone is in constant danger of violating laws. We've seen it with Shuler, Unser, and the people who care for their land in violation of wetlands and endangered-species regulations. One result is the alienation of citizens from their government. Murray writes, "Because so many regulations are so unconnected to anything resembling right or wrong, people who want to be law abiding find themselves picking and choosing the laws that they deem worthy of respect. . . . People who feel compelled to judge laws on a case-by-case basis have attached provisos to one of their most basic civil loyalties."[7]

Those who value individual liberty and a free society have reason to keep an eye on environmental regulation. Fortunately, classical liberal principles offer a clear vision of proper environmentalism, but it's a tough message to communicate. Nonetheless, it's a vision of environmental freedom that entails the freedom to protect, preserve, and enhance the environment in ways that reflect human innovation and stewardship. Hopefully through this commitment, we can make a difference in the environment, while at the same time preserving freedom and all its virtues. □

1. "The Wirthlin Report," August/September 1997, The Wirthlin Group, McLean, Va.
2. Carolyn Scott Kortge, "Taken to the Cleaners," *Newsweek*, October 23, 1995, p. 16.
3. A.G. Pollard Jr., "How Green Are the Greens?" *Hemispheres*, April 1994, pp. 55–60.
4. "Litany for Independence Day," Lord of Life Lutheran Church, Fairfax, Va., July 5, 1997.
5. Henry Payne (Scripps Howard News Service), "Environmental Justice Kills Jobs for the Poor," *Wall Street Journal*, September 16, 1997.
6. "With Road Moratorium, 'They're Taking Our Village,'" *Trumpet Call*, Alliance for America, March/April, 1998.
7. Charles Murray, "Three Broken Compacts," American Enterprise Institute for Public Policy Research, March 1998.

THE FREEMAN (Ideas On Liberty)

Nightmare in Green

by Jarret B. Wollstein

"The threat of an environmental crisis will be the 'international disaster key' that will unlock the New World Order."[1]
—Mikhail Gorbachev, Moscow, 1991

In Colton, California, a fly has brought economic development to a screeching halt. This San Bernardino County town of 45,000 was already in bad shape from the closing of a military base. The foreclosure rate is among the highest in the state, and the city council is considering putting up the civic center as collateral to raise funds.

Unfortunately for its human residents, Colton is also home to the Delhi sand fly, which is listed by the Environmental Protection Agency as an endangered species. To protect the fly, state authorities have blocked construction of a new hospital and industrial park that would have brought in over $171 million in investment and thousands of new jobs. In fact, any major development is impossible because of the fly.[2]

The incident in Colton is just one example of the increasingly acrimonious conflict between property owners and environmental bureaucrats. It could even turn out to be the opening shot of an all-out environmental war. On one side are ordinary citizens, farmers, and ranchers who are struggling to preserve their property, freedom, and way of life. On the other side are environmental bureaucrats who are issuing increasingly draconian regulations and orders.

The Environmental Elite

In the early 1970s, the environment became the focus of enormous media attention. At least some of the problems were real, if often exaggerated. Untreated sewage was being discharged into coastal estuaries. Toxic runoff from farms and factories was killing fish and birds. Like many Americans, I was concerned. During the mid-1980s, I even worked briefly for the Natural Resources Defense Council—a private environmental advocacy organization.

Today, the political climate has changed radically. Environmental groups—including the Sierra Club, Audubon Society, Nature Conservancy, Greenpeace, and Worldwatch Institute—have become extremely influential and powerful. Greenpeace alone boasts some six million members. The Sierra Club and Worldwatch Institute have "adviser" status with the United Nations. These environmental groups have become the most powerful lobby in Washington, D.C., and at the U.N.

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The result: authoritarian environmental political agendas—not science—are increasingly determining policy. There has also been a frightening change within the environmental movement. For many, the goal is no longer clean air and water, and a safe environment for human beings. Instead, for many environmentalists, the goal is to protect "sacred Mother Earth"—meaning every bug, rat, fern, and species *other than man.*

Extreme environmentalists are not shy about admitting their goals. As Reed Noss states in his article "Rewilding America," "the collective needs of non-human species must take precedence over the needs and desires of humans."[3] Indeed, for many, man is the enemy.

This attitude was made crystal clear by Maurice Strong, secretary general of the 1992 U.N. Earth Summit held in Rio de Janeiro. Just the year before, Strong had declared: "It is clear that current lifestyles and consumption patterns of the affluent middle class—involving high meat intake, consumption of large amounts of frozen and convenience foods, use of fossil fuels, ownership of motor vehicles and small electrical appliances, home and workplace air-conditioning, and suburban housing are not sustainable."[4]

Some extreme environmentalists want to take us back to the Middle Ages. E.F. Schumacher, author of *Small Is Beautiful,* says the world was much better in medieval times, when people rarely traveled beyond the village in which they were born. Rudolf Bahro, founder of the German green movement, wants us all to live in small communities and to eliminate our cars, airplanes, computers, and most other modern devices.

Other authoritarian "defenders of the earth" would like to reduce the human population to prehistoric levels. Warren Hern says "the human species has become a malignancy, an 'ecotumor' that is growing out of control."[5] David Foreman, co-founder of Earth First!, agrees. "We are a cancer on nature," he declares.[6] Earth First!'s motto proudly declares its ultimate goal: "Back to the Pleistocene."

How do they propose we get there? National Park Services biologist David Graber suggests, "Until such time as Homo Sapiens should decide to rejoin nature, some of us can only hope for the right virus to come along."[7] Many extreme environmentalists are determined to end industrial civilization, one way or another.

The Rio Summit and Green Marxism

In June 1992 over 20,000 people from around the world gathered in Rio de Janeiro for the United Nations Conference on Environment and Development (UNCED). The working session of the conference was the "Earth Summit," attended by representatives from 178 nations and hundreds of U.N. non-government organizations (NGOs).

The chairman of the Earth Summit was Norway's Prime Minister Gro Harlem Brundtland, who was also vice president of the International Socialist Party.[8] Brundtland readily admitted that the Earth Summit agenda was based on the party's platform. True to form, an endless parade of socialists, extreme environmentalists, and representatives of authoritarian regimes chastised the United States for "consuming too much" and exploiting the Third World. Their solution: redistribution of our wealth through global taxes and outright expropriation. The enforcement mechanism: a beefed up United Nations with new powers to jail "environmental criminals" and seize their property without trial.

This authoritarian program was spelled out in the conference's Rio Declaration, Earth Charter, and Agenda 21—an 800-page agreement with 115 specific proposals. According to the late Dixy Lee Ray, Agenda 21 seeks to establish a mechanism for transferring wealth from the citizens of the United States to the Third World. "Fear of environmental crises" would be used to create a world government and U.N. central direction.[9]

Henry Lamb, in his article "The Year of Decision," writes that Americans fail to realize that their enemy is the "hoards of NGOs [who are] cheering the proposals pushed by international statesmen at world conferences designed to achieve with verbosity what could not be accomplished with bombs."[10]

Implementing the World Environmental Regime

The primary mechanism for implementing Agenda 21 and the other extreme environmental goals of the Earth Summit are international treaties. The U.N. has passed over 300 environmental treaties, and many have been ratified by the United States.

Under the U.S. Constitution, once a treaty is ratified by the Senate, its provisions supersede all other laws—federal, state, and local. Article VI, Section 2 of the Constitution clearly states that "all treaties made, or which shall be made, under the authority of the United States, shall be the supreme law of the land."

A treaty that gives a foreign power control over U.S. territory is obviously a very serious matter. At the least, you would expect extensive media coverage and thoughtful debate. But in reality, these treaties have been virtually ignored by the mainstream press and often rubber-stamped by congressmen who have never read them. As a result, few Americans have even heard of the World Heritage Treaty or the Biodiversity Treaty, or dozens of less ambitious treaties. Yet these treaties are about to have a profound effect on every aspect of your life; from where you live and work, to what you eat, to whether you will be allowed to own a car. Here are two examples:

The World Heritage Treaty. This treaty imposes a total ban on human use of protected areas. It was signed in 1973 by President Nixon and subsequently ratified by the U.S. Senate. It creates the UNESCO World Heritage Committee, charged with "protecting" any building or land *designated by the committee* as a World Heritage Site.[11] No subsequent U.S. approval is required, and a recent attempt in the Senate to require congressional approval was defeated.

Typically, U.N. "protection" of land means a total ban on virtually any human use other than limited tourism. Banned activities include mining, logging, farming, and permanent human habitation. The EPA and its state counterparts are the lead enforcement agencies.

In the United States, 47 designated "biosphere reserves" are now under partial or complete control of UNESCO and the U.N. World Heritage Committee. "Protected sites" include the Statue of Liberty, the Everglades National Park, Grand Canyon, Yosemite National Park, and Yellowstone Park.[12]

Existing and proposed biosphere reserves in the United States now include millions of acres. The Yellowstone Bioreserve alone has over 22 million acres. But even that pales in comparison to the proposed Ozarks Highlands Biosphere, which will include 54,000 square miles.[13]

The total U.S. area currently under U.N. "protection" constitutes over 200 million acres, nearly twice the area of the state of Idaho.

Human use of U.S. land in and around U.N. Biosphere Reserves is being severely limited or banned entirely. Following the designation of the Yellowstone Bioreserve, the New World Gold Mine—located five miles *outside* of Yellowstone—was forced by the EPA to suspend all operations. In and around the Adirondacks State Park in New York—part of the North Bioregion—landowners have been told by environmental authorities that they can't make any additions to their homes and have been forced to abandon farming practices they've used for generations.

The Biodiversity Treaty. This treaty makes violating U.N. environmental decrees a criminal offense, punishable by prison and confiscation of assets without trial.[14] It was signed by President Clinton in 1993, but never ratified by the Senate. Clinton says ratifying it is his "top foreign policy objective."

Under the treaty, NGOs would work with U.S. agencies like the EPA to ensure "sustainable development"—which in practice means *no* development, and certainly none that hasn't been approved by U.S. and U.N. environmental bureaucrats.

Although the Biodiversity Treaty is still unratified, it is nevertheless rapidly being implemented throughout the country by executive order. A critical step took place in January 1996, when President Clinton signed Executive Order 12986 giving the International Union for Conservation of Nature and Natural Resources immunity from lawsuits in the United States.

The IUCN is the major administrative agency for the U.N.'s global environmental agenda. It includes representatives from over 800 state and federal government agencies and nongovernment organizations in 133 countries. The IUCN's master plan for the United States is the Wildlands Program, which is presented in U.N. Global Biodiversity Assessment (Section 10.4.2.2.3). The goal of this incredible program is to turn 50 percent of the United States—including thousands of existing towns and communities—into an "eco-park" in which most human use is prohibited. According to *Science* magazine, the Wildlands Project calls for "23.4% of the land [in the United States] to be returned to wilderness, and another 26.2% to be severely restricted in terms of human use. Most roads would be closed; some would be ripped out of the landscape."[15] As Marilyn Brannan, associate editor of *Monetary & Economic Review*, commented, "It cannot be too strongly emphasized that this is a radical agenda designed to control not just the land, but all human activity as well."[16]

Section 10.5 of the Global Biological Assessment states that in 20 to 50 years, all citizens living within reserves will be "relocated." Tens of millions of people would be involved in this relocation.[17]

John Davis, editor of the Wildlands Project journal, *Wild Earth,* explains the ultimate objective: "Wilderness recovery must start now but continue indefinitely—expanding wilderness until the matrix, not just the nexus, is wild. . . . Does [this] mean that Wild Earth and the Wildlands Project advocate the end of industrial civilization? Most assuredly. Everything civilized must go."[18]

Fortunately the Biodiversity Treaty faces strong opposition. But that doesn't mean we can relax. As noted, Clinton (like other presidents) has been circumventing Congress by enforcing his policies through executive order, regulation, and by strongarming local governments. That's what's happening now with the Biodiversity Treaty and Agenda 21.

Sustainable Development

If you search under the keyword "sustainability" on the Internet you will find hundreds of thousands of listings, including sites for dozens of local sustainability councils. Maurice Strong's "Earth Council" is the global coordinator for sustainability.[19] Many local governments are acting as if Biodiversity Treaty and its plan for a "sustainable" U.S. economy were the law of land.

For example, in October 1996 Mayor Willie Brown announced his new "Sustainability Plan" for San Francisco, which calls for eventual elimination of all cars and trucks from the city. The plan states that "Ultimately, in a sustainable San Francisco, almost all trips to and within the City will be on public transit, foot or bicycle as will a good part of trips in the larger Bay Region. Walking through streets designed for pedestrians and bicycles will be more pleasant than walking through those designed for the automobile. . . . Old, obsolete highway segments of the automobile era will be demolished. . . . Only through the cooperation of an enlightened San Franciscans [sic] will the City become a leading global citizen."[20]

Brown's plan doesn't explain how people are expected to get to the city without cars. It doesn't explain how the 900,000 people living in San Francisco will be supplied with food and other merchandise without trucks. It doesn't explain how anyone will even be able to move a sofa or refrigerator from one house to another (by oxcart?). And San Francisco is just one of 40 U.S. cities that now plan to eliminate cars and trucks in the name of sustainability.

Many biodiversity councils have been established. For instance, the Chicago Region Biodiversity Council is a coalition of 34 federal agencies, cultural organizations, and environmental groups, which the *Chicago Tribune* calls "an ambitious and unprecedented effort to restore what nature created, not piece-by-piece, but on a regional scale. . . . The idea is to create a network of native natural areas not just in [Illinois] forest preserves but in city and suburban neighborhoods and on corporate campuses. Lawns and parkways could be replaced by fields of prairies, wildflowers, and boring detention ponds could be replaced by living wetlands."[21]

Of course, the lawns they are planning on eliminating are those of people like you and me. And the parkways they want to turn into flowers are our major means of transportation. Earth First! could hardly ask for more.

The shocking reality is that without most of us even being aware of its existence, a deadly alliance of authoritarian environmentalists and utopian city planners has been moving full speed ahead to roll back industrial civilization.

Fighting Back

As awareness grows of the power grab in the name of the environment, resistance is mounting. In 40 states, nearly 100 bills have been introduced to curtail environmental overregulation. In the last five years, 23 states have passed laws strengthening property rights. The U.S. Supreme Court has ruled that if environmental regulations destroy the value of a person's property, it is a "taking" under the Fifth Amendment and the owner must be compensated.[22] And pending before Congress, the Property Rights Act would compensate property owners who lose 35 percent or more of the value of their property because of government regulations. A variety of organizations is fighting the global, environmentalist power grab. While, admittedly, compensation would come from the taxpayers, the real import of these measures is that government takings would be constrained.

The authoritarian environmental movement is global, powerful, and well organized. Many Americans are being required to surrender their liberty in the name of "the environment" without a shot being fired. If a crazed foreign despot tried to force the American people to give up their cars, homes, businesses, standard of living, and freedom in the name of socialism and the glory of the state, he'd be hanged. But when the new environmental totalitarians demand precisely the same policies in the name of "saving the earth," millions of Americans applaud.

Once the American people are aware of the full dimensions of the authoritarian environment agenda to take away their cars, air conditioners, factories, and homes, they will surely reject this totalitarian environmental agenda and return to sanity.

We can have both a safe, livable environment and freedom and prosperity, but only if we expose and reject the environmental authoritarian movement to destroy industrial civilization. □

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Lessons from Homeschooling

The June 28, 1998, *New York Times* reported that 56 percent of Massachusetts' up-and-coming teachers failed their basic test in reading and writing. This result means that well over half of Massachusetts' freshly minted college graduates with degrees in education cannot competently read and write.

Can you guess the response of the Massachusetts State School Board? *They re-graded the tests on a curve so that no more than 44 percent would fail!* In short, they cheated. They dishonestly, and for totally self-serving reasons, rigged their system so that its own abject failures would be better masked. But camouflaging a beast that grows larger and uglier by the day is difficult.

As shown by the furor that this episode caused in Massachusetts, Americans are increasingly aware that government education specialists in charge of K-12 government schools are lousy educators. This awareness is prompting parents to act rationally in a way that provides the best evidence yet that education bureaucrats cannot educate—namely, more and more parents are homeschooling their children. In 1980 only 10,000 children were schooled at home. Today that figure stands at about one million. This means that fully 2 percent of all children are now homeschooled. And this number continues to grow, even though public education is "free."

While some parents find intrinsic merit in schooling their children at home, there can be little doubt that homeschooling wouldn't be on the rise if government schools truly educated children. Adam Smith explained why in his discussion of the causes of the wealth of nations.

Smith understood that we would be wretchedly poor if we were each self-sufficient: if we each built our own house, grew our own food, and wove our own cloth. So, Smith correctly taught that prosperity springs from specialization guided by market prices (which, in turn, arise when consumers are free to choose how to spend their money and entrepreneurs are free to explore different means of better serving consumers).

The dynamic of a market economy is that specialization creates prosperity, and freedom encourages entrepreneurs to discover ever-newer avenues for specialization, thus increasing prosperity even more. Consider, for example, that today we spend less time than we did just a few years ago preparing our own meals (we eat out more often), changing the oil in our cars (Jiffy Lube and Pep Boys change it for us), and washing our own dishes (electric dishwashers made by specialist producers do more of this humdrum chore). A sure sign of a healthy economy is its increasing specialization of productive activities. But in K-12 education, the rise in homeschooling means that specialization is retreating—something that would not happen if the education market worked.

Sending kids to school enjoys at least two potential advantages over homeschooling. First, by not homeschooling, both parents can work at jobs for which they possess special skills. Such employment raises household income. Second, and more importantly, parents naturally want their kids to be educated by those who do the best job of it. Those who are specially trained to educate children should be able to teach children many subjects more effectively than can typical parents. Parents will naturally seek such specialists for their children's education just as these parents seek competent health-care specialists for their children's health.

But parents today increasingly avoid "education specialists" because these alleged specialists are so bad that non-specialist parents outperform them at the task of education. The average home-schooled child scores in the 85th percentile on standardized achievement tests—a full 35 points higher than the score registered by the average public-school student.

These homeschooling results are remarkable. In most industries, specialists are immensely better than non-specialists at performing their specialties. Intel is not just a bit better than I am at designing computer chips; it's much better. Dentists are not just marginally better than I am at removing wisdom teeth; they are much better. For me to resort to designing my own microchips or pulling my own teeth would require that specialists in these fields become so grossly ineffectual that it would abuse the language to continue calling them specialists.

Let me be clear: it isn't the case that K-12 education bureaucrats have no specialized skills. Indeed, they are exquisitely specialized. The problem is that their specialty isn't education; it's political lobbying. The education elite are superbly skilled at extracting from legislatures special favors such as restraints on parental choice and ever-more-generous budget allotments from the public till.

Ironically, these special political favors keep educators from specializing in education. Imagine that the only source of professional haircutting is government-operated hair-care salons that are funded exclusively with tax dollars doled out directly to the bureaucrats in charge of each salon. Imagine also that each citizen can use a salon free of charge, but is assigned exclusively to the salon nearest to his or her home. If this were how professional hair-care specialists were organized and compensated, these specialists' salaries would be determined not by competition and consumer choice, but by politicians. Hair-stylists' workloads and incomes would then depend only upon their skills at political lobbying and uttering clever sound bites for the news media. No premium would attach to quality hair-styling skills. Hair stylists inevitably would lose much of their ability to cut and style hair as they focus their energies increasingly on protecting and expanding their special political prerogatives. More and more people would cut and style their own hair at home.

As silly as the above scenario for hair care sounds, it describes today's method of providing K-12 education. To eliminate competition among suppliers of K-12 education, government erects costly barriers preventing parents from moving their children from bad to better schools. In response, increasing numbers of parents who cannot afford private education do the job themselves. Unlike wealthy parents (who can afford private-school tuition even after being bilked for the taxes necessary to support government schools), poorer parents are denied the fruits of specialization in education.

Only by dissolving the bonds between school and state will K-12 education achieve its maximum potential. The resulting increase in parental choice will eliminate the rewards for those who specialize in lobbying, and multiply the rewards for those who effectively specialize in teaching. Teachers who truly teach, rather than lecture to captive audiences or lobby for political favors, will again be trusted to educate America's children.

Don Boudreaux

Donald J. Boudreaux
President

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Celebrating the 100th Anniversary of the Birth of FEE Founder Leonard E. Read

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For reservations, please contact Janette Brown at FEE: (800) 452-3518.

An Evening at FEE with Dr. Lawrence W. Parks

A U.S. Monetary Collapse?

Saturday, September 12, 1998

All over the world fiat currencies are evaporating: in Malaysia, Russia, Mexico, Singapore, the Philippines, South Korea, and elsewhere, currencies are collapsing, savings are being decimated, workers are losing their jobs, and economies are imploding. Is the U.S. dollar in danger as well, or are we somehow insulated from a currency meltdown? Dr. Parks, executive director of FAME (the Foundation for the Advancement of Monetary Education), will make the case that despite our booming stock market, low unemployment rate, and low interest rates, there is a problem. A *big* problem.

Don't miss this stimulating roundtable at The Foundation for Economic Education, 30 South Broadway, Irvington-on-Hudson, New York. This informal get-together starts at 5 p.m. with a reception and dinner, followed by a lively discussion on the implications of creating money out of nothing. Price is $35 per person ($25 per person with a paid reservation for the October 18 FEE dinner at Lyndhurst).

For reservations, call Janette Brown at (800) 452-3518.

THE FREEMAN (Ideas On Liberty)

Sustainable Development: Common Sense or Nonsense on Stilts?

by Jerry Taylor

The mantra of "sustainable development" is constantly on the lips of the international agencies and nongovernmental organizations helping lesser-developed countries. The concept seems innocuous enough; after all, who would favor "unsustainable development"? But the fundamental premise of the idea—that economic growth, if left unconstrained and unmanaged by the state, threatens unnecessary harm to the environment and may prove economically ephemeral—is dubious. Indeed, the policy prescriptions that are generally endorsed by those concerned about sustainable development are inimical to our best environmental and economic interests. This is so for three reasons:

• If economic growth were to be slowed or stopped, it would be impossible to improve environmental conditions.

• The bias for command-and-control regulations on the part of those endorsing the concept of sustainable development will only serve to make environmental protection more expensive; hence, we have to "purchase" less of it.

• Strict pursuit of sustainable development, as many environmentalists mean it, would only do violence to the welfare of future generations.

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The debate surrounding sustainable development is important because it advertises itself as a comprehensive governing philosophy for the 21st century. Indeed, Vice President Al Gore has called the need for environmental protection the best "central organizing principle" of the modern state. This is heavy stuff. It puts sustainable development in the pantheon of other "central organizing principles" proposed for the state over the years—such as rule by class or race and absolute rule by majority. While environmental protection is certainly important, making it the government's chief principle would concentrate tremendous power in the hands of those who believe only they can best direct human affairs. The results of such experiments have been less than spectacular and usually counterproductive, to say the least.

What Is Sustainable Development?

Despite its institutionalization, sustainable development is rather difficult to define coherently. The United Nations Commission on Economic Development (UNCED), in its landmark 1987 report, *Our Common Future*, defines it as that which "meets the needs of the present without compromising the ability of future generations to meet their own needs."[1] But that definition is hopelessly problematic. How can we be reasonably expected to know, for instance, what the needs of people in 2100 might be? Moreover, one way people typically "meet their own needs" is by spending money on food, shelter, education, and whatever else they deem necessary or important. Is sustainable development, then, simply a euphemism for the creation of wealth (which, after all, is handed down to our children for their subsequent use)? True, there are human needs—such as peace, freedom, and individual contentment—that cannot be met simply by material means, but sustainable-development advocates seldom dwell on the importance of those nonmaterial, non-"resource-based" psychological needs when discussing the concept.

Thus, sophisticated proponents of sustainable development are forced to discard as functionally meaningless the UNCED definition. Otherwise, the UNCED definition can be read as a call for society to maximize human welfare over time. An entire profession has grown up around that proposition. It is known as economics, and maximizing human welfare is known not as "sustainable development" but as "optimality." Can it really be that Adam Smith's *The Wealth of Nations* was the world's first call for sustainable development?

Economists David Pearce and Jeremy Warford, two of the world's more serious thinkers about sustainable development, disclose that by sustainable development, many advocates mean "a process in which the natural-resource base is not allowed to deteriorate."[2] This is generally known as the "strong" definition of sustainability. The "weak" definition allows the natural-resource base to deteriorate as long as biological resources are maintained at a minimum critical level and the wealth generated by the exploitation of natural resources is preserved for future generations, which is otherwise "robbed" of their rightful inheritance. Weak sustainability, then, can be thought of as "the amount of consumption that can be sustained indefinitely without degrading capital stocks."[3]

Unfortunately, both "strong" and "weak" definitions of sustainable development pose problems as well. As Robert Hahn of the American Enterprise Institute points out, the narrower the definition, the easier it is to pin down, but the less satisfactory the concept.[4] That does not, however, reduce the concept's utility as (in the description of the Competitive Enterprise Institute's James Sheehan) "an overarching political philosophy merging the twin goals of conservation and controlled economic development."[5]

The Pitfalls of "Strong" Sustainability

What is "the natural-resource base" we are directed not to draw down? Resources are simply those assets that can be used profitably for human benefit. "Natural" resources, then, are a subset of the organic and inorganic material we think of as constituting the biological "environment," since not all of that material can be used profitably.

What can be used productively by man changes with time, technology, and material demand. Waves, for example, are not harnessed for human benefit today and thus cannot really be thought of as a "natural resource." But the technology to harness the movement of waves to generate energy certainly exists, and the day when the cost of doing so is lower than the cost of alternative energy sources is the day when waves become a "natural resource." Uranium, to cite another example, would not have been considered a resource a century ago, but is most certainly thought of as such today. Petroleum was not an important resource 100 years ago, but today is thought of as perhaps the most important one to modern society.

Thus, what is and is not part of any society's "natural-resource base" changes. Conserving today's base does not ensure that tomorrow's is secure, and drawing down today's does not necessarily mean that tomorrow's is in jeopardy.

Moreover, the relative abundance of a society's natural resources can change dramatically with technological advance. For example, there are 6,784 trillion fewer barrels of oil in the ground today than there were in 1981, the year in which relative oil scarcity was greatest.[6] At first glance, then, one might think that the natural-resource base has deteriorated. Yet oil is more abundant today than it was 17 years ago. After adjusting for inflation, the price of a barrel of Saudi crude has declined by 62 percent and U.S. crude by 64 percent since 1980.[7] The reasons for this increased oil abundance are several-fold. First, new technologies have emerged that make oil discovery and production far more efficient and thus less costly. Second, greater efficiency in using resources (a reaction to previous run-ups in petroleum prices as well as ongoing technological advances) has helped reduce the amount of oil necessary to produce a unit of goods or services and, hence, the relative abundance of the energy-resource base. Indeed, according to the U.S. Energy Department's Energy Information Administration, the amount of petroleum and natural gas necessary to produce a dollar's worth of GDP has declined by 29 percent since 1980. The story is not unique to petroleum; all resources have become far more abundant—not more scarce—throughout the twentieth century (and indeed, throughout recorded history).[8]

If sustainable development, then, is understood as an admonition that the aggregate size of the natural-resource base (absent any consideration of demand) should "not be allowed to deteriorate," then it is not particularly helpful. It posits wrongly that absolute (as opposed to relative) scarcity is the primary threat to the economy and human society at large. And the theory is oblivious to the ongoing process of resource creation. As economists Harold Barnett and Chandler Morse explained in their classic work, *Scarcity and Growth*, as resources become more scarce, people will anticipate future scarcities, prices will be bid up, incentives will be created for developing new technologies and substitutes, and the resource base will be renewed.[9]

Wild-Eyed Optimism?

Is Barnett and Morse's optimism regarding "just in time" delivery of new technologies and resource subsidies justified? Well, historical experience would certainly seem to justify their optimism. Those who find the theory counterintuitive betray a fundamental misunderstanding of the genesis of resources. Natural resources do not exist independent of man and are not materials we simply find and then exploit like buried treasure. On the contrary, they are created by mankind. As resource economist Thomas De Gregori points out, "humans are the active agent, having ideas that they use to transform the environment for human purposes. . . . Resources are not fixed and finite because they are not natural. They are a product of human ingenuity resulting from the creation of technology and science."[10]

The late David Osterfeld thus concluded that "since resources are a function of human knowledge and our stock of knowledge has increased over time, it should come as no surprise that the stock of physical resources has also been expanding."[11] Obsessing on conserving present resources is akin to a farmer obsessing over conserving eggs rather than the chickens that lay them.

The sustainable-development imperative betrays an ill-considered bias for natural as opposed to man-made capital. In truth, the wealth created by exploiting resources is often more beneficial than the wealth preserved by "banking" those resources for future use. Daniel Boggs has criticized the "rhetoric [that] says we didn't inherit from our parents, we are borrowing from our children."

Argues Boggs: "This is usually designed to make us ashamed to use anything. Logically, it should also make us hate our parents for using up some of 'our' oil, or iron, or whatever. Yet, our parents did build this world for us." He went on to point out that previous generations "created the resources that far more than replaced, in truth, what they used. And I am confident that we can do the same for our children. I would certainly rather have medicines and satellites and other technology than a few more billion tons of some rock or another."

It comes down to free choice, Boggs said. "We each can set our own economic time horizons. If we really think our grandchildren will be better off with shut-in oil wells than shares of IBM, we can buy them up and shut them in. But others should be free to make their own decisions."[12]

Doubt from Within

There is growing doubt within the ecological community about whether stocks of natural capital are naturally constant at all. "Strong" sustainability assumes that ecosystems naturally evolve towards some equilibrium and eventually stabilize. But within the academic community, the lack of empirical evidence supporting that assumption has led to a wholesale questioning of the equilibrium paradigm.[13] The consequences are significant.

- If ecosystems do not tend toward stabilization, then policies intended to promote "sustainable" capital are unnatural and without ecological merit.
- If resource stocks are not functionally and structurally complete, then "sustainable management" of those stocks will prove suboptimal, and
- If ecosystems do not tend toward stability, then calculations about the economic or ecological value of natural capital are impossible on a macro level.

Uncertainties surrounding the nature of ecosystem evolution and the means by which resource stocks can best be maintained have two main implications for policy analysts. First, conclusions about whether or not certain economic activities are "sustainable" is more problematic than some would like to think. As sustainable-development theorists Robert Costanza and Bernard Patten concede, "A system can only be known to be sustainable after there has been time to observe if the prediction holds true. Usually there is so much uncertainty in estimating natural rates of renewal, and observing and regulating harvest rates, that a simple prediction . . . is always highly suspect, especially if it is erroneously thought of as a definition."[14]

A second implication is that preserving indefinitely certain ecological states is less a matter of ecological necessity than social preference. Geographer M.J. Harte of the University of Waikato, New Zealand, notes that the issue of natural capital necessarily involves people's preferences. Without that dimension, Harte says, "economists cannot claim that any one ecological state is superior to another because their recommendations are not clearly supported by ecological theory and practice."[15] For Harte that means the "contribution to human well-being" should be given weight at least equal to environmental considerations in decisions about development.

The "strong" variant of sustainable development is thus built on an erroneous theoretical foundation that cripples its usefulness to policy analysts.

And finally, while sustainability can be an important consideration for certain economic or social arrangements, it does not necessarily follow, as economist Wilfred Beckerman notes, that sustainability should be the overriding criterion for public policy. After all, there are innumerable human undertakings that are highly desirable—even necessary—but unfortunately not indefinitely sustainable. We must distinguish between sustainability as a purely technical concept and optimality, which is a normative concept. Many economic activities that are unsustainable may be perfectly optimal and many that are sustainable may not be desirable, let alone optimal.[16] I.M.D. Little and J.A. Mirrlees observed rightly that "Whether a project is sustainable (forever?—or just a long time?) has nothing to do with whether it is desirable. If unsustainability were really regarded as a reason for rejecting a project, there would be no mining, and no industry. The world would be a very primitive place."[17]

Nobel-prize-winning economist F.A. Hayek concurred, pointing out that we have only sustained development as a society by refusing to embrace the policy prescriptions of "sustainable development" advocates. "Industrial development would have been greatly retarded," Hayek wrote, "if sixty or eighty years ago the warning of the conservationists about the threatened exhaustion of the supply of coal had been heeded; and the internal combustion engine would never have revolutionized transport if its use had been limited to the known supplies of oil."[18]

The Incoherence of Intergenerational Equity

It is fashionable in certain intellectual circles to argue, as does Edith Weiss, professor of international law at Georgetown University, that future generations have as much right to today's environmental resources as we do, and that we have no right to decide whether or not they should inherit their share of those rights.[19]

Yet the idea that those not yet even conceived have tangible rights to resources is dubious to say the least. First, it is philosophically inconsistent. Those disembodied beings are said to have rights, yet the moment they are conceived, they are legally held to have no rights whatsoever. Leaving aside the ethics of abortion, to be consistent, those who defend the rights of future generations must by the same logic oppose abortion (a position few environmentalist activists hold, given their allegiance to population control). Once individuals are conceived, we do not maintain that they have a right to all the resources of their parents. If, for example, a retired couple spends $50,000 on a trip around the world, we do not argue that the couple has violated the resource rights of their children. Thus, individuals are said to have absolute resource rights before conception, no resource rights (indeed, not even the right to life) from conception to birth, and then only limited resource rights until death. If the theory of intergenerational equity is to be taken seriously, this obvious lurching arbitrariness will need to be expunged.

The concept of intergenerational equity, moreover, is hopelessly incoherent. If the choice to draw down resources is held exclusively by future generations, then are we not some previous generation's "future" generation? Why is the present generation bereft of that right? If the answer is that no generation has the right to deplete resources as long as another generation is on the horizon, then the logical implication is that no generation (save for the very last generation before the extinction of the species) will ever have a right to deplete any resource, no matter how urgent present needs may be. If only *one* generation (out of hundreds or even thousands) has the right to deplete resources, how is that "intergenerational equity"?

Furthermore, the notion of resource rights for future generations is premised on the argument that one has a "right" to forcibly take property from someone else in order to satisfy a personal need. Although that is an argument best left unexplored here, suffice it to say that such a claim is so expansive and fraught with peril that few philosophers have taken it seriously.[20]

The Meaninglessness of "Weak" Sustainability

What if we embrace the "weak" definition of sustainable development—allowing natural resources to be depleted as long as they are maintained at a "minimum critical level" and that the proceeds of their use be preserved for future generations? Weak sustainability is certainly a more reasonable proposition, but that's largely because it is functionally indistinguishable from the economists' concern with maximizing human welfare. As economist David Pearce—a strong proponent of "weak" sustainability—concedes, sustainable development "implies something about maintaining the level of human well being so that it might improve but at least never declines (or, not more than temporarily, anyway)."[21]

The two apparent qualifications of "weak" sustainability are really no qualifications at all. If we understand "minimum critical level" as the natural-resource base necessary to sustain human life, then one certainly does not maximize human welfare by consuming resources beyond that point. If, on the other hand, it means that each and every natural resource—regardless of its utility to mankind—be preserved at some "minimal critical level," then, without reference to costs and benefits, the concept is simply antihuman and inimical to the interests of future generations.

As a thought experiment, assume that the only way we could have preserved the American bison at a "minimum critical level" was to leave the Great Plains largely untouched by agriculture. Would the sacrifice of what was to become the world's most productive cropland in order to protect the great buffalo herds have been in either the economic or social interest of future generations? A policy paradigm that refuses to consider the costs or benefits of such decisions is incapable of making a moral argument about the interests of future (human) generations. But to include cost and benefit calculations in such decisions brings us right back to the economic concept of "maximizing welfare."

The admonition that the proceeds of such tradeoffs be preserved for our children is redundant. Since all wealth is eventually inherited by future generations, there would appear to be no rationale for a special state-supervised "account" to be established for their benefit.

Sustainable Development: An Intellectual Rorschach Test?

In sum, it is hard to overemphasize the wrong-headedness of sustainable development as a useful policy construct. As two distinguished scholars of the economic development—Partha Dasgupta and Karl-Goran Maler—point out, "most writings on sustainable development start from scratch and some proceed to get things hopelessly wrong. It would be difficult to find another field of research endeavor in the social sciences that displays such intellectual regress."[22]

If sustainable development is the answer, what is the question? Society has managed to "sustain" development now for approximately 3,000 years without the guidance of green state planners. The result is not only a society that is both healthier and wealthier than any other in history, but a society with more natural resources at its disposal than ever before. One could reasonably argue that the best way to sustain development—or to maximize human welfare—is to protect economic liberty and confine state authority to protecting life, liberty, and property.[23] That is, the best way of sustaining development is to reject "sustainable development." □

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21. David Pearce, *Economic Values and the Natural World* (London: Earthscan Press, 1993), p. 48; cited in Beckerman, p. 147.

22. Partha Dasgupta and Karl-Goran Maler, "Poverty, Institutions, and the Environmental-Resource Base," World Bank Paper no. 9 (Washington, D.C., 1994); cited in Beckerman, p. 143.

23. See generally Osterfeld as well as David Landes, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some Are So Poor* (New York: W.W. Norton, 1998); Nathan Rosenberg and L.E. Birdzell, Jr., *How the West Grew Rich: The Transformation of the Industrial World* (New York: Basic Books, 1986); and James A. Dorn, Steve H. Hanke, and Alan A. Walters, eds., *The Revolution in Development Economics* (Washington, D.C.: Cato Institute, 1998).

Is Anyone Still for Limited Government?

The collapse of the supposed Republican Revolution has demonstrated the truth of George Wallace's taunt three long decades ago: there ain't a dime's worth of difference between the major parties. Today both Democrats and Republicans offer higher spending, new social programs, increased tax collections, and a more complex tax code.

But the demise of the conservative revolution extends far beyond the usual suspects. Republican lawmakers can at least plead political necessity. More bizarre is the end of any pretense of commitment to limited government among many supposed conservative intellectuals.

Last year Republicans boosted the budget, created a new health-care entitlement that will only grow over time, added funds for the usual job training programs that have never worked, and passed a tax bill that legislates envy. This year they approved a bloated transportation bill stuffed with an unprecedented amount of pork.

So far they've been expanding government only haphazardly, without any intellectual framework. But William Kristol and David Brooks of the *Weekly Standard* are working to provide such a foundation. They argue that government needs to promote national greatness. It is at base a profoundly statist notion. While those silly Americans might want to engage in the normal things of life—family, career, hobbies, and more—government needs to direct their attention elsewhere. They must be conscripted into some grand crusade by their betters, those far-seeing politicos who really know what greatness is.

What is this but twentieth-century "liberalism"? The Democratic presidents Franklin Delano Roosevelt, Harry Truman, John Kennedy, Lyndon Johnson, and Jimmy Carter all demanded that Americans join in one crusade or another. And the pitch was always national greatness—alphabet-soup agencies to regulate the economy; expansive and expensive programs to clothe, feed, and nurture the population; massive militaries to make global war; internal crusades to end poverty and achieve energy independence. Bill Clinton attempted to follow suit with his proposal to nationalize the health-care system.

Kristol and Brooks formally recoil from left-wing statism, but Roosevelt's call to overcome the Depression, Johnson's attempt to end poverty, and even Bill Clinton's initiative to provide universal health care all obviously reflected "a national goal," in Brooks's words. How does "national greatness" conservatism differ? Writes *Washington Post* columnist E.J. Dionne: "Kristol and Brooks have to explain where they differ from Democrats, who also favor 'limited but energetic' government. Using government on behalf of 'national greatness' could get you right back to the New Deal."

Kristol and Brooks seek to avoid the problem by offering few specifics. But David

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Brooks has cited the Library of Congress, national parks, and antitrust enforcement as examples of "grand American projects." Uh, right. A rousing call to recharge Justice Department enforcement of the Sherman Antitrust Act would help avoid democracy's tendency to, in his words, "slide into nihilistic mediocrity."

The basic problem is that advocates of "national greatness" have an impossible dream. They denounce "the complacent mediocrity and petty meddling of the nanny state," urging instead what Brooks terms a "limited but energetic government." Alas, the American (and, indeed, human) experience suggests that no such government is possible: the state is the ultimate imperialist. If it can conscript money and manpower for grand national crusades, it cannot be limited.

Kristol told Dionne: "Are we willing to say that the country is worse off because of FDR or JFK or LBJ? I'm not willing to say that." So much for limited government. National greatness obviously trumps liberty. One must, in fact, wonder why Kristol opposed Clintoncare.

Incredibly, Kristol and Brooks, like Clinton, go on to ask: How is it possible for people to "love their nation if they hate its government?" They apparently see no difference between society and state.

But what better reaction than contempt is there to a system that loots the taxpaying public for any project supported by an interest group with a letterhead listing more than three people? Real patriots should loathe agencies that brutalize and even kill people simply desiring to be left alone. Disgust is the only appropriate reaction to politicians who preach freedom while delivering higher spending, more complex taxes, and more intrusive regulation. This government deserves criticism precisely because it falls so far short of the greatness of the country it purports to represent.

What of Brooks's concern that "democracy has a tendency to slide into nihilistic mediocrity if its citizens are not inspired by some larger national goal"? And that people lose "a sense of grand aspiration and noble purpose" when "they think of nothing but their narrow self-interest, of their commercial activities"?

The questions should be asked, but Kristol and Brooks are looking for answers in the wrong place. Democracy is usually mediocre, if not nihilistic. There was certainly nothing particularly virtuous about American politics a century ago, at the time when Congress decided to build Brooks's beloved Library of Congress. Venality was hardly unknown even at the nation's founding. National goals do arise, but they generally reflect exogenous crises, not contrived campaigns.

Moreover, most political questions are decided on the narrow self-interest of voters, especially those who have a great enough financial interest to organize. American politics has never been free of self-interest. Today pork-barrel projects persist and Social Security survives because those who benefit resolutely support "their" programs. Overcoming such selfishness requires a far more fundamental transformation, a regeneration of the soul. And that is more likely to occur when one has a realistic assessment of government, particularly the recognition that it is not an effective means to national greatness.

Nevertheless, Kristol and Brooks want government to inform its citizens' hopes rather than organize their resentments. Fair enough. But that can be best achieved by leaving people alone. "It almost doesn't matter what great task government sets for itself, as long as it does some tangible thing with energy and effectiveness," writes Brooks. But of course it matters. People want genuine meaning for their lives. Such meaning is not provided by government projects, no matter how much some intellectuals may think they promote national greatness.

In the end, most people want simple things: to provide for their families, succeed at work, enjoy their hobbies and friends, and fulfill their responsibilities to their neighbors. They should be left alone to pursue their own hopes, not drafted to support the latest fad endorsed by an ephemeral congressional majority. It is people acting together, in community with one another, pursuing shared goals that makes America great. Not some program pushed by government social engineers, whether of the left or right. □

THE FREEMAN
Ideas On Liberty

The Mythology of Roosevelt and the New Deal

by Robert Higgs

The Great Depression was a watershed in American history. Soon after Herbert Hoover assumed the presidency in 1929, the economy began to decline, and between 1930 and 1933 the contraction assumed catastrophic proportions never experienced before or since in the United States. Disgusted by Hoover's inability to stem the collapse, in 1932 the voters elected Franklin Delano Roosevelt, along with a heavily Democratic Congress, and set in motion the radical restructuring of government's role in the economy known as the New Deal.

With few exceptions, historians have taken a positive view of the New Deal. They have generally praised such measures as the massive relief programs for the unemployed; the expanded federal regulation of agriculture, industry, finance, and labor relations; the establishment of a legal minimum wage; and the creation of Social Security with its old-age pensions, unemployment insurance, and income supplements for dependent children in single-parent families, the aged poor, the physically handicapped, and the blind. In the construction of the American regulatory and welfare state, no one looms larger than FDR.

For this accomplishment, along with his wartime leadership, historians and the general public alike rank Franklin D. Roosevelt among the greatest of American presidents. Roosevelt, it is said repeatedly, restored hope to the American people when they had fallen into despair because of the seemingly endless depression, and his policies "saved capitalism" by mitigating its intrinsic cruelties and inequalities.

This view of Roosevelt and the New Deal amounts to a myth compounded of ideological predisposition and historical misunderstanding. In a 1936 book called *The Menace of Roosevelt and His Policies*, Howard E. Kershner came closer to the truth when he wrote that Roosevelt

> took charge of our government when it was comparatively simple, and for the most part confined to the essential functions of government, and transformed it into a highly complex, bungling agency for throttling business and bedeviling the private lives of free people. It is no exaggeration to say that he took the government when it was a small racket and made a large racket out of it.[1]

As this statement illustrates, not everyone admired FDR during the 1930s. Although historians have tended to view Roosevelt's opponents as self-interested reactionaries, the legions of "Roosevelt haters" actually had a clearer view of the economic consequences of the New Deal. The nearly 17 million men and women who, even in Roosevelt's moment of supreme triumph in 1936, voted for Alf Landon could not all have been plutocrats.

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Prolonging the Depression

The irony is that even if Roosevelt did help to lift the spirits of the American people in the depths of the depression—an uplift for which no compelling documentation exists—this achievement only led the public to labor under an illusion. After all, the root cause of the prevailing malaise was the continuation of the depression. Had the masses understood that the New Deal was only prolonging the depression, they would have had good reason to reject it and its vaunted leader.

In fact, as many observers claimed at the time, the New Deal did prolong the depression. Had Roosevelt only kept his inoffensive campaign promises of 1932—cut federal spending, balance the budget, maintain a sound currency, stop bureaucratic centralization in Washington—the depression might have passed into history before his next campaign in 1936. But instead, FDR and Congress, especially during the congressional sessions of 1933 and 1935, embraced interventionist policies on a wide front. With its bewildering, incoherent mass of new expenditures, taxes, subsidies, regulations, and direct government participation in productive activities, the New Deal created so much confusion, fear, uncertainty, and hostility among businessmen and investors that private investment, and hence overall private economic activity, never recovered enough to restore the high levels of production and employment enjoyed in the 1920s.

In the face of the interventionist onslaught, the American economy between 1930 and 1940 failed to add anything to its capital stock: net private investment for that eleven-year period totaled *minus* $3.1 billion.[2] Without capital accumulation, no economy can grow. Between 1929 and 1939 the economy sacrificed an entire decade of normal economic growth, which would have increased the national income 30 to 40 percent.

The government's own greatly enlarged economic activity did not compensate for the private shortfall. Apart from the mere insufficiency of dollars spent, the government's spending tended, as contemporary critics aptly noted, to purchase a high proportion of sheer boondoggle. In the words of the common-man's poet, Berton Braley,

A dollar for the services
A true producer renders—
(And a dollar for experiments
Of Governmental spenders!)
A dollar for the earners
And the savers and the thrifty—
(And a dollar for the wasters,
It's a case of fifty-fifty!).[3]

Under heavy criticism, FDR himself eventually declared that he was "not willing that the vitality of our people be further sapped by the giving of doles, of market baskets, by a few hours of weekly work cutting grass, raking leaves, or picking up papers in the public parks."[4] Nevertheless, the dole did continue.

Buying Votes

In this madness, the New Dealers had a method. Despite its economic illogic and incoherence, the New Deal served as a massive vote-buying scheme. Coming into power at a time of widespread destitution, high unemployment, and business failures, the Roosevelt administration recognized that the president and his Democratic allies in Congress could appropriate unprecedented sums of money and channel them into the hands of recipients who would respond by giving political support to their benefactors. As John T. Flynn said of FDR, "it was always easy to interest him in a plan which would confer some special benefit upon some special class in the population in exchange for their votes," and eventually "no political boss could compete with him in any county in America in the distribution of money and jobs."[5]

In buying votes, the relief programs for the unemployed, especially the Federal Emergency Relief Administration, the Civilian Conservation Corps, and the Works Progress Administration, loomed largest, though many other programs promoted the same end. Farm subsidies, price supports, credit programs, and related measures won over much of the rural middle class. The labor provisions of the National Industrial Recovery Act and later the

National Labor Relations Act and the Fair Labor Standards Act purchased support from the burgeoning ranks of the labor unions. Homeowners supported the New Deal out of gratitude for the government's refinancing of their mortgages and its provision of home-loan guarantees. Even blacks, loyal to the Republican Party ever since the Civil War, abandoned the GOP in exchange for the pittances of relief payments and the tag ends of employment in the federal work-relief programs. Put it all together and you have what political scientists call the New Deal Coalition—a potent political force that remained intact until the 1970s.

Inept, Arrogant Advisers

Journalists titillated the public with talk of Roosevelt's "Brain Trust"—his coterie of policy advisers before and shortly after his election in 1932, of whom the most prominent were the Columbia University professors Raymond Moley, Rexford Guy Tugwell, and Adolph A. Berle. In retrospect it is obvious that these men's ideas about the causes and cure of the depression ranged from merely wrongheaded to completely crackpot.

Like most other New Dealers, they viewed the collapse of prices as the cause of the depression, and therefore they regarded various means of raising prices, especially cartelization and other measures to restrict market supply, as appropriate in the circumstances. Raise farm prices, raise industrial prices, raise wage rates, raise the price of gold. Only one price should fall, namely, the price (that is, the purchasing power) of money. Thus, all favored inflation and, as a means to this end, the abandonment of the gold standard, which had previously kept inflation more or less in check.

Subsequent advisers, the "happy hot dogs" (after their mentor and godfather, Harvard law professor Felix Frankfurter), such as Tom Corcoran, Ben Cohen, and James Landis, who rose to prominence during the mid-1930s, had no genuine economic expertise. But they contributed mightily to FDR's swing away from accommodating business interests and toward assaulting investors as a class, whom he dubbed "economic royalists" and blamed for the depression and other social evils.

Early and late, the president's advisers shared at least one major opinion: that the federal government should intervene deeply and widely in economic life; that government spending, employing, and regulating, all directed by "experts" such as themselves, could repair the various perceived defects of the market system and restore prosperity while achieving greater social justice. Even at the time, many thoughtful onlookers found the overweening arrogance of these deluded policy advisers to be their most distinctive trait. As James Burnham wrote of them in his 1941 book, *The Managerial Revolution*, "they are, sometimes openly, scornful of capitalists and capitalist ideas. . . . They believe that they can run things, and they like to run things."[6] More recently, even a sympathetic left-liberal historian, Alan Brinkley, wrote that the hard-core New Dealers embraced government planning "with almost religious veneration."[7]

The Misleading Analogy of War

Many of the New Dealers, including FDR himself (as assistant secretary of the navy), had been active in the wartime administration of Woodrow Wilson. Ruminating on how to deal with the depression, they seized on an analogy: the war was a national emergency, and we dealt with it by creating government agencies to control and mobilize the private economy; the depression is a national emergency, and therefore we can deal with it by creating similar agencies. Hence arose a succession of government organizations modeled on wartime precedents. The Agricultural Adjustment Administration resembled the Food Administration; the National Recovery Administration resembled the War Industries Board; the Reconstruction Finance Corporation (created under Hoover but greatly expanded under Roosevelt) resembled the War Finance Corporation; the National Labor Relations Board resembled the War Labor Board; the Tennessee Valley Authority resembled the Muscle Shoals project; the Civilian Conservation Corps resembled the army itself. The list went on and on.

In his first inaugural speech, Roosevelt declared, "we must move as a trained and loyal army willing to sacrifice for the good of a common discipline." He warned that should Congress fail to act to his satisfaction, he would seek "broad executive power to wage a war against the emergency as great as the power that would be given me if we were in fact invaded by a foreign foe." However stirring the rhetoric, this approach to dealing with the depression rested on a complete misapprehension. The requisites of successfully prosecuting a war had virtually nothing in common with the requisites of getting the economy out of a depression. (Moreover, the President and his supporters greatly overestimated how successful their wartime measures had been—the war had ended before the many defects of those measures became widely understood.)

A Pure Political Opportunist

Roosevelt did not trouble himself with serious thinking. Flynn referred to an aspect of his character as "the free and easy manner in which he could confront problems about which he knew very little."[8] Nor did he care that he knew very little; his mind sailed on the surface.

> Fundamentally he was without any definite political or economic philosophy. He was not a man to deal in fundamentals. . . . The positions he took on political and economic questions were not taken in accordance with deeply rooted political beliefs but under the influence of political necessity. . . . He was in every sense purely an opportunist.[9]

An indifferent student and later a wealthy, handsome, and popular young man about town, FDR had distinguished himself mainly by his amiable and charming personality. A born politician—which is to say, he was devious, manipulative, and mendacious—Roosevelt had a flair for campaigning and for posturing before and propagandizing the public. Though millions hated him with a white-hot passion, there is no gainsaying that far more loved him, and millions regarded him as a savior—as the *New York Times* editorialized on June 18, 1933, "the Heaven-sent man of the hour."[10]

If demagoguery were a powerful means of creating prosperity, then FDR might have lifted the country out of the depression in short order. But in 1939, ten years after its onset and six years after the commencement of the New Deal, 9.5 million persons, or 17.2 percent of the labor force, remained officially unemployed (of whom more than 3 million were enrolled in emergency government make-work projects). Roosevelt was a masterful politician, but unfortunately for the American people subjected to his policies, he had no idea how to end the depression other than to "try something" and, when that didn't work, to try something else. His ill-conceived, politically shaped experiments so disrupted the operation of the market economy and so discouraged the accumulation of capital that they impeded the full recovery that otherwise would have occurred. His followers revered him then, and many people revere him still, as a great leader. But what does it avail a lost and thirsty man if his leader only wanders about in the desert?

Legacies

Although Roosevelt and the New Dealers failed to end the depression, they succeeded in revolutionizing the institutions of American political and economic life and changing the country's dominant ideology. Even today, 60 years after the New Deal ran out of steam, its legacies remain, still hampering the successful operation of the market economy and diminishing individual liberties.

One need look no further than an organization chart of the federal government. There one finds such agencies as the Export-Import Bank, the Farm Credit Administration, the Rural Development Administration (formerly the Farmers Home Administration), the Federal Deposit Insurance Corporation, the Federal Housing Administration, the National Labor Relations Board, the Rural Utility Service (formerly the Rural Electrification Administration), the Securities and Exchange Commission, the Social Security Administration, and the Tennessee Valley Authority—all of them the offspring of the New Deal. Each in its own fashion interferes with the effective operation of the free market. By subsidizing, financing, insuring, regulating, and thereby diverting resources from the uses most valued by consumers, each renders the economy less productive than it could be—and all in the service of one special interest or another.

Once the New Deal had burst the dam between 1933 and 1938, ample precedent had been set for virtually any government program that could gain sufficient political support in Congress. Limited constitutional government, especially after the Supreme Court revolution that began in 1937, became little more than an object of nostalgia for classical liberals.

But in the wake of the New Deal, the ranks of the classical liberals diminished so greatly that they became an endangered species. The legacy of the New Deal was, more than anything else, a matter of ideological change. Henceforth, nearly everyone would look to the federal government for solutions to problems great and small, real and imagined, personal as well as social. After the 1930s, opponents of a proposed federal program might object to its structure, its personnel, or its cost, but hardly anyone objected on the grounds that the program was by its very nature improper to undertake at the federal level of government.

"People in the mass," wrote H.L. Mencken, "soon grow used to anything, including even being swindled. There comes a time when the patter of the quack becomes as natural and as indubitable to their ears as the texts of Holy Writ, and when that time comes it is a dreadful job debamboozling them."[11] Six decades after the New Deal, Americans overwhelmingly take for granted the expansive, something-for-nothing character of the federal government established by the New Dealers. For Democrats and Republicans alike, Franklin Delano Roosevelt looms as the most significant political figure of the twentieth century.

But however significant his legacies, Roosevelt deserves no reverence. He was no hero. Rather, he was an exceptionally resourceful political opportunist who harnessed the extraordinary potential for personal and party aggrandizement inherent in a uniquely troubled and turbulent period of American history. By wheeling and dealing, by taxing and spending, by ranting against "economic royalists" and posturing as the friend of the common man, he got himself elected time after time. But for all his undeniable political prowess, he prolonged the depression and fastened on the country a bloated, intrusive government that has been trampling on the people's liberties ever since. □

1. Quoted by Richard M. Ebeling, "Monetary Central Planning and the State, Part XIV: The New Deal and Its Critics," *Freedom Daily*, February 1998, p. 15.

2. Robert Higgs, "Regime Uncertainty: Why the Great Depression Lasted So Long and Why Prosperity Resumed after the War," *Independent Review*, Spring 1997, pp. 561–90.

3. "Even Steven," in *Virtues in Verse: The Best of Berton Braley*, selected and arranged by Linda Tania Abrams (Milpitas, Calif.: Atlantean Press, 1993), p. 70.

4. Quoted in John T. Flynn, *The Roosevelt Myth* (Garden City, N.Y.: Garden City Books, 1948), p. 86.

5. Ibid., pp. 127, 65.

6. Quoted by F.A. Hayek in a review of Burnham's book. See *The Collected Works of F. A. Hayek*, vol. X (Chicago: University of Chicago Press, 1997), p. 251.

7. Alan Brinkley, *The End of Reform: New Deal Liberalism in Recession and War* (New York: Knopf, 1995), p. 47.

8. Flynn, p. 31.

9. Ibid., pp. 77–78.

10. Quoted in ibid., p. 15.

11. H.L. Mencken, *On Politics: A Carnival of Buncombe* (Baltimore: Johns Hopkins University Press, 1996), p. 335.

It's an Economy, Not a Machine

The Dow dropped almost 150 points on a single day a few months ago at indications that the Federal Reserve, the nation's central bank, may raise interest rates if the economy doesn't "slow down." Concerned officials there had been expecting a slowdown, but they couldn't discern the hoped-for signs. The *Wall Street Journal* said that "Fed officials are beginning to prepare markets for a Fed move to brake the economy—unless it slows on its own soon."

This is all perfect buncombe.

Memo to the Fed: It's an economy, stupid!

An economy is not a vehicle speeding downhill or a machine overheating. It's an *economy,* a network of markets. An economy is people—human beings planning and acting to improve their lot. They transform resources from less useful to more useful forms and exchange with each other. If they think they are moving too fast, they will slow themselves down or rest. If they get overheated, they will switch on the air conditioning or take a shower. There's no need for the government to fret.

Words like "slow," "fast," "brakes," "overheating," and "cooling down" are out of place when we talk about economic matters. Such thinking lends support to the central-planning mentality. Vehicles have drivers. Machines have operators. But an economy does not have—and cannot have—either a driver or an operator. I'd have thought we'd learned that by now.

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Central planning in the U.S. economy? Where? Leaving aside the Antitrust Division, which is intent on centrally planning the computer software industry, and a few other government agencies, the biggest would-be central planner in the U.S. economy is the Fed. Central banking is the central planning of money. Isn't it odd that a country which, rhetorically at least, condemns economic planning as socialism engages in monetary socialism?

The government controls the means of production of money, a rather important element in the marketplace. Believing that a few people can determine the proper interest rate is like believing they can determine the proper price for bread or cheese. An interest rate is a price for the use of someone else's money. Left to the market, it reflects the intensity of people's preference for having money now versus having it in the future. Since people prefer having things now, if you want to borrow money, you must be prepared to pay a lender something extra in the future. How much more depends on people's time preferences. Supply and demand set an economy-wide rate of interest.

In a truly free market, no one decrees an interest rate, because the money supply is not controlled by government. The market itself generates money; it might be gold or a combination of things that is stable and valued generally. We would expect competition among currencies. In the approaching world of electronic commerce, there will be monetary innovations no one has yet dreamed of.

The best money is the one the market comes up with, because it will be convenient and responsive to people's preferences. That's the nature of entrepreneurship. Government currency is always subject to political manipulation, which means disruptive inflation or deflation. The Fed over the last several years has largely, but not always, kept the growth of the money supply tight. But we can never rest while any political institution controls the printing-press switch.

Why the fear that the economy is "moving too fast"? The standard reply is that too vigorous an economy will bring inflation, a general rise in prices. But only the government causes such inflation. It does so by expanding the supply of money or credit, as it has done recently. If the expansion occurs at a faster rate than the increase in goods, prices will rise. More dollars are chasing a relatively "too small" supply of goods. The price rise is not likely to be uniform. Since the new money and credit will enter the marketplace at particular points, some prices will be bid up sooner or more intensively than others.

The policymakers prefer to blame us, instead of themselves, for inflation. They think inflation can result from rising consumer demand, which translates into a higher demand for workers and higher wages. But that can't lead to a general rise in prices. If there is no increase in the amount of money, consumers can't afford to spend more across the board. They will have to cut their purchases of some things just to maintain their former level of consumption of other things. That will cause some prices to fall.

Moreover, rising wages wouldn't perforce cause prices to rise because a business's costs do not determine what it charges at the cash register. A consumer doesn't care what an item costs its manufacturer or retailer. He cares about only one thing: is the item worth what he has to give up to obtain it? If $10 is asked for necktie, it's not $10 that a buyer ultimately gives up, but whatever else he would have spent the money on. Competition among sellers prods each of them to keep prices down. Potential competition does the same for those sellers who have no actual competitors at a given time.

The upshot is that inflation is a creature of the state. In a system of free banking, competition would tend to restrain the unjustified expansion of currency. We get distracted from the real issue if we go off looking for culprits in the private marketplace.

It's time the Fed and its advocates dropped their pretensions. Central bankers do not know what the interest rate should be. Further, the bank cannot control economic activity by manipulating the interest rate. Oh, it can mess things up if it were to engage in wild and erratic conduct. But it is wrong to think that it can "steer" the economy by changing interest rates. Today's markets are sophisticated and fast. Information travels at the speed of light 24 hours a day, seven days a week. Money watchers, having learned from experience, glimpse the signs of policy changes early and translate them quickly, if imperfectly, into price adjustments. Capital can flee countries as never before. The Fed can't predict the effects of its policies on people, each of whom alone knows his peculiar circumstances, needs, and aspirations. As economists J.W. Henry Watson and Ida Walters write, the Fed is like a child with a toy steering wheel on his car seat. There is an illusion of control "but the steering wheel is not connected to the drive train."

Henry David Thoreau wrote that "government has never furthered any enterprise but by the alacrity with which it got out of the way." The Fed may have behaved well for much of the recent past. But it is an intrinsically interventionist creature, and Fed chairmen come and go. The same Fed that can avoid inflation can also set off a great depression. It would be better if our economic well-being were not dependent on a particular person in a particular office. □

THE FREEMAN (Ideas On Liberty)

Smuggled Cigarettes, Unteachable Politicians

by John Attarian

"Only one thing in history is certain: that mankind is unteachable," Winston Churchill told his dinner guests one night in January 1941.[1] He was discussing international relations, but it goes for politicians' economic blunders, too. Indeed, Churchill's words of wisdom should be carved on the walls of the Michigan State Capitol in Lansing.

The state of Michigan is wrestling with a huge, stubborn cigarette-smuggling problem. Smuggling and related crimes are bad and getting worse.

The state government has only itself to blame. Michigan created its own smuggling problem in 1994 when it raised its cigarette tax from 25 cents to 75 cents a pack—an increase of 200 percent.[2] The increase was intended to make up the revenue lost from a cut in the state's property taxes and to discourage smoking. (There is obvious tension between those two objectives.)

The tax doesn't even raise the money it was expected to raise.[3] But the tax hike did create an incentive to smuggle cigarettes. By leading to an increase in the retail price, it made cigarettes in Michigan more expensive than in states with a lower tax. The bigger the price differential, the greater the incentive to buy where they are cheap, transport them to where they are more expensive, and sell them without paying the tax. As long as the smuggler's price is lower than the legal (tax-augmented) retail price, he'll have buyers. When the excise tax is small, so is the smuggler's profit, and it isn't worth the effort. But the bigger the excise tax, the bigger the price differential between locations. It follows that the way to stop smuggling is to undo the tax that encouraged it in the first place.

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History's Warning

That's all there is to it. One wonders why the engineers of the tax increase didn't realize it. But what makes Michigan's woes truly exasperating is that history has given numerous warnings of exactly what would happen if the state put a high excise tax on cigarettes.

Two centuries ago, Great Britain had no income tax. Instead, besides a land tax and protective tariffs, the British levied customs and excise taxes on numerous commodities, including liquor, wine, beer, boots, building materials, windows, newspapers, candles, sugar, salt, soap, tobacco, silk, spices, and tea.[4] Contributing heavily to Britons' cost of living, the taxes were bitterly resented; Samuel Johnson's famous dictionary defined *excise* as "a hateful tax on commodities."[5] The need for revenue to finance the Georgian era's frequent wars drove the excise taxes and tariffs higher and higher; the standard rate of tariffs, for example, went from 10 percent in 1698 to 25 percent in 1759, with further increases during the American Revolution.[6]

Unsurprisingly, writes historian T.S. Ashton, "high duties gave rise to smuggling. The profits of the clandestine trade depended on the existence of a marked difference between prices in England and those abroad."[7] Smuggling pervaded Britain; well-organized smuggling rings operated fleets of boats and wagon trains. The rampant smuggling spawned much violence and corruption. Government officials connived at smuggling, or even participated themselves—including a secretary of the admiralty and a chancellor of the exchequer. Grateful for cheaper goods, the British people winked at smuggling and eagerly bought contraband merchandise. About three million pounds' worth of contraband came in every year by the 1780s, versus about 12 million pounds' worth of legal imports.[8]

Tea smuggling was horrendous. Once drunk by only a few Britons, tea became the national drink in the eighteenth century. But it had to be imported, and the tax rate on tea was an incredible 119 percent. The combination of a huge market and a very high tax made the incentive to smuggle extremely powerful. The consequences were disastrous for the British treasury, which lost huge sums, and for the East India Company, which held a government-granted monopoly on legal tea imports but was undersold by smugglers and almost ruined. In 1784, the company's accountant estimated that roughly two-thirds of the tea drunk in Britain was contraband.[9]

Adam Smith recognized the connection between high duties and smuggling. Moreover, he pointed out something perverse about punishing smugglers: "The law," he wrote, "contrary to all the ordinary principles of justice, first creates the temptation, and then punishes those who yield to it; and it commonly enhances the punishment too in proportion to the very circumstance which ought certainly to alleviate it, the temptation to commit the crime."[10]

To Smith, the cure was obvious: either remove the temptation to smuggle by lowering the tax or increase the difficulty of smuggling by "establishing that system of administration which is most proper for preventing it."[11]

Prime Minister William Pitt realized that the only way to end Britain's rampant tea smuggling was to get rid of its tempting profits, and in 1784 he slashed the tea tax to 12.5 percent. Legal tea prices plunged accordingly; so did smuggling. A year later legal tea imports had more than tripled.[12] Soon, tea smuggling was only a memory.

Granted, it's probably unrealistic to expect state legislators and governors to know much about British history or spend rainy weekends reading Adam Smith. But just before the increase in Michigan's cigarette tax, they had another demonstration, right next door in Canada, that should have taught them something.

The Canadian Lesson

To curb smoking, a few years back the Canadian government tripled its "sin tax" on cigarettes. In 1994 a carton of ten packs of cigarettes sold for $41 Canadian, $33 being attributable to taxes, versus just an average $16 total in the United States. Canadian cigarettes exported tax-free were cheaper still. Smugglers quickly took advantage of the price differential. They bought up Canadian cigarettes in America from wholesalers, ran them back into Canada, and peddled them on the black market.

Canada tried to crack down—as Adam Smith might have said, raising the penalty in proportion to the temptation. In 1992 it increased smuggling penalties from five years in prison and $25,000 to five years and $500,000. Canadian customs made 14,500 contraband-cigarette seizures, and about 100 people were convicted of smuggling after the increase. More money and manpower went to enforcement, yet the smuggling continued. Predictably enough, given the incentives, smugglers proved imaginative and resourceful in finding ways to hide cigarettes in vans and motor homes.[13]

Finally, in February 1994, Canada's federal government caved in. It cut taxes $5 per carton and gave province governments incentives to cut their own taxes up to $10 per carton. Taken together, the cuts would slash the carton price in half. Quebec and Ontario, where the bulk of Canadians reside, went along. Overnight, prices plummeted from $41 to just $18. With the profits gone, Canada's smuggling problem ended.

The same thing happened in neighboring Ohio. In 1993, Ohio raised cigarette taxes, driving the cost of a pack to between $2.20 and $2.30. Many smokers bought their cigarettes in Michigan, where cigarettes were then cheaper. Ohio folded and cut its cigarette tax.

They Didn't Learn

Yet despite these illustrations of the likely consequences, in 1994 Governor John Engler's Proposal A, reforming Michigan's taxes and school financing, called for tripling the state cigarette tax, and Michigan voters approved it. The higher tax went into effect May 1. In short order, all the smuggling-related problems that plagued Britain and Canada hit Michigan.

No sooner was the boost on the books than Michigan smokers began flocking to Ohio and Indiana, where a carton could be bought for about $11.30, versus about $18 in Michigan. One Indiana convenience-store owner just over the border estimated that his cigarette sales had risen over 40 percent in just the first three weeks after the tax increase. My former landlady, a chain smoker, would drive an hour to Toledo to buy several cartons. Even allowing for the cost in gasoline, it was cheaper than buying in Michigan.

Legal cigarette sales in Michigan suffered accordingly. The Michigan Coalition Against Crime and Smuggling's study estimated that nearly 20 percent of cigarettes smoked in Michigan were contraband. In October 1995, Joseph Sarafa, executive director of the Associated Food Dealers of Michigan, warned that within a year as many as 10 percent of Michigan party stores could close, partly due to competition from cheaper contraband cigarettes sold at dishonest businesses.

Proliferating crime has been another bitter fruit of the tax increase. The tax makes the profit from smuggling cigarettes into Michigan enormous—up to $8,000 on a shipment of 1,200 cartons—and gives store owners a financial incentive to buy contraband cigarettes. There is, then, a strong temptation for both individuals and businesses to become criminals.

Many have yielded to it. In December 1994, police seized over 4,000 cartons of contraband cigarettes from a drugstore in Sterling Heights, and $60,000 worth of cigarettes from a party store in Lake Orion. Another 5,600 cartons (and $4,000 in dynamite) were seized from a Metro Detroit man at an Erie weigh station. In its first ten months of operation, a state police task force created to combat cigarette smuggling confiscated $1.6 million in cigarettes. By October 1995, according to the federal Bureau of Alcohol, Tobacco and Firearms, Michigan was America's biggest market for smuggled cigarettes. Dozens of Michigan residents have been arrested in New York state near Indian reservations, which don't levy cigarette taxes and are major sources for smugglers. In 1997, at least 22 people and one company were indicted on smuggling charges, and over 25,000 cartons of contraband cigarettes were seized.

Smuggling is not the only kind of crime the tax encourages. By making cigarettes so expensive, it creates a powerful temptation for burglary, which frequently entails violence against persons as well as property. One holdup ring operating in the greater Detroit area is suspected of robbing 40 stores selling cigarettes. In one operation in 1997, a woman entered a tobacco store and lured the clerk out from behind the counter with a question about cigars. Three men, at least one carrying a pistol, then entered, tied the clerk up with duct tape, and stole about 650 cartons of cigarettes. As long as there are high profits in contraband cigarettes, this sort of thing is going to continue in Michigan, and sooner or later someone is going to get hurt—or worse.

Given all this, the case for undoing the tax increase is clear. But so far the state government is bearing out Churchill's gloomy observation about human unteachability.

True to Adam Smith's observation, Michigan is punishing people for yielding to the temptation the law created. Store owners face felony charges if they possess more than $50 in contraband cigarettes, with a possible $10,000 fine and a prison term. Violators can also suffer tax penalties from the Michigan Attorney General's office of up to $45,000 per 100 cartons of cigarettes. Smuggling carries a five-year prison term.

Michigan's latest response to its smuggling problem has been to plunge deeper into statism by creating a tax stamp, which must be on all cigarette packs shipped after December 1, 1997. This will supposedly reduce fraud by making it easier to detect black-market cigarettes.

Will the tax stamp work? Probably not. Manufacturers really can't keep cigarettes away from smugglers. Smuggling rings will be tempted to raid warehouses containing stamped cigarettes. Moreover, Rod Stamler, a former deputy commissioner of the Royal Canadian Mounted Police, has argued plausibly that a revenue stamp may lead to the dominance of organized crime in smuggling since it can counterfeit the stamp. Indeed, *Cigarette Smuggling in the United States,* a 1995 report by the Washington-based auditing company Linquist, Avery, McDonald and Baskerville, says evidence of counterfeit tax stamps already exists in California, Illinois, New York, and Texas.

The crime and violence prompted by the cigarette tax are already bad enough. They will get worse if organized crime becomes prominent in smuggling. The gang violence from Prohibition or today's drug trade grimly indicates what Michigan might experience.

Then, too, tax stamps obviously can't stop people living near the state line from crossing it to buy cigarettes. Stamler estimates that about a third of the smuggling is done by well-organized, sophisticated smuggling rings, and about two-thirds by small-scale smugglers or individuals going to other states to get their own cigarettes. Put another way, the stamps would only result in the serious smugglers counterfeiting them, or being driven out by organized crime rings able to do so—while the lion's share of smuggling probably won't be affected unless police happen to raid smoke shops carrying contraband bought from small smugglers.

The only way to keep contraband cigarettes out of Michigan would be to create border checkpoints to stop and thoroughly search all incoming vehicles—imposing a galling and tyrannical intrusion on motorists, a horrendous inefficiency on businesses, and a staggering burden on Michigan police. Yet after the all-too-predictable failure of tax stamps, that would be the logical next step for an unteachable, obstinate government.

Michigan's experience with the higher cigarette tax, then, has been a classic case of déjà vu all over again. The politicians apparently can't learn from history, but must find out the hard way. The pity of it is, their tuition is always paid in other people's suffering. □

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1. Martin Gilbert, *Winston S. Churchill,* vol. VI: *Finest Hour, 1939–1941* (Boston: Houghton Mifflin Co., 1983), p. 994.
2. "Headin' South," *Detroit News,* May 22, 1994, p. 1D.
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6. T.S. Ashton, *An Economic History of England: The 18th Century* (London: Methuen and Company Ltd., 1972), pp. 162–163.
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8. Paul Johnson, *A History of the English People* (New York: Harper & Row, 1985), pp. 233n, 248.
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10. Smith, pp. 832, 779.
11. Ibid., p. 835.
12. Ashton, p. 165; Johnson, p. 248.
13. Information cited throughout the rest of this article comes from the following *Detroit News* accounts: "Butting Out Smugglers," February 16, 1994, p. 6B; "Smokers Breathe a Sigh of Relief," February 23, 1994, p. 2A; "Ohio Will Be a Draw to State Smokers," March 16, 1994, p. 12A; "Headin' South" (see endnote 2); "Millions Lost in Smuggled Smokes," October 24, 1995, p. 1D; "Cigarette Smuggling Costs State, Police Say" (see endnote 3); "Bootleggers Burn Hole in State's Pocketbook," July 14, 1995, p. 1D; "Cigarette Smuggling Getting Worse, Cop Says," October 28, 1995, p. 10A; "In Chesterfield Township: Suspected Ringleader Held in Cigar Shop Heists," November 3, 1997, p. 3C; and "Black Market a Worldwide Growth Industry," July 14, 1995, p. 1D.

Economics

Markets and Freedom

The social cooperation that emerges in free markets permits the specialization on which prosperity depends. We would be much poorer without the specialization that is possible only when large numbers of people can coordinate production and consumption through market exchange. But even more important than the material wealth we realize from the marketplace is the benefit of freedom. We would soon be deprived of most of our freedom without the accountability and discipline possible only in market economies.

Freedom is easy to take for granted, especially in the United States where we have enjoyed what people in many other countries can only dream about. Freedom is a lot like good health: people tend not to appreciate it until they lose it. Just as healthy people can destroy their health by yielding to short-run temptations, free people can destroy their freedom by opting for short-run political advantages that undermine the conditions on which freedom depends.

Also, as important as wealth is, it is secondary to both good health and freedom. Wealth is of limited value to those without the health or the freedom to enjoy it. Furthermore, good health and freedom are important elements in the production of wealth, with freedom being absolutely essential. Sick people can be productive, but without freedom the productive cooperation of the marketplace is impossible.

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So I shall discuss two separate but related points in this column. First, the productive cooperation of the marketplace depends on freedom, and second, freedom depends on the productive cooperation of the marketplace. Economists typically have the unpleasant task of pointing to the tradeoffs that are the inevitable consequence of scarcity. But with wealth and freedom, there is no tradeoff; they reinforce each other in market economies, with it generally impossible to have one without the other.[1] Attempts to increase wealth with political policies that reduce freedom invariably end up reducing both.

Markets Require Freedom

Markets work their magic by allowing people to communicate the benefits they realize from the efforts of others and the costs of their efforts to benefit others. Ultimately, all benefits and costs are subjective, depending on people's preferences and circumstances, which only they can accurately evaluate. This is obvious in the case of benefits. Who but the person who consumes a good, or avails himself of a service, is in a better position to judge the value of the benefits realized? But if benefits are subjective, then so are costs, which are nothing more than the value of forgone benefits. And since they are subjective, people can accurately communicate costs and benefits to one another only by having the freedom to enter into, or exit, different markets as they see fit, and to buy and sell at any mutually agreeable price. Government price controls restrict our freedoms as both buyers and sellers, and destroy wealth by censoring our communication with one another.

Central planning fails because people don't have the freedom to act on the local information that only they possess. When the central direction of political authorities is substituted for the market choices of individual producers and consumers, economic decisions are necessarily made in an informational vacuum. A productive economy requires the use of information that is dispersed throughout the population, and that information cannot be used without individual freedom. Destroy freedom and you destroy the information flows that are the essence of market economies.

Freedom Requires Markets

The connection between freedom and markets also runs the other way. Just as the market depends on freedom, so freedom depends on the market. Certainly private property, which is fundamental to all market economies, protects individual freedom. If the state owns all of the auditoriums and printing presses, how much freedom do you have to speak out against government policy? If the state owns all the means of production, how much freedom do you have to launch your own business? Start eliminating private property, and undermining the market that depends on it, and you start eliminating freedom.

But the market also protects freedom by establishing the only setting in which it can be tolerated. Freedom without responsibility is mere license, indulgence, and privilege, and will not long be tolerated. Real freedom, and the only freedom that can survive, is exercised in ways accountable to the concerns of all. The only freedom that satisfies this requirement is that which is subject to the discipline of the marketplace. Eliminate markets, and you eliminate the accountability necessary for freedom to survive.

For example, pollution problems result directly from not having markets in the use of the environment as a dump. If such markets existed, polluters would have to pay prices that reflected the cost their emissions imposed on others. Polluters would be accountable to others, and we could tolerate the freedom to discharge waste products into the environment. But because we don't have pollution markets, we accept government restrictions on polluting activities that would be unacceptable in most areas of our lives.

Our Freedoms Are Vulnerable

Freedoms are seldom taken away all at once. They are typically lost a little at a time, with people seldom noticing the loss. Even when freedom is reduced directly, as when government imposes occupational licensing in the name of protecting consumers, few people notice, and even if they do, they don't see the restrictions as affecting them. But as the great Austrian economist F. A. Hayek pointed out, "The benefits I derive from freedom are . . . largely the result of the uses of freedom by others."[2] For example, those who suffer the most when people lose their freedom to become barbers without having to pass state exams on the chemical composition of hair are not aspiring barbers, but people who need haircuts.

Also, there is an insidious dynamic to the loss of freedom. Direct restrictions always reduce freedom by more than is apparent because every restriction imperceptibly undermines the accountability of the marketplace that makes freedom possible.

Thomas Jefferson was correct when he said, "Eternal vigilance is the price of liberty." People are more likely to exercise vigilance in protection of their freedom when they understand the inextricable connection between it and the market. □

1. I have qualified this statement to account for the situation where a country possesses great wealth because of natural resource endowments and has an autocratic political regime, suppressing the freedoms of its subjects. But even in this case, the lack of freedom prevents the country from realizing the full benefit from its resources, and undermines the productivity necessary to expand, or even maintain, its wealth.

2. See F.A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 32.

THE FREEMAN (Ideas On Liberty)
SEPTEMBER 1998

A Golden Comeback, Part I

"A more timeless measure is needed; gold fits the bill perfectly."
—MARK MOBIUS

When speaking of the Midas metal, I'm reminded of Mark Twain's refrain, "The reports of my death are greatly exaggerated." After years of central-bank selling and a bear market in precious metals, the *Financial Times* recently declared the "Death of Gold." But is it dead?

Following the Asian financial crisis last year, Mark Mobius, the famed Templeton manager of emerging markets, advocated the creation of a new regional currency, the *asian*, convertible to gold, including the issuance of Asian gold coins. "All their M1 money supply and foreign reserves would be converted into asians at the current price of gold. Henceforth asians would be issued only upon deposits of gold or foreign-currency equivalents of gold."[1] Mobius castigated the central banks of Southeast Asia for recklessly depreciating their currencies. As a result, "many businesses and banks throughout the region have become bankrupt, billions of dollars have been lost, and economic development has been threatened." Why gold? "Because gold has always been a store of value in Asia and is respected as the last resort in times of crisis. Asia's history is strewn with fallen currencies. . . . The beauty of gold is that it limits a country's ability to spend to the amount it can earn in addition to its gold holdings."

Not Just Another Commodity

Recent studies give support to Mobius's new monetary proposal. According to these studies, gold has three unique features: First, gold provides a stable numeraire for the world's monetary system, one that closely matches the "monetarist rule." Second, gold has had an amazing capacity to maintain its purchasing power throughout history, what the late Roy Jastram called "The Golden Constant." And, third, the yellow metal has a curious ability to predict future inflation and interest rates.

Let's start with gold as a stable monetary system. With most commodities, such as wheat or oil, the "carryover" stocks vary significantly with annual production. Not so with gold. Historical data confirm that the aggregate gold stockpile held by individuals and central banks always increases and never declines.[2] Moreover, the annual increase in the world gold stock typically varies between 1.5 and 3 percent, and seldom exceeds 3 percent. In short, the gradual increase in the stock of gold closely resembles the "monetary rule"

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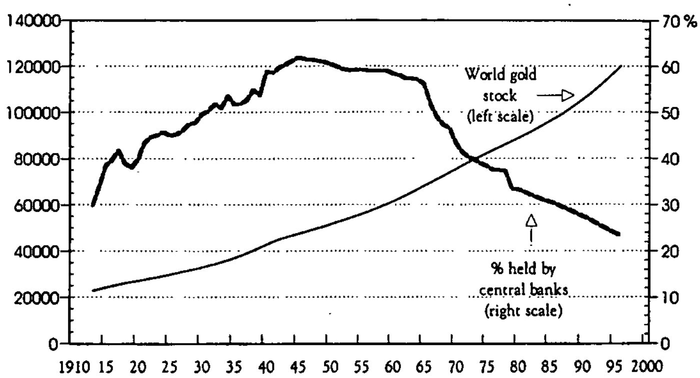
cherished by Milton Friedman and the monetarists, where the money stock rises at a steady rate (see Chart I).

Chart I

The World Stock of Gold and the Share Held by Central Banks, *1913-96*

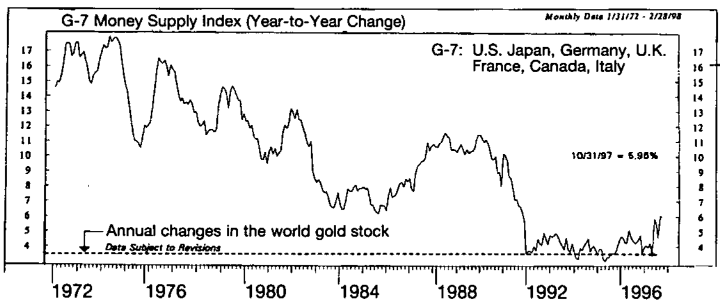


Source: H.C. Wainwright & Co.

Compare the stability of the gold supply with the annual changes in the paper money supply held by central banks. As Chart II indicates, the G-7 money-supply index rose as much as 17 percent in the early 1970s and as little as 3 percent in the 1990s. (Why has monetary growth slowed, even under a fiat money standard? The financial markets, especially the bondholders, have demanded fiscal restraint of their governments.) Moreover, the central banks' monetary policies were far more volatile than the gold supply. On a worldwide basis, gold proved to be more stable and less inflationary than a fiat money system.

Critics agree that gold is inherently a "hard" currency, but complain that new gold production can't keep up with economic growth. In other words, gold is too much of a hard currency. As noted, the world gold stock rises at a miserly annual growth rate of less than 3 percent and oftentimes under 2 percent, while GDP growth usually exceeds 3 or 4 percent and sometimes 7 or 8 percent in developing nations. The result? Price deflation is inevitable under a pure gold standard. My response: Critics are right that gold-supply growth is not likely to keep up with real GDP growth. Only during major gold discoveries, such as in California and Australia in the 1850s or South Africa in the 1890s, did world gold supplies grow faster than 4 percent a year.[3]

Chart II



Courtesy: Dick Davis Digest

Prices Must Be Flexible

Consequently, an economy working under a pure gold standard will suffer gradual deflation; the price level will probably decline 1 to 3 percent a year, depending on gold production and economic growth. But price deflation isn't such a bad thing as long as it is gradual and not excessive. There have been periods of strong economic growth accompanying a general price deflation, such as the 1890s, 1920s, and 1950s. But price and wage flexibility is essential to make it work.

Next month: Update on Jastram's study *The Golden Constant,* and gold's amazing ability to maintain its purchasing power over the past 400 years. □

1 Mark Mobius, "Asia Needs a Single Currency," *Wall Street Journal*, February 19, 1998, p. A22.

2. See the chart on page 84 of my *Economics of a Pure Gold Standard*, 3rd ed. (1997), available from FEE. Note how the world monetary stock of gold never has declined between 1810 and 1933.

3. Ibid., p. 86.

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Gregory Rehmke is the Director of Educational Programs for the Free Enterprise Institute, Houston, Texas. He previously held positions with The Reason Foundation, The Foundation for Economic Education, and The Institute for Humane Studies. His writings have been published in such journals as *The Freeman, PERC Reports, Econ Update,* and in several books including *The Case for Free Trade and Open Immigration.* Greg is a frequent speaker and brings a fresh, Northwest perspective to the freedom movement.

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BOOKS

Islam and the Discovery of Freedom

by Rose Wilder Lane with introduction and commentary by Imad-ad-Dean Ahmad

Amana Publications • 1997 • 86 pages • $5.95 paperback

Reviewed by George C. Leef

Mention "Islam" to most Americans and they think of Saddam Hussein or the Ayatollah Khomeini. It is popularly linked to violence and terrorism, which is unfortunate. Far from being synonymous with intolerance and bloodshed, Islam has a history of peace and respect for individual rights. One famous exponent of freedom who knew that was Rose Wilder Lane.

Her original book, *The Discovery of Freedom*, contains an abundance of information on the golden era of Islamic civilization, particularly the role that free markets played in that remarkably progressive and virtually stateless society. Imad-ad-Dean Ahmad, president of the Minaret of Freedom Institute, an Islamic free-market think tank, has in *Islam and the Discovery of Freedom* taken Rose Wilder Lane's original text and added scholarly commentary.

For the most part, he documents points she makes, but occasionally corrects her writing. By placing his commentary in footnotes, Ahmad is able to strengthen Lane's argument that Islamic civilization flourished because of its emphasis on freedom and the rights of the individual without detracting from her beautiful writing style.

In an era in which many people expect government to do everything from caring for toddlers to building highways, it is astounding to learn how little government did in the ancient Islamic world. Schools, hospitals, and even roads were built by private foundations.

Islamic universities were especially interesting. They were not established or funded by the state; there were no accreditation boards or required curriculum; no degrees were given. They were simply places where those with knowledge could sell it to those who desired it. Lane writes, "Men who knew (or thought they knew) something, and wanted to teach it, opened a school to sell their knowledge. Success depended upon the demand for the knowledge they had." She contrasts the Islamic approach to education with the European, writing disparagingly of the "European belief that minds acquire knowledge, not by actively seeking to know, but by passively being taught whatever Authority decides that they should know." If you have ever wondered what a true free market in education would be like, this book provides some clues.

Free of the authoritarianism that prevailed in Europe's Dark Ages, Muslims advanced the sciences and applied new technologies. They developed the vital mathematical concepts of zero and spherical trigonometry, and put them to work in architecture and navigation. While Europeans were blaming disease on demons, the Muslims of the tenth century, notes Lane, "were using the entire American medical pharmacopeia of today." Ahmad documents the fact that ninth-century Baghdad had 60 drugstores. No Food and Drug Administration stood in the way of medical progress. Surgeons unlicensed by any government performed effective operations with local anesthesia.

One point of disagreement between Lane and Ahmad is over the existence of Islamic law. Lane writes that "the weakness that eventually ended the Saracens' civilization" was that "there was no civil law." She continues that "The only safeguards of property seem to have been possession of the property, individual honesty, and public opinion." Ahmad disagrees, arguing that there was an elaborate civil jurisprudence and that one of the few things the government did was to enforce property rights. He blames the eventual decline of Islamic civilization on the stagnation of the law.

Lane also argues that the West was exposed to the ideas of liberty that would in time lead to its ascendancy through contacts with Muslim traders and scholars. She notes that Spanish Catholics, while welcoming the Catholic kings of the *reconquista*, nonetheless would not give up the liberty they had enjoyed under Islamic rule (which was tolerant of religious differences). They demanded and got documents guaranteeing their freedoms. Ahmad adds that Magna Carta, to which Westerners trace the beginnings of the idea of limited government, resulted from pressure by English nobles who had returned from the Crusades, where they had learned that the Muslim leader Saladin was bound by the law the same as any other citizen.

This book is not, however, a "warts and all" portrait of Islam, which was quite indifferent to the enslavement of Africans and Europeans and placed non-Muslims on a lower legal plane. For discussion of the dark side of this civilization, one must look elsewhere.

Still, this is a highly readable, well-produced book that has much to say to Muslims and non-Muslims alike. It should awaken the world's Muslims to the great principles of freedom that are a vital part of their heritage and from which their modern leaders have strayed. For non-Muslims, it is a reminder of the universal value of liberty and markets unfettered by government meddling. When human minds and energies are free, people will prosper and progress. That is the message of this intriguing book. □

George Leef, president of Patrick Henry Associates in Michigan, is book review editor of The Freeman.

Risk and Business Cycles: New and Old Austrian Perspectives

by Tyler Cowen

Routledge • 1997 • viii + 173 pages • $75.00

Reviewed by Leland B. Yeager

The Austrian theory of the business cycle describes how expansion of money and credit can cause recession or depression. Perhaps under political pressure to cut interest rates, the monetary authorities expand bank reserves. Business firms find credit cheaper and more abundant. These signals suggest, incorrectly, that people have become more willing to save and thereby free resources for investment projects. Firms put more resources into interest-sensitive projects that will take relatively long times to ripen into consumer goods and services. Actually, investable resources have not become more abundant through voluntary saving. Competition for resources grows more intense among long-term and short-term capital-goods industries and consumer-goods industries. This becomes especially true as workers employed on the artificially stimulated long-term projects try to spend their increased incomes on current consumption.

Sooner or later, however, the falsified appearances must bow to reality. Shortages or increased prices of resources necessary for completing the capital-construction projects force abandoning some of them, at least partially wasting the resources they embody. A tightening of money and credit may play a part in this return to reality, for continuing to expand them would threaten unlimited inflation. Cutbacks in long-term investment mean laying off workers and canceling some orders for machines and materials and some rentals of land and buildings. The downturn is under way.

Sophisticated Austrians do not claim that this scenario accounts for *all* recessions and depressions, but it is the one most often recited in Austrian circles. Though conceivable as a scenario, as a general theory it has long seemed implausible to me—incomplete yet unduly specific. However, it suits the Austrians' methodological and ideological predilections. The Austrians cite observed facts that are *compatible* with their account; but practically never, to my knowledge, do they present evidence that favorably discriminates between it and rival theories. (I find the "monetary-disequilibrium" or "monetarist" theory in better accord with standard economic theory and with statistical and historical evidence from many times and places.) The Austrian school has much of value to teach the world, but its favorite emphasis in business-cycle theory is an embarrassment that it would well be rid of.

Tyler Cowen now joins the attack on this "old Austrian perspective," as he calls it. He finds it strange that business investors, despite weeding-out and discipline by profit and loss, should repeatedly be fooled by artificially and unsustainably low interest rates. His long list of further reasons why the Austrian theory is implausible—his protracted flogging of a dead horse—becomes tedious.

Cowen offers his own "new perspective," his "risk-based" theory, as a modification of the one he rejects. Whereas the Austrian theory requires "volatile inflation" rather than steady inflation, volatile inflation under his theory "produces an immediate contraction and downturn, rather than an expansion of malinvestment." (By "inflation," Cowen usually seems to mean money-supply expansion rather than price inflation.) His theory "is not committed to pinpointing the nature of expectational errors from inflation, as does [sic] the traditional Austrian theory." It does not require that a bust always follow an inflationary boom. "Either increases or decreases in long-term investment may set off downturns." It does not rely on specific types of misperception, forecast error, or malinvestment; it can accommodate a variety of them.

It is pointless to go on trying to summarize Cowen's theory. Although it does invoke a tradeoff between risk and expected yield on investments, it is not really a theory. It is a farrago of disorganized lists of how risk, investments of various kinds, sectoral shifts, various misperceptions and errors, and monetary volatility might somehow affect business conditions. Cowen repeatedly speaks of what "may" happen and occasionally of what "may or may not" happen.

All this is vague and iffy. To add complexity—to multiply the factors taken into account—is no virtue in its own right. On the contrary, a good theory penetrates beyond fringe complications to emphasize decisive circumstances and relations. It reveals significant uniformities amidst apparent diversities. The old Austrian account, though wrong as a general theory of cycles, arguably at least helps focus thinking and research on its subject matter. Cowen's new theory does not rise even to that level; to borrow a phrase from the physicist Wolfgang Pauli, it is "not even wrong."

One style of argument, for which it would be convenient to have an agreed name, overwhelms the reader with miscellaneous dates, figures, historical details, names, and even personality sketches, as if in hopes that the reader will be so impressed with the author's erudition as not to notice that all this material fails to make a coherent argument about the points at issue. Cowen employs a variant of this style: he spews forth, almost as if at random, numerous theoretical terms and concepts and numerous summaries of other authors' articles. Occasionally economists try to make a splash in their own field by importing concepts and techniques from philosophy or engineering or whatever. Cowen, with one foot still in the Austrian school that nurtured him, writes as if—I say no more than "as if"—attempting a similar splash by importing sophisticated terminology (more so than substance) from advanced economics and econometrics. He does not adequately test his theory against its rivals; the many potted summaries of econometric studies in his concluding chapter do not serve that purpose. He himself concludes by claiming no more than that his risk-based approach is compatible with microeconomic theory and with some observed facts and can provide a basis for future research.

Who might appreciate this book? Not the general reader who might be sympathetic to libertarian political philosophy and have an amateur interest in economics, for too many inadequately explained technicalities will repel him. Not the mainstream economist who likes to think of himself as working at the "frontier" of research, for he will find no contribution to the technical topics so blithely mentioned, and Cowen's lack of rigor will irritate him. (I reject knee-jerk demands for "rigor" and "explicit models"; but Cowen's loose style will arouse sympathy for such demands.) Nor will Cowen find much resonance among economists of the Austrian school, for his tacit parade of superiority rankles. □

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Global Taxes for World Government

by Cliff Kincaid

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Reviewed by Laurence M. Vance

Many Americans have at least some knowledge about the Stamp Act of 1765, so instrumental in setting the stage for the American Revolution. But who among us has ever heard of former United Nations Secretary-General Boutros Boutros-Ghali's proposal for a "stamp tax on international travel and travel documents"?

Global Taxes for World Government, by journalist Cliff Kincaid, is a fully documented, penetrating look at the U.N.'s quest to further drain the wealth of the United States to finance a nameless, faceless international bureaucracy. A sequel to his earlier book, *Global Bondage*, this one focuses exclusively on the plans of the U.N. and its sympathizers to raise even more money to feed its already bloated bureaucracy (Boutros-Ghali himself took in over $300,000 in 1996) and further its agenda of international socialism.

Taxes are the food that every leviathan state consumes to stay in existence. Thus, just as in days of old, when "there went out a decree from Caesar Augustus, that all the world should be taxed," it is only natural that a body like the U.N. would now seek a global tax. But what chance is there of that tax actually being implemented? How could the U.S. Congress ever consent to such a thing? The same questions were once asked about a federal income tax until it was enacted in 1913.

Kincaid not only documents the various plans for a global tax, but also the promoters and the purpose of the tax. While doing so, he exposes both the dearth of coverage of these issues by the mainstream media and the increasing glorification of the U.N. in the public schools.

Rather than send a bill to every citizen of each country, various schemes have been devised to implement a global tax. Kincaid mentions a tax on "speculative international movements of foreign exchange goods" and "international currency transactions," or an "international corporate income tax." Other proposals include a tax on fossil fuels and air travel, or simply a percentage of each country's military budget.

The promoters of a global tax are a diverse lot. Kincaid identifies various notable individuals, including international financier George Soros, Boutros-Ghali, former Soviet dictator Mikhail Gorbachev, the late French president François Mitterrand, economist and 1981 Nobel laureate James Tobin, and an assortment of current and former American bureaucrats. Several prominent environmental groups and left-wing U.S. foundations are also singled out.

Kincaid explains that the purposes of global taxes are often hidden under nice-sounding phrases like "protecting the environment," "peacekeeping," and "family planning." But as he shows throughout the book, "protecting the environment" means the end of free-market capitalism, "peacekeeping" means war, and "family planning" means forced abortions.

The most frightening aspect of the growing power of the U.N. is in the judicial realm. Kincaid reveals the drive to establish an international justice system to prosecute "hate crimes" and "crimes against humanity," and argues that the ongoing debacle in Yugoslavia is a test case.

Besides exposing the U.N. for the radical organization that it is, those who on principle oppose the twin evils of foreign aid and foreign interventionism will be pleased to find that Kincaid likewise skewers the World Bank, the World Trade Organization, the International Monetary Fund, the World Council of Churches, and central banks, including the Federal Reserve.

The deficiency of *Global Taxes for World Government* is the author's lack of understanding of the case for free trade. Kincaid seems to equate free trade with the current U.S. policy of managed trade. He laments trade deficits, dumping, unfair competition, corporate downsizing, and "foreign regimes that exploited our market." But Kincaid's economic ignorance does not detract from an otherwise informative and important book on a subject likely to be ignored by many. □

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The Pursuit of Happiness **by Sigfredo A. Cabrera**

Government

Plenty of Room at the Inn

French immigrants Claude and Micheline Lambert are asking some tough questions these days, and they need to be answered—real soon. To paraphrase:

What can be said of individual and economic liberty in a country where government has the power to impose extreme burdens on a single group of people in the name of the "public good"? How free is American "free enterprise" when government officials determine the "customers" to whom businesses shall offer goods and services? How does free enterprise flourish in the "land of the free" when success is held hostage by government edicts that punish people for their hard work? On what authority does government stand when it turns our "American dream" into a nightmare?

The Lamberts' questions are not without context. The city of San Francisco is holding 31 of the rooms of their hotel "hostage" in the name of the homeless until the small-business owners pay it over a half-million dollars in ransom to free up the units for tourist use.

An "American Dream" Story Gone Sour

The Lamberts came to the United States 30 years ago and are now owners of a small tourist hotel in San Francisco. Mr. Lambert began working at the Cornell Hotel in 1966 as a janitor in exchange for room and board. After 12 years of working long hours and moonlighting as a French teacher, he was able to buy the 58-room Cornell, located at 715 Bush Street. Over the next few years, Mr. and Mrs. Lambert reinvested over $1 million to renovate and transform the deteriorated, six-story Victorian building into a charmingly decorated inn. The local Club Lafayette described the Cornell as "epitomizing the finest of those little gems a traveler discovers in France." Business and political writer Elizabeth Larson wrote that "Their efforts have won accolades from fellow immigrants and French visitors alike. . . . French businessmen and exchange students have flocked to the Cornell as their home away from home during long business trips to the Bay Area or semesters at Berkeley attending the University of California." The Cornell's accommodations include a quaint French restaurant in the basement, called *Jeanne D'Arc.* The Lamberts and their daughter Sabine, who helps run the hotel, are proud of their accomplishments. For helping to improve the neighborhood, "we should have a medal," said Mr. Lambert.

The Lamberts' bureaucratic nightmare began on September 23, 1979. Under San Francisco's Hotel Conversion Ordinance, any hotel room which, on that day, had been occupied by the same guests for at least 32 days was designated "residential," while all others were designated "tourist units." Since 31 of the Cornell's 58 rooms were being rented to long-term business clients and exchange students on that fateful day, the Cornell was officially classified by the city as a "mixed

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use" hotel subject to the hotel ordinance.

Unlike many small San Francisco hotels, the Cornell was never in the business of providing low-income housing for the city's indigent residents. But that didn't matter to the local housing bureaucrats. For the Lamberts, the law dictated that only 27 of their rooms were available for tourist use. Even worse, the residential units had to be rented out at regulated, below-market rents. In response, the Lamberts closed up many of those rooms, since it was cheaper to keep them vacant than to clean and maintain them without being able to charge the market price.

The Lamberts applied for a conditional-use permit to convert the 31 residential units to tourist use, giving them the freedom to rent to whomever they wish. However, that would entail the "destruction" of low-income housing under the city ordinance. "The city's housing stock must be preserved," cried the city Planning Commission, which rejected the Lamberts' application to reclassify all the Cornell's rooms for tourist use. To free up their rooms, the Lamberts would have to pay a ransom of about $600,000, the city's estimate for building replacement housing. To get the bureaucrats off their backs and get on with their lives, the Lamberts offered the city $100,000, but that was rejected.

Victims of Subterfuge

What makes this case most outrageous is that the hotel-conversion ordinance is nothing more than a subterfuge for generating revenue. Despite the city's mantra about the need to save the housing stock, local officials have done nothing to fill over 5,000 rooms that remain vacant in the many small hotels subject to this confiscatory ordinance. "In essence, the city is telling these property owners 'keep your rooms empty, or pay us money,'" said Pacific Legal Foundation attorney R.S. Radford, who is representing the Lamberts. So far, a trial court and a court of appeal have rejected their challenge, but the California Supreme Court has offered a glimmer of hope by deciding to hear their appeal.

Of course, the city denies that the hotel-conversion ordinance is being used as a ruse for generating income. "One of the most paramount public policies in this city is preservation of the housing stock," insists Deputy City Attorney Andrew Schwartz, who also says it is "inconceivable" the city would deny the Lamberts a permit because they wouldn't pay the ransom.

But assume, for the sake of argument only, that the city was genuinely sincere and truly wanted to use the private property of others as a convenient depository for the city's homeless—does that make it right? Is it fair that a law should place the financial burden of housing the indigent on the backs of an industrious family, and others similarly situated, whose property can be easily seized and converted to public use? Such a law is a clear violation of the U.S. Constitution's Fifth Amendment, which says government shall not take private property for public use without paying "just compensation" to the property owner. The underlying purpose of this takings clause is to deter government from enacting laws that especially burden private-property owners.

Commenting on the Pacific Legal Foundation's defense of the Lamberts, Schwartz told a legal reporter that PLF "believes that property rights should be elevated to a fundamental right, *and there is no basis for that in our jurisprudence*" (emphasis added). That statement is directly contrary to the U.S. Supreme Court's determination, in *Dolan v. City of Tigard,* that property rights are as important a part of the Bill of Rights as freedom of speech and religion or the protection against unreasonable searches and seizures: "We see no reason why the Takings Clause of the Fifth Amendment, as much a part of the Bill of Rights as the First Amendment or Fourth Amendment, should be relegated to the status of a poor relation," Chief Justice William Rehnquist wrote.

By saying "our jurisprudence," Deputy City Attorney Schwartz has made it clear there is no vacancy for private-property rights in San Francisco and that other business and property owners in the city are fair game for this type of abuse. Let's hope the Lamberts prove him wrong. □