IDEAS ON LIBERTY

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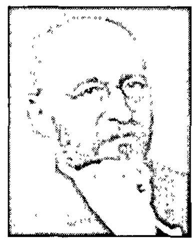
FEATURES



Eugen von Böhm-Bawerk

COLUMNS

DEPARTMENTS

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IDEAS ON LIBERTY

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PERSPECTIVE

Happy Birthday, Carl Menger

February 23 is the 161st anniversary of the birth of Carl Menger, founder of the Austrian school of economics. As the economist Joseph Salerno has written, "[I]n its method and core theory, Austrian economics always was and will forever remain *Mengerian* economics."

It would be hard to overstate how important Menger was in the development of economic science and, indirectly, the freedom philosophy. He valiantly defended economic theory per se against those (the socialist German historical school) who insisted there is no such thing. Menger, who died in 1921, patiently demonstrated that indeed there are economic regularities—laws—defiance of which would have undesirable consequences.

Beginning with his *Principles of Economics* (1871), Menger outlined a new kind of economics, one that, for instance, rejected the labor theory of value. Israel Kirzner, dean of the modern Austrian school, points out that Menger radically undermined the prevailing Ricardian approach to economics. In David Ricardo's influential system, Kirzner writes, economic phenomena are determined by "objective, physical realities. . . . In the explanation of such determination there is no place for any roles for human resourcefulness, human valuation, human expectations, human discoveries.

"Menger, on the other hand, glimpsed a way to understand economic history in diametrically opposed terms," Kirzner continued. "[I]t is the impact of the actions of human beings that *alone* actively determines the course of human events. . . . It was Menger . . . who recognized that it is the consumer valuation of output that tends to be reflected in the market prices of the relevant inputs. . . . Every act of production, every market transaction, is set in motion and wholly governed by consumer preferences."

Menger's insight is intimately related to his other contributions: subjective value, methodological individualism, and marginal utility (which he is credited with originating independently, along with two other economists, Léon Walras and William Stanley Jevons).

It was Menger's vision that inspired the great economists who followed him: Böhm-Bawerk (see below), Wieser, Mises, Hayek, Kirzner, Rothbard, and the later generations of Austrian economists who are today making their marks.

"What is common to the members of the Austrian School," wrote F. A. Hayek, "what constitutes their peculiarity and provided the foundations for their later contributions is their acceptance of the teaching of Carl Menger."

* * *

Politicians make hay out of bashing health maintenance organizations, whose bean counters are said to be issuing life-and-death medical decisions. But political opportunism masks a rather significant fact: the politicians foisted HMOs on the American people in the first place. Twila Brase revisits the recent history.

Hate crimes legislation is being pushed allegedly to protect groups based on race, ethnicity, sex, and sexual orientation. But groups that historically have been the objects of the most virulent hatred are never included in the legislation. Our new contributing editor Lowell Ponte rights this grievous wrong.

Why do certain interests in a community organize to keep Wal-Mart out? They come up with a host of reasons, but as Timothy Terrell shows, they don't amount to much.

Early in the twentieth century, England had a race of sorts between airships produced by private enterprise and by the government. The outcome is instructive. Frank Laffitte has the details.

What goes by the label "liberalism" today is a far cry from the original political philosophy of that name. Jim Peron journeys to the essence of the freedom philosophy.

Great Britain at last has a written bill of rights. What's it all mean? Norman Barry sorts it out.

Does Tiger Woods hold any lessons for economics? Raymond Keating sees the young golf phenom as a microcosm of the free market.

One hundred fifty years ago this month, Eugen von Böhm-Bawerk, one of the founding fathers of the Austrian school of economics, was born. Richard Ebeling contributes an appreciation of this giant of an economist and debunker of Marx.

We are constantly being agitated by supposed threats to our privacy from corporations trying to sell us products that may make our lives more pleasant. Far less attention goes to threats originating with the protector of our privacy: the government itself. James Plummer counts the ways we are threatened by our protectors.

Part of the folklore of the Wild West is that bank robberies were common. But according to Larry Schweikart, we shouldn't confuse the Hollywood back lot with the towns of the American West.

This month's columns cover a wide range of topics. Donald Boudreaux finds courage in neglected places. Lawrence Reed audits the government's schools. Doug Bandow tells budget horror stories. Dwight Lee shows how the economy "equates at margin." Mark Skousen rates economics encyclopedias. Charles Baird sees special privileges for public safety unions. And Andrew Coulson, reading an argument for the merits of a federal takeover of education, responds, "It Just Ain't So!"

Our book reviewers evaluate volumes on the environment, political monopoly, life under Stalin, maritime power, school reform, and junk health science.

—SHELDON RICHMAN

Thoughts on Freedom

by Donald J. Boudreaux

Social Philosophy

Courage Overlooked

Courage is universally admired, and rightly so. One reason is that a courageous person says what he truly feels regardless of the consequences. A result is that those who deal with a courageous person know where they stand with him. Another reason for admiring the courageous is that they can be counted on to get things done. Trepidation does not deter brave men and women from making hard choices or undertaking difficult actions.

Of course, being courageous does not alone render someone admirable. We do not admire an armed robber just because he knowingly put his life in danger to steal, or the KKK spokesman who willingly endures public ridicule for his racist pronouncements. But those who voluntarily incur personal peril, difficulty, or embarrassment to do what is good and right *do* deserve our praise. We rightly applaud the firefighter who risks his life to save another, the elected official who owns up publicly to his misdeeds, the test pilot who performs a critical but hazardous maneuver in a new airplane, and the many other people who put their own well-being in jeopardy to do what should be done.

Obviously, situations in which people have the opportunity to act courageously are many and varied. Some situations involve literally risking one's life; others involve risks only to one's material well-being; yet others involve neither physical nor material dangers but personal embarrassment or unease. And while almost everyone will rank the courage of someone who risks his life to save another higher than the courage of, say, a person who publicly admits an embarrassing truth about himself, the fact is that even the lesser varieties of courage deserve our recognition and praise.

One venue for the courageous is business. The commercial and industrial world isn't typically thought of as a theater for courageous actions, but in fact it is. Taking and implementing many seemingly ordinary business decisions require genuine courage.

Consider a seemingly mundane example: firing an employee. For those of you (like me) who have actually had to fire a person whose services are no longer required, you know that the task is difficult. It takes courage to look someone in the eye and explain to him that he no longer has a job. The difficulty is not the result of fear that the dismissed employee will react with violence, or even that he will bring legal action against you. Rather, the difficulty is that for most people delivering bad news to someone—particularly when that someone is likely to blame you for his misfortune—is a deeply disagreeable task. (One of the questions that prospective managers are routinely asked in job interviews is "Have you ever fired someone?" The reason for asking is that business people understand that dismissing employees is an especially unpleasant chore and that many people who would otherwise make good managers in fact won't because they lack the courage to fire people when appropriate.)

Donald Boudreaux (dboudreaux@fee.org) is president of FEE.

Willingness to fire employees is necessary not only to run a successful business, but also to the success of the larger economy. Some employees prove to be incompetent, others have jobs that have become obsolete, while still others have to be fired because of their misdeeds. If no managers possessed the courage to dismiss employees who should be dismissed, every business would be beset with massive and growing inefficiencies. Wages would be low, outputs would be small and of poor quality, and eventually, each firm would grind itself into bankruptcy. Consumers and workers would be poorly served. Our prosperity would be non-existent. But partly because there are managers with the courage to fire employees when necessary, our economy is a fluid and mighty engine of prosperity.

Firing employees is only one task requiring a business executive's courage. Another is making investment decisions.

The future is uncertain. But entrepreneurs and executives must regularly decide how to structure their firms for the future. These decisions involve committing thousands, or hundreds of thousands, or even hundreds of millions of dollars to buy new machines, new factories, new outlets, more research and development, and countless other kinds of capital that enable firms to produce the goods and services that most of us take for granted.

M.B.A. textbook models and Hollywood stereotypes completely overlook the courage required to commit to such investments. Spending large sums of money is not easy, given that the outcome of such decisions can never be known in advance. If the decision turns out to be profitable, it's easy to look back and conclude that success was inevitable. But because all investment decisions are made in the face of genuine uncertainty, to commit to spend such money is to take real risks. If the decision proves to be mistaken, the entrepreneur or executive responsible suffers personally.

To make such decisions requires courage. Without it, enterprise and industry could not exist. Every one of us would be mired in abysmal poverty.

Proclaiming the courage of business people will not win the applause of the intellectual and political classes, whose members completely misunderstand enterprise and the market order; they see enterprise and commerce as processes guaranteeing a privileged few the opportunities to extract guaranteed profits from the backs of the toiling masses. Because they have never run businesses, academics, politicians, and pundits are ignorant of the hard work and difficult decisions that every successful business person carries out routinely.

The intellectual and political classes are so blinded by the narrowness of their experiences that they see courage only in clamoring for greater state regulation. For example, they regularly classify Senator John McCain as "courageous" because he calls for greater central planning of political elections. This fact is odd. McCain's support for "campaign finance reform" is hardly courageous given the overwhelming and fawning press support for such "reform." But the same pundits who cheaply toss the term "courageous" at Senator McCain never describe as courageous the pharmaceutical executives who regularly commit millions of dollars to drug-development efforts that stand a good chance of failing, or the retailing executives who announce a major restructuring of their operations.

Again, I don't suggest that the courage required to run a business is as lofty as is the courage of, say, those Germans who during Hitler's reign of terror hid Jews in their homes. But the time has come to stop looking on business people as being, at best, necessary devils. The time has come to reflect more maturely on all the qualities it takes to start and to manage a successful enterprise. These qualities are many. They include patience, prudence, determination, clear-headedness, flexibility, honesty—and courage.

We're all fortunate that so many people who have these qualities become entrepreneurs and business executives. □

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Federal Control of Education Needed?

It Just Ain't So!

The *New York Times* recently apologized to readers for its cavalier treatment of the facts in the Wen Ho Lee case. If that editorial failure merited an apology, the *Times* should be refunding readers' money for publishing Leon Botstein's September 19 op-ed on education.

Botstein claims that local control is causing our public-school problems and that we could achieve both equity and improved outcomes by ceding power to the federal government.

Despite acknowledging that his proposal may seem absurd, Botstein makes no serious attempt to defend it. The bulk of his essay is nothing more than a list of criticisms of public schooling, which he follows with a 70-megaton non sequitur: "the solution is a federal system based on national standards and paid for with federal dollars."

To be fair, Botstein does present one piece of relevant evidence to support his opinion, asserting that "every other developed nation has a national system of education." The problem with this assertion, as anyone with a modicum of familiarity with international education would know, is that it is patently false. Canada, Germany, Switzerland, and Australia, to name a few, all lack national education systems. In those countries, it is the provinces, the länder, the cantons, and the states, respectively, that are chiefly responsible for education policy.

This gross factual error is representative of the quality of the entire piece. One of Botstein's first claims is that local government control is the cause of community conflicts over issues like school prayer—a problem that nationalization of schooling will supposedly solve. This notion is utterly contradicted by the historical record. There are many cases in which social conflict over education can be directly attributed to central government control. For generations after the French revolution, for instance, as national power alternated between Catholic monarchists and republicans, the French schools were a constant source of turmoil. Each political group imposed on the schools its own view of a good education, invariably alienating families whose needs and preferences did not conform to official doctrine. The fact that the imposition of authority came from the national government, rather than from a state or local government, was entirely irrelevant.

The national education system of twentieth-century England has similarly led to fierce struggles for control of the government schools. Labor and Conservative governments have pushed and pulled the system all over the pedagogical map, introducing mutually contradictory policies and fomenting an endless series of battles between progressives and traditionalists. Similar pedagogical and structural battles have been waged between Japan's conservative governments and its socialist teachers' unions for decades, though these have seldom made headlines in the United States.

If Botstein had acquainted himself with the history of formal education, he would have learned that systems of government schooling have consistently led to social conflicts over curriculum, goals, and methods, whether they have been run locally or nationally. He would also have learned that education systems driven by the unfettered choices of parents have systematically avoided such conflicts by allowing diverse communities to simultaneously satisfy both their varied personal needs and their shared social goals. Historically, it has been the coerced uniformity of state schooling that has precipitated endless "school wars," and the flexible diversity of education markets that has avoided them.

Equal Educational Opportunity?

Botstein also uncritically embraces the belief that nationally uniform education spending is possible, and that if adopted by the public schools it would naturally produce equality of educational opportunity. Unbeknownst to Mr. Botstein, the evidence decisively contradicts both beliefs. First, truly uniform education spending is not achievable within a free society. It would require the imposition of spending caps on all education-related items purchasable by parents, such as books, computers, tutoring services, and so on. Without such caps, there would always be differences in the opportunities available to the children of the poor and the wealthy. What Botstein is proposing, therefore, is not uniform education spending, but rather uniform *public school* spending. This, however, would simply have the effect of driving more wealthy parents out of the public school system, exacerbating existing inequalities (unless of course Mr. Botstein plans to outlaw home-schooling and nongovernment schools).

Second, even when uniform spending is achieved within the government's education monopoly, it quite clearly does not produce equality of opportunity. Far from it. Disparities in educational quality within the public school system, particularly between inner cities and suburban and rural areas, are notoriously large, despite the fact that many urban districts spend upward of $9,000 or $10,000 per student per year (well over the national average of $7,000). Some of the nation's lowest performing districts, such as Washington, D.C., and Hartford, Connecticut, are also some of its highest spending.

If Botstein had bothered to consult the research on educational achievement disparities between students of different socio-economic groups, he would have discovered a very interesting thing: these disparities are lower within the private sector than they are within the public sector. Research teams such as Anthony Bryk, Valerie Lee, and Peter Holland have shown that racial and economic achievement gaps are actually smaller in independent schools than they are in government schools.

Not content to limit his speculative foray to the field of education, Botstein boldly leaps into matters of constitutional law. His first statement on this new topic is that "contrary to the claims of some, there is no constitutional objection to a larger federal role [in education]." Though I do not profess to be a legal expert, I find it difficult to reconcile Botstein's assertion with the Tenth Amendment, which reserves to the states and to the people all those powers not delegated to the federal government by the U.S. Constitution. Since neither the word "education" nor the word "school" appears in the Constitution, there does indeed seem to be an obvious objection to nationalizing education.

While Mr. Botstein may be a fine music conductor and college administrator, it is astonishing that he would choose to hold forth publicly on a topic with which he is so obviously unfamiliar. Perhaps it would be better if editorialists followed the advice given to would-be novelists: "Write about what you know." □

—Andrew J. Coulson
(A_Coulson@email.msn.com)
Social Philosophy and Policy Center
Bowling Green State University

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FEBRUARY 2001

Blame Congress for HMOs

by Twila Brase

Only 27 years ago, congressional Republicans and Democrats agreed that American patients should gently but firmly be forced into managed care. That patients do not know this fact is evidenced by public outrage directed at health maintenance organizations (HMOs) instead of Congress.

Although members of Congress have managed to keep the public in the dark by joining in the clamor against HMOs, legislative history puts the responsibility and blame squarely in their collective lap.

The proliferation of managed-care organizations (MCOs) in general, and HMOs in particular, resulted from the 1965 enactment of Medicare for the elderly and Medicaid for the poor. Literally overnight, on July 1, 1966, millions of Americans lost all financial responsibility for their health-care decisions.

Offering "free care" led to predictable results. Because Congress placed no restrictions on benefits and removed all sense of cost-consciousness, health-care use and medical costs skyrocketed. Congressional testimony reveals that between 1965 and 1971, physician fees increased 7 percent and hospital charges jumped 13 percent, while the Consumer Price Index rose only 5.3 percent. The nation's health-care bill, which was only $39 billion in 1965, increased to $75 billion in 1971.[1] Patients had found the fount of unlimited care, and doctors and hospitals had discovered a pot of gold.

This stampede to the doctor's office, through the U.S. Treasury, sent Congress into a panic. It had unlocked the health-care appetite of millions, and the results were disastrous. While fiscal prudence demanded a hasty retreat, Congress opted instead for deception.

Limited by a noninterference promise attached to Medicare law—enacted in response to concerns that government health care would permit rationing—Congress and federal officials had to be creative. Although Medicare officials could not deny services outright, they could shift financial risk to doctors and hospitals, thereby influencing decision-making at the bedside.

Beginning in 1971, Congress began to restrict reimbursements. They authorized the economic stabilization program to limit price increases; the Relative Value Resource Based System (RVRBS) to cut physician payments; Diagnostic-Related Groups (DRGs) to limit hospitals payments; and most recently, the Prospective Payment System (PPS) to offer fixed prepayments to hospitals, nursing homes, and home health agencies for anticipated services regardless of costs incurred. In effect, Congress initiated managed care.

National Health-Care Agenda Advances

Advocates of universal coverage saw this financial crisis as an opportunity to advance

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Twila Brase, R.N., P.H.N. (twila@cchc-mn.org), is president of the Citizens' Council on Health Care in St. Paul, Minnesota (www.cchc-mn.org).

national health care through the fledgling HMO. Legislation encouraging members of the public to enter HMOs, where individual control over health-care decisions was weakened, would likely make the transition to a national health-care system, where control is centralized at the federal level, less noticeable and less traumatic. By 1971, the administration had authorized $8.4 million for policy studies to examine alternative health insurance plans for designing a "national health insurance plan."[2]

Senator Edward M. Kennedy, a longtime advocate of national health care, proceeded to hold three months of extensive hearings in 1971 on what was termed the "Health Care Crisis in America." Following those hearings, he held a series of hearings "on the whole question of HMO's."

Introducing the HMO hearings, Kennedy said, "We need legislation which reorganizes the system to guarantee a sufficient volume of high quality medical care, distributed equitably across the country and available at reasonable cost to every American. It is going to take a drastic overhaul of our entire way of doing business in the health-care field in order to solve the financing and organizational aspects of our health crisis. One aspect of that solution is the creation of comprehensive systems of health-care delivery."[3]

In 1972, President Richard M. Nixon heralded his desire for the HMO in a speech to Congress: "the Health Maintenance Organization concept is such a central feature of my National Health Strategy."[4] The administration had already authorized, without specific legislative authority, $26 million for 110 HMO projects.[5] That same year, the U.S. Senate passed a $5.2 billion bill permitting the establishment of HMOs "to improve the nation's health-care delivery system by encouraging prepaid comprehensive health-care programs."[6]

But when the House of Representatives refused to concur, it was left to the 93rd Congress to pass the HMO Act in 1973. Just before a voice vote passed the bill in the House, U.S. Representative Harley O. Staggers, Sr., of West Virginia said, "I rise in support of the conference report which will stimulate development of health maintenance organizations. . . . I think that this new system will be successful and give us exciting and constructive alternatives to our existing programs of delivering better health services to Americans."[7]

In the Senate, Kennedy, author of the HMO Act, also encouraged its passage: "I have strongly advocated passage of legislation to assist the development of health maintenance organizations as a viable and competitive alternative to fee-for-service practice. . . . This bill represents the first initiative by the Federal Government which attempts to come to grips directly with the problems of fragmentation and disorganization in the health care industry. . . . I believe that the HMO is the best idea put forth so far for containing costs and improving the organization and the delivery of health-care services."[8] In a roll call vote, only Senator Herman Talmadge voted against the bill.

On December 29, 1973, President Nixon signed the HMO Act of 1973 into law.

As patients have since discovered, the HMO—staffed by physicians employed by and beholden to corporations—was not much of a Christmas present or an insurance product. It promises coverage but often denies access. The HMO, like other prepaid MCOs, requires enrollees to pay in advance for a long list of routine and major medical benefits, whether the health-care services are needed, wanted, or ever used. The HMOs are then allowed to manage care—withhold access to dollars and service—through definitions of medical necessity, restrictive drug formularies, and HMO-approved clinical guidelines. As a result, HMOs can keep millions of dollars from premium-paying patients.

HMO Barriers Eliminated

Congress's plan to save its members' political skins and national agendas relied on employer-sponsored coverage and taxpayer subsidies to HMOs. The planners' long-range goal was to place Medicare and Medicaid recipients into managed care where HMO managers, instead of Congress, could ration care and the government's financial liability could be limited through capitation (a fixed payment per enrollee per month regardless of the expense incurred by the HMO).

To accomplish this goal, public officials had to ensure that HMOs developed the size and stability necessary to take on the financial risks of capitated government health-care programs. This required that HMOs capture a significant portion of the private insurance market. Once Medicare and Medicaid recipients began to enroll in HMOs, the organizations would have the flexibility to pool their resources, redistribute private premium dollars, and ration care across their patient populations.

Using the HMO Act of 1973, Congress eliminated three major barriers to HMO growth, as clarified by U.S. Representative Claude Pepper of Florida: "First, HMO's are expensive to start; second, restrictive State laws often make the operation of HMO's illegal; and, third, HMO's cannot compete effectively in employer health benefit plans with existing private insurance programs. The third factor occurs because HMO premiums are often greater than those for an insurance plan." [9]

To bring the privately insured into HMOs, Congress forced employers with 25 or more employees to offer HMOs as an option—a law that remained in effect until 1995. Congress then provided a total of $375 million in federal subsidies to fund planning and start-up expenses, and to lower the cost of HMO premiums. This allowed HMOs to undercut the premium prices of their insurance competitors and gain significant market share.

In addition, the federal law pre-empted state laws, that prohibited physicians from receiving payments for not providing care. In other words, payments to physicians by HMOs for certain behavior (fewer admissions to hospitals, rationing care, prescribing cheaper medicines) were now legal.

The combined strategy of subsidies, federal power, and new legal requirements worked like a charm. Employees searching for the lowest priced comprehensive insurance policy flowed into HMOs, bringing their dollars with them. According to the Health Resources Services Administration (HRSA), the percentage of working Americans with private insurance enrolled in managed care rose from 29 percent in 1988 to over 50 percent in 1997. In 1999, 181.4 million people were enrolled in managed-care plans.

Once HMOs were filled with the privately insured, Congress moved to add the publicly subsidized. Medicaid Section 1115 waivers allowed states to herd Medicaid recipients into HMOs, and Medicare+Choice was offered to the elderly. By June 1998, over 53 percent of Medicaid recipients were enrolled in managed-care plans, according to HRSA. In addition, about 15 percent of the 39 million Medicare recipients were in HMOs in 2000.[10]

HMOs Serve Public-Health Agenda

Despite the public outcry against HMOs, federal support for managed care has not waned. In August 1998, HRSA announced the creation of a Center for Managed Care to provide "leadership, coordination, and advancement of managed care systems . . . [and to] develop working relationships with the private managed care industry to assure mutual areas of cooperation."[11]

The move to managed care has been strongly supported by public-health officials who anticipate that public-private partnerships will provide funding for public-health infrastructure and initiatives, along with access to the medical records of private patients.[12] The fact that health care is now organized in large groups by companies that hold millions of patient records and control literally hundreds of millions of health-care dollars has allowed unprecedented relationships to form between governments and health plans.

For example, Minnesota's HMOs, MCOs, and nonprofit insurers are required by law to fund public-health initiatives approved by the Minnesota Department of Health, the state regulator for managed care plans. The Blue Cross-Blue Shield tobacco lawsuit, which brought billions of dollars into state and health-plan coffers, is just one example of the you-scratch-my-back-I'll-scratch-yours initiatives. Yet this hidden tax, which further limits funds available for medical care, remains virtually unknown to enrollees.

Federal officials, eager to keep HMOs in business, have even been willing to violate federal law. In August 1998, a federal court chided the U.S. Department of Health and Human Services for renewing HMO contracts that violate their own Medicare regulations.[13]

The Ruse of Patient Protection

Truth be told, HMOs allowed politicians to promise access to comprehensive health-care services without actually delivering them. Because treatment decisions could not be linked directly to Congress, HMOs provided the perfect cover for its plans to contain costs nationwide through health-care rationing. Now that citizens are angry with managed (rationed) care, the responsible parties in Congress, Senator Kennedy in particular, return with legislation ostensibly to protect patients from the HMOs they instituted.

At worst, such offers are an obfuscation designed to entrench federal control over health care through the HMOs. At best, they are deceptive placation. Congress has no desire to eliminate managed care, and federal regulation of HMOs and other managed-care corporations will not protect patients from rationing. Even the U.S. Supreme Court acknowledged in its June 12, 2000, *Pegram v. Herdrich* decision that to survive financially as Congress intended, HMOs must give physicians incentives to ration treatment.

Real patient protection flows from patient control. Only when patients hold health-care dollars in their own hands will they experience the protection and power inherent in purchasing their own insurance policies, making cost-conscious health-care decisions, and inciting cost-reducing competition for their cash.

What could be so bad about that? A lot, it seems. Public officials worry privately that patients with power may not choose managed-care plans, eventually destabilizing the HMOs Congress is so dependent on for cost containment and national health-care initiatives. Witness congressional constraints on individually owned, tax-free medical savings accounts and the reluctance to break up employer-sponsored coverage by providing federal tax breaks to individuals. Unless citizens wise up to Congress's unabashed but unadvertised support for managed care, it appears unlikely that real patient power will rise readily to the top of its agenda. □

1. John D. Twiname, Administrator, Office of Health, Cost of Living Council, testimony before the House Subcommittee on Public Health and Environment, *Hospital Cost Controls*, December 19, 1973, p. 3.

2. "OEO Transfer for Policy Research," a document included in the U.S. House of Representatives hearing on *Oversight of HEW Health Programs*, Subcommittee on Public Health and Environment of the Committee on Interstate and Foreign Commerce, March 1, 1973, p. 20.

3. Senator Edward M. Kennedy (Mass.), "Physicians Training Facilities and Health Maintenance Organizations," hearing, U.S. Senate, Subcommittee on Health of the Committee on Labor and Public Welfare. p. 2.

4. President Richard M. Nixon, "Health Care: Requests for Action on Three Programs," March 2, 1972, message to Congress on health care, *Congressional Quarterly Almanac 1972* (Washington, D.C.: Congressional Quarterly Books, 1972), p. 43A.

5. U.S. Representative Harley O. Staggers, Sr. (W.Va.), speech on the floor of the U.S. House of Representatives, *Congressional Record*, September 12, 1973, p. 29354.

6. "Senate Passes Health Maintenance Organization Bill," *Congressional Quarterly Almanac 1972*, p. 769.

7. Representative Harley O. Staggers, Sr., speech on floor of the U.S. House of Representatives *Congressional Record*, December 18, 1973, p. 42229.

8. Senator Edward M. Kennedy, speech on the floor of the U.S. Senate, *Congressional Record*, December 19, 1973, p. 42505.

9. Representative Claude Pepper (Fla.), speech on floor of the U.S. House of Representatives, *Congressional Record*, September 12, 1973, p. 29353.

10. Laure McGinley and Ron Winslow, "Major HMOs to Quit Medicare Markets," *Wall Street Journal*, June 30, 2000.

11. *The Federal Register*, August 26, 1998.

12. "Public Health and Managed Care: Data Sharing for Common Goals," National Center for Chronic Disease Prevention and Health Promotion, *Chronic Disease Notes & Reports*, Spring/Summer 1997.

13. "Medicare patients have right to appeal HMO refusals, court says," *New York Times*, August 14, 1998.

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The Secret Hate in "Hate Crimes"

by Lowell Ponte

A variety of recent laws and policies, such as university "speech codes," have been imposed with the proclaimed goal of prohibiting "hate." They have set forth punishments for acts and crimes motivated by hatred based on a victim's race, ethnicity, religion, disability, age, gender, and sexual preference.

Opponents criticize such anti-hate measures on several grounds. These rules are vague, and convictions can come from the sensitized eye of the victim rather than the blindfolded objective standard of justice. These rules presume an ability to read the mind of the accused and function either as Orwellian "thought crimes" or punishment for politically incorrect free speech.

Critics also observe that anti-hate measures are applied unequally. In almost all cases, for example, they are invoked to mete out additional punishment when a white attacks a black or a heterosexual assaults a homosexual, but almost never when such roles are reversed. Reminiscent of medieval societies, where crime by a peasant against a noble was more severely punished than the same act by peasant against peasant or noble against peasant, anti-hate measures in practice give some a privileged legal status over others. One recent anti-terrorism law took us a long step back toward feudalism by providing special punishment for anyone who assaults a present or former government employee, thereby affording agents of the ruler special legal protection denied to us peasants. (And is it not odd that a person can be found "not guilty by reason of insanity," or have punishment mitigated by the temporary insanity purportedly caused by eating a Twinkie or suffering premenstrual syndrome, yet is punished more severely for having been environmentally poisoned into mind-dimming madness by racism or anti-Semitism?)

But if "hate crimes" laws are here to stay, they should be remedied for a larger sin of omission, for the secret hate implicit within them. If the sincere goal of such measures is to banish *all* forms of hate from our society, then all such laws and rules should be expanded to include crimes and expressions of economic hatred.

Such economic hatred takes several forms. One is verbal and policy attacks against "the rich" by populist politicians. This provides an us-against-them, divide-and-conquer way of polarizing an electorate against an object of jealousy. Such politicians are usually careful never to define a precise level of wealth or income as "rich," knowing that for their supporters "rich" is anybody with a dollar more than they possess. As fuel, it ignites one of the ugliest aspects of human psychology, the deep-seated perversity of covetousness prohibited in the Ten Commandments, as analyzed in the classic study *Envy: A Theory of Social Behavior* by sociologist Helmut Schoeck.

Contributing editor Lowell Ponte (RadioRight@aol.com) is a national radio talk show host and a columnist for David Horowitz's FrontPageMag.com.

Closely related to hatred of "the rich" are class hatred and class warfare. In this occult Marxist notion, "the rich" are not merely individuals who happen to have acquired a certain amount of wealth. They are part of a collective ruling group that is to be overthrown and expropriated, like ruling royal families of yore, so that its wealth and power may be redistributed to the working class. Recipients of privilege and mutual aid, this partly heredity class of the rich is depicted as living off the surplus wealth stolen from workers. This wealth and gain, the envious are told, are ill-gotten and should be confiscated and shared with you. But even if shared only with the government, this wealth should be expropriated because the wealthy class uses it for its own excessive pleasure or to manipulate property, goods, prices, and sock-puppet politicians to gain more for themselves and advance their global class interests. As socialist author George Bernard Shaw observed, those who rob Peter to pay Paul can always count on Paul's support.

Hatred of Capitalism

A third manifestation of economic hatred is hatred of capitalism. Wealth in the marketplace, the envious are told, comes not from hard work providing goods and services people freely buy, but from luck wagering in the stock market casino, or from chancing to land on the right "Monopoly" square or Web site, or in the phrase of one prominent politician (Representative Richard Gephardt), from otherwise being "winners in life's lottery." Where would college-dropout Bill Gates and Microsoft be had his mother not happened to sit on a charity's board of directors next to an IBM executive, who told her his company needed an operating system for personal computers? It is unfair, the envious are told, that Gates has acquired more than $60 billion and you have not. The free market, they are told, is merely a roulette wheel that is either rigged or randomly enriches those no more deserving than you are. In Nazi Germany Jews were killed for being Jews. In the Soviet Union Jews, and millions of others, were put to death for being capitalists.

Economic hatred during the past century has left a trail of death and horror as terrible as hatred based on race, religion, and other differences now included in hate crime laws. Why, then, have the authors of such laws carefully avoided inclusion of economic and class hatred from their lists of prohibited hatreds? Why have college speech codes not punished dehumanizing expressions of hatred such as "Eat the Rich" or "Down with the Bourgeoisie" or "Let's expropriate the selfish, idle rich" as they do racial epithets?

One answer is that outlawing class hatred would banish Marxist rhetoric and teaching from campuses. Campuses where such speech codes are strictest are often ones where Marxist views are most prevalent—and where "diversity" means having faculty that includes a black Marxist, a lesbian Marxist, a Latino Marxist, and a transgender Marxist, but no professor with free-market views. A leftist activist in my community advocated removing all books that "promote violence" from our public library, but she ceased her campaign when I applauded her in the local newspaper and called for removal of all books that promote Marxism, a philosophy responsible for 100 million deaths during the twentieth century.

If the rhetoric of class warfare and "soaking the rich" were prohibited, large-scale job retraining would also be required for unemployed "liberal" politicians and union leaders. Class hatred has been their bread and butter, or more precisely their gravy train to their own wealth and power.

No such dislocations have yet happened across the Atlantic, despite the Council of Europe's Convention for the Protection of Human Rights Article 14, Prohibition of Discrimination, based on, among other things, "property, birth, or other status." (How sad that in drafting our Declaration of Independence Thomas Jefferson reworded John Locke's formulation of unalienable rights, "life, liberty, and property.")

But is it fair to extend hate-crimes protection for those who choose to be rich? People also choose their religion, and this choice has such protection.

It might be that a predisposition to be entrepreneurial and make money has an as-yet-undiscovered genetic component. Have you noticed that wealth often runs in families? Is this to be dismissed merely as it takes money to make money, or learned business behavior, or could it be from an inheritance not only of dollars but also of DNA? Perhaps some combination of genetic predisposition to risk-taking, judgment, mathematical ability, and other factors combines in such people. Have you noticed, too, that those with money and property are disproportionately victimized by thieves, kidnappers, and (to be redundant) politicians and tax collectors? Let us come down on the side of love and tolerance and extend egalitarian hate-crime laws protection to the innocent victims of economic hatred. □

IDEAS ON LIBERTY
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The High Cost of Government Schooling

Public (government) education in America costs a princely sum, and it isn't getting any cheaper. But what taxpayers shell out for the government school monopoly doesn't tell the whole story. What others in society must pay to correct the shortcomings of that failed monopoly is huge and a painful testimony to the need for a big dose of choice, competition, and private enterprise.

Because government schools perform on a par with government farms, government factories, and government stores in any socialized society, we have in America what is commonly called "remedial education." The government school establishment doesn't like the term because of its pejorative nature, so its minions have lately come up with their own: "developmental education." I have nothing to cover up, so I'll use the former.

Remedial education is what has to happen when students graduate from high school lacking basic skills in reading, writing, and mathematics. They have a diploma, but it doesn't certify that they know anything; these days, the only thing you can be sure a diploma certifies is that lots of people paid through the nose for at least 12 years before the government was done with you. When employers and universities have to spend money to bring high school graduates up to speed—to do what the K-12 system did *not* do—that's remedial education.

Getting a handle on the costs of this corrective work in Michigan was the purpose of a study released last September by the Mackinac Center for Public Policy. "The Cost of Remedial Education: How Much Michigan Pays When Students Fail to Learn Basic Skills" (www.mackinac.org/3025), by education policy scholar Jay P. Greene, captured page-one headlines all across the state and shook the very foundations of the government school establishment. It's making a lot of people rethink their longstanding, rarely questioned assumptions about government schooling.

First, it's important to understand what the study did *not* count. It did not include the cost of college-level work that has been "watered-down" but not labeled either "remedial" or "developmental." Talk to most university professors these days and you'll know what I mean.

The study accounted for the expense of instructional services, but did not count expenditures on technology to accommodate the lack of basic skills. Increasingly, businesses are investing in software and gadgets to do, in effect, an end-run around workers who lack basic skills. Many businesses these days buy cash registers that make change for customers because employees can't be relied on to count accurately. Some fast-food chains actually provide cash registers with pictures of the food items on them so adult employees who can't read "cheeseburger" can still use them.

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

And finally, the study did not count the costs incurred personally by either high school dropouts or graduates who have been short-changed by the system: the later costs of tutors and self-study, and the cost of lower incomes.

The Cost of Remediation

This study looked only at Michigan and only at the costs of remedial education incurred just by businesses and universities in our state. At a minimum, one-third and probably something closer to one-half of all students graduating from Michigan public high schools lack basic skills. By using five different strategies for calculating these costs, Greene arrived at $601 million as a conservative estimate of what Michigan businesses and universities spend each year to remediate high school graduates lacking basic skills. That is a considerable sum on top of the $13 billion state and local governments spend on public education each year in Michigan, and yet it's surely too low because of all the costs that were not part of the calculation.

The government school establishment is quick to suggest that the problem isn't entirely the fault of the schools. Parents, they say, are partly to blame when they don't prepare kids well or see that they do their homework. While it's true that many parents have abdicated their responsibilities in the education of their children, it's also true that many parents who do take education seriously find that they must constantly fight the public schools on matters of proper course content and academic rigor. Many parents believe the report cards their kids bring home, not realizing that grade inflation and poor teaching render the meaning of those report cards dubious. And schools, not parents, are the outfits that issue the diplomas that once implied a mastery of at least basic skills. If a student doesn't have those skills, it's deception when his school graduates him as if he did.

Janet Dettloff, chair of the Math and Sciences Division at Wayne County Community College in Detroit, says the remedial problem is acute and goes beyond a simple lack of knowledge: "Most of the students who come to us not only lack math and English skills, but they lack basic academic skills too. They have no idea what is expected of them at the college level. They don't know how to take notes. They don't read the assigned material. And many of them don't even come to class."

Others from both the business and university communities told the author what education reformers have long understood: government schools are doing a poor job of imparting critical thinking skills. Logic and reason have largely been supplanted by appeals to emotion. In place of rigorous analytical processes, students are asked to tell how they *feel* about a particular issue. The "self-esteem" craze that has swept public education essentially produces students by the boatload who don't really know much, don't know that they don't know, but feel real good about their ignorance.

Getting the public to think about the high costs of remedial education is proving to be a catalyst for advancing real reform. If you favor more choice, competition, and private enterprise in education—irrespective of your preference for vouchers or tax credits or privatization and complete separation of school and state as a means to do that—the remediation problem provides new and powerful arguments: It vividly demonstrates that there are costs to *not* scrapping the status quo. People who are uncomfortable with the thought of change have some startling new numbers to wrestle with.

Apologists for government schooling love to spurn the arguments of reformers with the line, "You're not being fair because, after all, public schools have to take *all* comers. They can't pick and choose as private schools can." Well, thanks to eye-opening studies like this one on the remedial problem, we know that whether public schools take everybody or not, it's clear that atrociously high numbers of those they take are not getting educated. □

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ON LIBERTY
FEBRUARY 2001

Stopping Government Sprawl

by Timothy D. Terrell

In a scene that is repeated countless times each year in cities all over the world, a local government is preventing a landowner from building a legitimate business on his property. Tom Winkopp, owner of a 50-acre site in Clemson, South Carolina, wants to put a Wal-Mart Supercenter on his land. Last year, citing nonconformity with the Comprehensive Plan for the town of Clemson, the city council denied him permission to build the superstore.

Behind the petty tyranny of the city council are over 30 local businesses and an interest group called Citizens for Responsible Growth in Clemson (CRGC). Their motives are understandable. The story of businesses' using government to suppress more efficient competition is an old one. In the end, consumers lose. Even though consumers are more numerous than business owners, their disorganization and less intense personal interest in the outcome hinders their defense against anticonsumer politics.

The small but vocal CRGC has rallied opposition to Wal-Mart (dubbed "Sprawl-Mart") by coupling a fear of large firms with a misunderstanding of economics. Remarkably, the Wal-Mart opponents take some of the economic advantages of superstores and turn them on their heads.

First, CRGC frets about the impact a new Wal-Mart might have on local employment. The group cited a study showing that for every job Wal-Mart created, one-and-a-half jobs were lost in other local businesses. (Other studies have shown negligible effects on the level of employment.) Even if the study were analytically sound, this would be something to be applauded, not condemned. It means that Wal-Mart can sell what people want and use fewer resources in the process. We must remember that jobs *per se* are not the ultimate goal of the economy. We want what can be purchased with the income from jobs. Even if Wal-Mart's efficiency produced a slight decline in the demand for labor (and consequently, wages), the offsetting effect of lower prices might allow people to enjoy higher living standards.

Second, the proposed 30.1 acres of paved surface that would allow customers adequate parking is condemned as an eyesore and a cause of slightly increased temperatures in the surrounding area. The neighbors will have a case only if they can prove *strict causality* (that the Wal-Mart itself is responsible for any increase in temperature) and show that they suffer *actual harm* from the heat or the new view of the Wal-Mart. Most important, the neighbors' claims are best taken up in a court under tort law and not as a problem a city council can regulate around. In any event, Wal-Mart is not likely to over-pave. At $75,000 an acre for the property, Wal-Mart has no incentive to purchase and pave more parking lot than customers want.

Timothy Terrell (terrelltd@wofford.edu) is an assistant professor of economics at Wofford College in Spartanburg, S.C.

The very size of the Wal-Mart is listed by CRGC as one of the top ten reasons to prevent the superstore from being built. It would be 204,000 square feet, larger than the entire downtown commercial district and four times the size of the largest retail store currently in Clemson. Here the Wal-Mart opponents are portraying a strength as a weakness. Wal-Mart is efficient partly because it puts a wide variety of goods under one roof so that people don't have to get into and out of cars and wait in several stores' check-out lines. Physically handicapped individuals, pregnant women, and families with small children can appreciate the benefits of reducing the number of stops.

The bottom line is that consumers love Wal-Marts. If they didn't, you can bet that existing businesses (fronted by "concerned citizens") wouldn't be putting up such a battle in city council meetings to stifle the competition.

Infrastructure Questions

The only point we might concede to Clemson's anti-Wal-Mart group centers on the provision of adequate infrastructure. Building a Wal-Mart would require improvements to the adjacent roads—which in our system of socialized roads means passing a burden on to taxpayers. Road work alone could cost over $10 million, and Wal-Mart agreed to pay only a fraction of that (of course, one could argue that the $600,000 in sales taxes and the $35,000 in property taxes that Wal-Mart would pay every year might entitle it to some services). Ideally, the public dispute over who will pay could be sidestepped by privatizing the roads. Economist Walter Block and others have shown that private ownership of roads would produce a healthy competition among road owners that reduces congestion and accidents. (See his and Michelle S. Cadin's "Privatize Public Highways," *The Freeman: Ideas on Liberty*, February 1997.)

Ironically, CRGC claims to be supporting the free market as they simultaneously fight for government restrictions on private property. "Our group does not object to the free market. We support it wholeheartedly as the foundation of the American economy," its Web site proclaims. Yet CRGC attacked Wal-Mart using one of the most egregious governmental assaults on the free market in the post-1865 United States—antitrust law. Wal-Mart, it pointed out, was found guilty of predatory pricing in its home state of Arkansas. But this, too, is a groundless concern. Antitrust authority Dominick Armentano has shown quite succinctly that predatory pricing is a "benign process," and that "there is no obvious reason why antitrust regulation should restrain such occasional practices that clearly benefit consumers."

Apart from the definite benefits to consumers, what *would* a Wal-Mart do to existing Clemson businesses?

Building a Wal-Mart in Clemson could help the local economy in general by allowing its retail sector to compete more effectively with the neighboring towns. Currently, many people in Clemson eschew the parking difficulties of the downtown area for a 15-minute drive to Wal-Marts and other stores in the neighboring towns of Seneca, Easley, or Anderson. People who might be drawn to a Wal-Mart in another town are also going to patronize other businesses in those towns—like restaurants and gas stations. Furthermore, the presence of a Wal-Mart may attract some new residents who like to have convenient shopping nearby. This has a spillover effect on other businesses. In the interests of protecting certain existing businesses from competition, the city council could be hurting the broader Clemson economy.

In Auburn, Alabama, another southern college town very similar to Clemson, a prosperous downtown peacefully coexists with two nearby Wal-Marts. In fact, Auburn's downtown has staged a remarkable turnaround since Wal-Mart's arrival. Clothing stores, restaurants, bookstores, variety and gift stores, and barber shops thrive and even maintain some quaint small-town traditions. (Don't try to get a haircut in downtown Auburn on a Wednesday.)

To be sure, some town governments have been able to hammer out downtown "revivals" by spending millions on renovations. Funnel enough tax dollars into any area and the appearance might improve. Yet the alternative uses of that tax money would almost certainly have produced greater benefits.

In many respects, downtown businesses rely on a tight relationship with the local government for their prosperity. Superstores have a lower degree of dependence, which may explain Wal-Mart's difficulties with Clemson's city council. Downtown businesses typically rely on government-provided parking, sidewalks, landscaping, and lighting, and a higher-than-normal concentration of police protection. In contrast, superstores and shopping malls provide their own parking lots, lighting, sidewalks, and even some degree of security.

It's not hard to discern which system works better. While downtown areas are notorious for their parking shortages and, in many larger cities, their crime, superstores and shopping malls typically have ample, well-lit parking and a generally peaceful shopping environment. Consumers vote with their dollars, often leaving a decaying downtown propped up by protectionist city councils beholden to local "old money." New stores are more likely to appear just outside the city limits, where taxes are lower and zoning is less restrictive or nonexistent.

A city council wishing to support a downtown renewal consistent with free-market principles could do so by relinquishing two things for which city councils have an insatiable appetite: tax money and control. The key could be lowering taxes on downtown businesses and turning over the parking space and other infrastructure to private firms. Perhaps an association jointly operated by downtown businesses could take responsibility for maintenance and improvement of downtown infrastructure. Or, in a small town like Clemson, perhaps a single company could purchase the entire downtown—buildings, streets, and all. This would give a downtown area some of the qualities of a shopping mall that are evidently so pleasing to consumers.

With the incentives that private ownership and management would provide, market forces could produce a downtown revival without the bungling protectionist intervention of local government. At the same time, freeing property owners like Tom Winkopp to build what consumers demand would increase living standards—and distinguish city councilmen who are true friends of liberty. ☐

IDEAS ON LIBERTY
FEBRUARY 2001

The Great Airship Race

by Frank Laffitte

Today as we face the consequences of de facto socialism in much of our transportation, it is poignant to think that we might have avoided our problems if the results of an experiment in the 1920s had been heeded. That experiment, perhaps the most dramatic head-to-head competition between capitalism and socialism, was the brainchild of the first Labor government of England.

In 1924 the government of Ramsay MacDonald decided to establish air service between England and India. In those days, three years before Lindbergh's flight, it was believed that airplanes would never be capable of useful transoceanic flight. A German airship (dirigible) was already carrying passengers and freight on an established route to and from South America. Consequently, the British government sponsored a contest for an airship. One ship was to be developed by the Air Ministry, another by private enterprise. The winner would be awarded the air route.

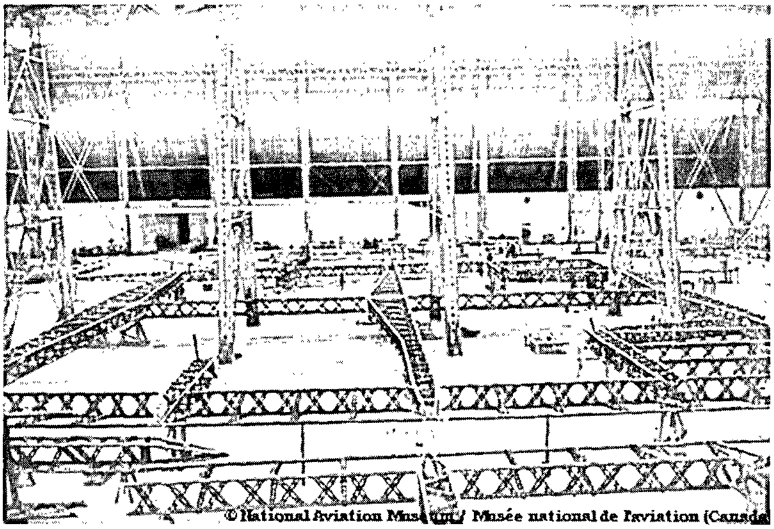
The "capitalist" ship, the R.100, was designed by Bames Wallis, working for Vickers, Ltd. In those days before computers, calculations for such a project were done by a team of calculators working for months with slide rules. The chief calculator for R.100, who rose to be chief engineer, was a man named Norway, who had a second career as a writer. He wrote under his first two names, Nevil Shute. In his autobiography, *Slide Rule*, Shute described how, from the beginning, the cards were stacked against the capitalists.

The Air Ministry staff at Cardington believed they were engaged in "a great experiment of national importance, too great to be entrusted to commercial interests." Backed by all the resources of government, they considered themselves pre-eminent in the domain of airship engineering and considered the Vickers effort a sop to the capitalists for the sake of appearances.

While the Air Ministry ship had the benefit of state-of-the-art facilities and unlimited funding, the capitalist effort was relegated to a derelict airship shed at Howden. A fox lived in the concrete trench beneath the hangar floor, and in the wreckage of other hangars lived partridges, hares, and ducks. "The rough shooting was quite good," according to Shute. Water, sewage, and power supply had to be addressed before work could begin on the airship. Economy was the rule.

It was difficult to attract workers to this aerodrome in the middle of nowhere. Accommodations were Spartan. Fourteen of the workers slept in the local pub. Shute lived in the home of a garage owner. Austerity demanded the design of the ship be based on good theoretical calculation rather than on experimentation. Wallis's genius was evident. In the structure of R.100, which was the size of an ocean liner, there were only 15 different joints. The ship was outfitted with reconditioned aircraft engines. A joke went round at Cardington, where a single experiment cost

Frank Laffitte is a freelance writer in Fayetteville, North Carolina.



Interior of the R.100.

40,000 pounds, that the R.100 was coming along better now that one of the engineers had bought a car and loaned the tool kit to the workers.

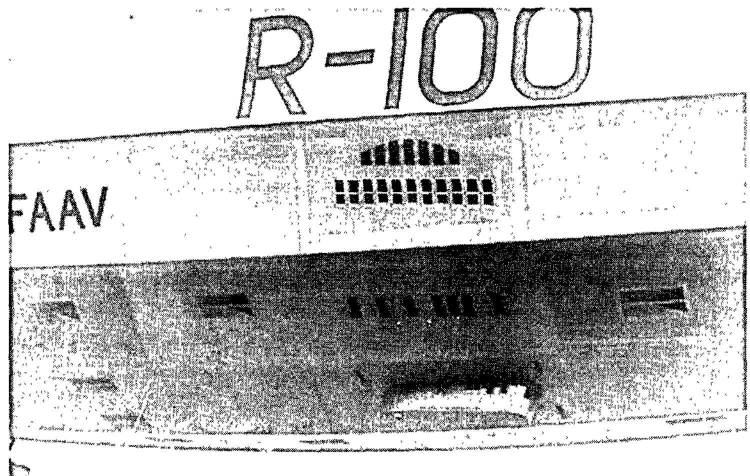
Throughout the building of the two ships, the officials at Cardington knew all about the R.100, but the Vickers team knew only as much about the Air Ministry ship as they read in the popular press. The R.100 engine trials stipulated by the airworthiness authorities were carried out in dangerous circumstances inside the hangar, the huge propellers straining only 15 inches from the floor, below five million cubic feet of hydrogen. The crew for the flight trials was supplied by the Air Ministry, "employed by the men at Cardington who were both our judges and our competitors," wrote Shute. It was decided that while the Air Ministry ship, the R.101, which had diesel engines, would make the test flight to India as planned, the capitalist ship would make a test flight to Canada. Gasoline engines were thought to be unsafe in the tropics. The days of cheap diesel engines for aircraft were thought to be just around the corner.

Capitalist Ship Faster

Despite the handicaps, the R.100 performed well. It was at least ten miles an hour faster than the R.101. Shute said he felt "as safe through all the flights that R.100 made as on a large ship." During the final acceptance flight, although the weather was atrocious, the ship handled like a dream. One man, taking a stroll on top of the ship, lost his wristwatch one night. It was found the next day by one of the riggers. The flight to and from Canada was successful, and the government took delivery of the capitalist ship without a hitch.

The R.101, meanwhile, was built under no economic strictures. Any amount of experimentation and research was funded. But while the Air Ministry officials made the rules and kept the score, they were, as Shute put it, "hemmed in behind a palisade of their own public statements." The design of the ship was unbelievably complex, and once committed to a design innovation, the Air Ministry staff were unable to change their minds. The ship's diesel engines and unnecessary servo motors added weight, and while the R.100 had two engines that could run forward or reverse, the R.101 carried an extra three-ton reverse engine that rode as a passenger. The gas valves of the R.101 were oversensitive. The outer cover was friable, and had to be replaced. The R.101's payload lift was only 35 tons, as opposed to 54 tons for the R.100. To gain more lift, the gasbag anchors were loosened, and the ship was sliced in half and a new bay inserted.

At the very beginning of his job, in order to learn all he could about airships, Shute had read all the records of airships of the past and had come across a report of the R.38 disaster. The R.38 was an earlier government-built airship, which had broken in two during flight. Shute was appalled to learn that the ship had been built without any attempt by the engineers to calculate the aerodynamic forces that would be acting on her. "I had come from the



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She was over Beauvais, France, when she took her first steep dive. The officer on watch managed to bring her up, but a moment later she dived again, hit the ground, bounced, hit again, and broke where the new airbag had been inserted. The hydrogen was ignited, probably by a spark from a broken electrical circuit. Of the 54 people on board, six survived.

The end of the story is both sad and predictable. The Air Ministry abandoned the airship program and ordered the R.100 broken up and sold for scrap.

hard commercial school of de Havillands," Shute wrote, "where competence was the key to survival and a disaster might have meant the end of the company and unemployment for everyone concerned with it." Even more stunning than the cavalier incompetence of R.38's designers was the fact that none of them had lost their jobs. Indeed, all but one of them, who had been killed in the wreck, were working on the R.101.

Engine Failure

Speed trials for the R.101 could not be done because one engine failed. An airworthiness certificate was issued, nevertheless, with a verbal provision that the speed trials would be undertaken during the flight to India. Lord Thomson, Labor minister for air, was rumored to have his eye on the post of viceroy of India and was eager to have a successful flight to and from India and be back in London in time for the Imperial Conference in mid-October.

On the evening of October 4 the R.101 lifted off in bad weather, which soon became worse. Battling a headwind, she wallowed for seven-and-a-half hours and flew 220 miles.

Shute's insight into the R.101 disaster extended beyond the immediate issue. He showed how confiscatory estate taxes, by reducing the number of officers of private means, had robbed the Air Ministry of its most able decision-makers, the ones who would have resigned rather than take part in an endeavor gone wrong. He pointed out that the slowness of airships was a virtue, saving one from the necessity of quick decisions. Slowness was also a virtue of early airplanes. Slow, cheap planes were practical, until metal came into use, whereupon the planes became so expensive they had to go fast to earn back their investment.

Slide Rule is more than a textbook analysis of bureaucratic folly. It's an adventure story, an autobiography of an interesting life (Shute's father took the family to Rome and Naples on vacation during the first world war), an informal annotation on Shute's novels (such as the source of the barnstorming outfit he wrote of in *Round the Bend*), and a mine of philosophical insight. □

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Budgetary Immortality

America will soon have a new president, and that means a new budget. Successive administrations and congresses routinely claim that they've squeezed the last possible unnecessary cent out of their spending proposals. But such claims simply cannot be taken seriously.

Last year the supposedly skinflint House Republicans voted $100 million for local fire departments, $19.4 million for New York's lobster industry, and $2.2 million for a senior citizens center in Alaska. No expenditure is too great if it helps buy a few votes in a close election.

Herds of sacred cows roam Washington. Consider these five candidates for the budget slaughterhouse.

Export-Import Bank. America is the world's greatest trading nation, yet ExIm has extended more than $40 billion in loans, loan guarantees, and insurance to underwrite U.S. exports. It contends that cheap credit is necessary to sell American products abroad, but it covers barely 1 percent of U.S. exports. That is just a blip in today's $9.6 trillion economy.

Subsidies are only one factor in a buyer's decision. Moreover, many of ExIm's big borrowers, like Argentina, Brazil, China, India, Indonesia, Mexico, Russia, South Korea, and Venezuela, have enjoyed a surfeit of subsidized loans from other sources.

Finally, the bank drains its cash from taxpayers and other business borrowers. University of Arizona economist Herbert Kaufman estimated that every $1 billion in federal loan guarantees crowds out as much as $1.32 billion in private investment. Even the General Accounting Office has warned that ExIm just shifts production around. In fact, it has routinely subsidized competitors of U.S. firms—foreign airlines and steel companies, for instance.

Small Business Administration. America's technological revolution reflects the explosion of new small businesses backed by private venture capitalists. Yet the Clinton administration wanted to dole out $18 billion in loans and venture capital last year through the SBA.

The SBA, created in 1953, supports less than 2 percent of the nearly 800,000 new businesses created every year. The agency boasts that it provides a third of its general loans and 40 percent of "micro loans" to start-ups—at a time when private investors are tossing money at the same enterprises.

Moreover, the SBA has lavished cheap credit on advertising agencies, bars, country clubs, golf courses, liquor stores, pool halls, and even stockbrokers. None are in short supply. Millionaire celebrities, pornographers, and scam artists have all collected taxpayer dollars.

The agency is a leading cog in Uncle Sam's racial spoils system, with special programs for minority-owned businesses. The 8(a) set-asides for federal contracts have been a fount of abuse, spawning the celebrated Wedtech scandal of the mid-1980s.

Doug Bandow, a nationally syndicated columnist, is a senior fellow at the Cato Institute and the author and editor of several books, including Tripwire: Korea and U.S. Foreign Policy in a Changed World.

Small business doesn't need the SBA. More jobs would be created if Uncle Sam let the market support business opportunities with the highest economic, rather than political, value.

Help for Appalachia?

Appalachian Regional Commission. President Lyndon Johnson launched the ARC in 1965. Six presidents later, the ARC labors on, having spent more than $7.4 billion on highways and a variety of social welfare programs in the 406 counties of 13 states defined as "Appalachia."

The Clinton administration pushed another $476.4 million in outlays last year. ARC's primary nonhighway role is to ladle grants, for instance, to get citizens "engaged" in community activities.

The commission has generated no visible economic benefits. America's boom, not ARC's budget, which fell 40 percent in the 1980s, resuscitated the region. By the late 1990s unemployment was only slightly above the national average, 4.8 vs. 4.5 percent.

Moreover, the ARC is redundant. All told, other federal agencies spend nearly $20 billion annually on transportation, mostly on highways.

There are 60 other economic development programs run by a score of different bureaucracies. For instance, last year the ARC proposed spending $10 million to "help entrepreneurs start and expand local businesses." Of course, that's what the SBA says it is doing. But venture capital can do the job.

Community Development Block Grants. There are few programs more beloved by congressmen than CDBG. The Department of Housing and Urban Development nominally manages the program, which cost nearly $5 billion last year. But congressmen "earmark" their favored projects—21 pages worth in the FY2000 appropriations bill.

In short, CDBG is a big slush fund to help re-elect legislators. Money was given to design the Wheels Museum in the county of Bernalillo, New Mexico, and to build a wellness center in Holmes County, Ohio. The University of South Alabama got money to build an archaeological research center. Twentynine Palms, California, collected cash to finish a mural. Money went to Enumclaw, Washington, for a welcome center. Los Angeles got aid to build an archway in Chinatown. Springfield, Massachusetts, received a grant to build a park honoring Dr. Seuss (Theodor Geisel)!

Silly Commissions. Block grants come and go, but almost every government bureaucracy is permanent. And many serve little public purpose.

The United States and Japan have been close allies for half a century. Businessmen, entertainers, athletes, diplomats, and soldiers constantly flow between the two nations. Yet Uncle Sam spends $2 million annually on the Japan-U.S. Friendship Commission. It underwrites university courses, public affairs programs, and even Internet discussion groups, none of which needs government subsidies.

Washington spends $9 million on the United States Institute of Peace, essentially a government think tank in the nation's capital—which is crowded with think tanks. The institute is supposed to counterbalance the Department of Defense, with an annual budget nearing $300 billion.

Money goes to America's Education Goals Panel; apparently the $30 billion Department of Education is not enough. There's an Institute of American Indian and Alaska Native Culture and Arts Development, on top of the National Endowments for the Arts and for the Humanities. There's even a National Commission on Libraries and Information Services and a Commission for the Preservation of America's Heritage Abroad.

The federal behemoth is growing even as private corporations are streamlining. And nothing changed with the GOP Congress. Indeed, last year budget analysts Stephen Moore and Stephen Slivinski expected that the 106th Congress would end as the biggest social spender since the 1970s.

Presidents and legislators talk endlessly about constitutional and procedural reform to constrain federal spending. What they need to do is just say no. □

IDEAS
ON LIBERTY
FEBRUARY 2001

Original Liberalism

by Jim Peron

Liberalism, as originally and properly understood, is the historic advocate of individual freedom. It has promoted the rule of law and private property, with the free exchange of goods and ideas. Its opposition to censorship and state economic controls is based on the same principle of freedom. Liberalism, as the name implies, is the fundamental belief in a political ideal where individuals are free to pursue their own goals, in their own ways, provided they do not infringe on the equal liberty of others.

The entire liberal philosophy revolves around the primacy of the rights of the individual. As two philosophers put it: "Rights are the language through which liberalism is spoken" (Douglas Rasmussen and Douglas Den Uyl, *Liberalism Defended*).

Thomas Jefferson put this liberal ideal into one succinct paragraph in his magnificent Declaration of Independence: "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain inalienable Rights, that among these are Life, Liberty and the pursuit of Happiness,—That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the Governed. . . ."

Jim Peron is the author of Exploding Population Myths *(Heartland Institute). He is executive director of the Institute for Liberal Values in Johannesburg, South Africa, and can be reached at peron@gonet.co.za.*

Liberalism turned the prevailing doctrines of human rights and politics upside down. For centuries it was assumed that man lived for the sake of the state; that what rights he possessed were gifts, given to him by his king or government. Liberals argued that the opposite was true. People possess rights first, and governments receive their sanction from the people. The government is not the giver of rights to the people but the people are the source for the legitimacy of the government.

The French statesman and journalist Frederic Bastiat explained liberal principles in his classic work *The Law*. Bastiat starts first with the fact that all people are given the gift of life. But he says that life "cannot maintain itself alone." Humans have "marvelous faculties" to produce that which is required for life, and man sits amidst "a variety of natural resources." "By the application of our faculties to these natural resources we convert them into products and use them. This process is necessary in order that life may run its appointed course."

To survive man must apply his rational mind to natural resources. Life requires freedom, and if man is to survive he must keep the product of his labor or, in other words, he must have the right to property. Liberals have argued that it is for this reason that legitimate governments are created. Jefferson said the purpose of government is to secure rights already held by the individual. Bastiat explained it this way:

> Life, faculties, production—in other words, individuality, liberty, property—this is man. And in spite of the cunning of artful political leaders, these three gifts from God precede all human legislation, and are superior to it. Life, liberty, and property do not exist because men have made laws. On the contrary, it was the fact that life, liberty, and property existed beforehand that cause men to make laws in the first place.

In a liberal society the primary function of government is to protect the pre-existing rights of the individual. The government grants no rights, but merely acts to prevent others from infringing on such rights. Liberalism does not attempt to tell man how to live, or what moral principles to hold. It deals simply with his material well-being in this world. It provides a framework in which each individual can find personal happiness or fulfillment according to his or her own values. In his book *Liberalism*, Ludwig von Mises wrote:

> It is not from a disdain for spiritual goods that liberalism concerns itself exclusively with man's material well-being, but from a conviction that what is highest and deepest in man cannot be touched by any outward regulation. It seeks to produce only outer well-being because it knows that inner, spiritual riches cannot come to man from without, but only from within his own heart. It does not aim at creating anything but the outward preconditions for the inner life.

Human Interaction

Liberalism establishes a basic principle for how people must interact. This principle is that all interaction must be by mutual consent. Each individual is thus free to pursue his own happiness in a regime of freedom, regulated only by the equal liberty and rights of others. The proper method of interaction economically is one where individuals trade value for value. Thus in a truly liberal society, the economy is one of free markets and property rights. Individuals seeking their own well-being produce goods and services for exchange with other individuals who are also seeking their own good. No trade takes place in a free economy unless all trading partners believe they will benefit. To improve his own life each individual must also improve the lives of others, even if this is not his intent.

In a society where government is limited to the protection of rights, individuals may pursue varying sets of values. Thus liberalism is the only system that allows for pluralism, or the pursuit of contradictory sets of values. The function of the state is not to impose one set of values on everyone, but to allow the free exchange of goods, services, and ideas. It protects, equally, every group within the society, but it does not place the values of any one group higher than others. Liberalism respects man's most important right: the right to think for himself. It does not seek to control his mind, but leaves him free to use his rational faculties to the best of his ability.

Applied liberalism means free minds and free markets. But for man to be free, government must be limited. Most liberals have, therefore, advocated constitutional restraints that limit the powers of government. If the purpose of government is to protect the rights of people, then the purpose of a constitution is to limit the powers of government.

Liberalism arose because governments have been the most effective means for the destruction of human rights and human liberties. An all-powerful government—even one motivated by the best of intentions—is a potent threat to human freedom. And liberals believe that without freedom man cannot flourish and prosper. Thus liberals have historically spoken of absolute human rights and limited governments. And this, they believe, is what a constitution is meant to guarantee.

Liberalism does not espouse one overriding utopian ideal for everyone. It recognizes the diversity of human life, and it understands that the pursuit of utopia is far more likely to end up on the road to hell. Thus it proposes a society based on equal rights and equal liberties. Each person is free to seek his or her own happiness, provided only that each respects the equal rights of the others. Only in this free society is there the chance for substantial

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—LUDWIG VON MISES
Liberalism

Ludwig von Mises

prosperity, and only when man is free from hunger and disease is he capable of pursuing his higher values—whatever they may be.

No Equal Results

But liberalism recognizes that a society of equal rights will not lead to one of equal results. And a society that promotes equal results will not be one that has equal rights. Liberalism, properly understood, defends equal liberty. And when all are equally free, the results will be vastly different.

Wealth will be created—not distributed. Those who can reach for heights will do so, and the rest of us will benefit from their actions, though that was not their motivation. The state will be of limited importance, acting only to protect rights. Those who reach the top in the business world will have done so because they are good at what they do and not because they have political pull. The result, though not the intention, will be an uplifting of the poorest in society. Jobs will be created as a necessary component of the profit-seeking of the entrepreneurs.

When this happens there will be greater and greater economic inequality. But so what? Why should everyone be equally poor? The poor will have their living standards vastly improved, and the wealthy will be even wealthier. If prosperity is our goal then why worry about an inequality of results?

And this is the crucial difference between liberalism and socialism (or what goes by the name "liberalism" in America today). Liberalism, based on an ethics of achievement, advocates equal freedom, which leads to unequal results. Socialism, based on the ethics of envy, demands equal results, which requires limiting freedom. Thus with liberalism we have freedom, prosperity, and unequal wealth. With socialism we have equality, poverty, and no freedom. As much as we might want there to be a third alternative, it doesn't exist. □

IDEAS ON LIBERTY
FEBRUARY 2001

Great Britain Finally Makes It to the Eighteenth Century

by Norman Barry

On October 2, 2000, the Human Rights Act came into force in Britain.[1] Given that the United States has had its Bill of Rights since 1791, the French revolutionaries issued the Rights of Man and the Citizen in 1789, and all major European countries have codes that protect fundamental liberties from the ravages of, at first, monarchs and now parliaments, Britain might appear to have been an uncivilized dictatorship for the last 200 years. The lack of a written constitution and separation of powers would normally combine to produce tyranny even in a formal democracy. Yet they clearly haven't in Britain. Why?

To constitutional traditionalists the question is almost impertinent. We don't need newfangled documents, they say; we have the common law, free elections, and the sovereignty of Parliament to protect our fundamental liberties. The Americans and the Europeans only have the rights that are specified in the code or constitution, but under the common law you can do anything except that which is specifically forbidden. F. A. Hayek, an uncritical admirer of that jurisprudence, actually thought that more rights would exist under the common law than under any bill of rights.[2] But that was never convincing since statute law has caused much depredation of these unwritten rights and the judiciary is powerless to strike down offending legislation. Even some conservatives began to fear "elective dictatorship" under the Labor Government of the late 1970s.

But it wasn't just statute law that was a threat to liberties. The common law of libel had spontaneously developed to form a real barrier to freedom of speech, and without a constitution and a First Amendment this precious right depended on the unpredictability of the judiciary. A British statute had made most tort cases subject only to a judge for the verdict and damages (so that the country avoided some of the excesses of American tort law), but libel was exempt. In such cases not only do the payments rival American tort cases, but the law constitutes a real inhibition to free expression.[3]

But the real problem for rights theorists was the existence of sovereignty itself and the absence of serious judicial review.[4] It is true that the courts have been diligent in their scrutiny of powers, under acts of Parliament, exercised by ministers. (Indeed, Freddie Laker could only start up his cheap transatlantic airline through a court decision that ended the monopoly of the [then] nationalized airline.) But they could not strike down an act of Parliament. Many conservatives were critical of rights documents for another reason. If a country had a long civil rights tradition (as Britain has) it wouldn't need a document anyway; and if it didn't, such a written constitution would be useless against a dictator. A

Norman Barry (norman.barry@buckingham.ac.uk), a contributing editor of Ideas on Liberty, *is professor of social and political theory at the University of Buckingham in the UK. He is the author of* An Introduction to Modern Political Theory *(St. Martin's Press).*

written document would simply lead to vexatious litigation and involve judicial meddling in public policy.

Human Rights in Britain

Still, Britain has for the last 40 years enjoyed a crypto-protection from a rights-threatening government. As a signatory to the European Convention on Human Rights (1950), she had always accepted adverse decisions of the European Court of Human Rights (this has nothing to do with the European Union and its Court of Justice) and amended offending domestic legislation accordingly. Britain's record before the European Court of Human Rights in Strasbourg looks pretty bad precisely because there was no remedy available at home.

Thus in a series of cases Britain was condemned for allowing caning in schools, cruel treatment of Irish Republican Army suspects in Northern Ireland, refusing to allow female Commonwealth immigrants to bring their husbands into the country (if the law had also forbidden the entry of wives it would have been legitimate), and many other, fairly minor depredations of rights. The trouble with this approach was its delay and cost—it normally took about five years for a case to be heard at an average price of over $42,000. Under the new domestic legislation, British courts can hear the cases and pronounce a verdict. A human rights claim becomes economically as routine as the legal aspect of purchasing a house or getting a divorce.

The new statute embodies the Convention directly into domestic law, and from a classical liberal perspective it is not at all bad. It lists the basic negative rights, including the right to life; it prohibits torture and slavery, guarantees free expression, privacy, and family life; grants the right to a fair trial; and prohibits retrospective criminal law. There are no welfare rights (apart from a vague right to education, although even here it is certain that the Convention would outlaw a state ban on private schooling). It is addressed to government, although the notion of the public is drawn widely enough to envelop most private-sector activity.

Some of the rights are "absolute," such as the right to life (made so by the ban on the death penalty introduced by way of a protocol added later), and some have to be balanced against each other, such as the right to privacy with the right to free expression. There is even a protection for property—the right to "the peaceful enjoyment of possession" is stated in Article One of the First Protocol. However, this has to be balanced against the license for government to take actions necessary for the protection of the public interest. The Duke of Westminster fell foul of this when, in the 1980s in Strasbourg, he claimed that his property rights had been violated by the 1967 Leasehold Reform Act, which gave lessees the opportunity to buy out the freeholds at favorable prices. His problem was that he is a very rich man who owned a large number of desirable London properties. A Viennese lady was similarly unsuccessful when she protested a rent control law in Austria.

However, the fear of classical liberals is that the creativity of judiciaries (and judges throughout the Western world have developed a left bias) will convert the negative rights into positive obligations on government. A good example is the right to life (Article 2). Does this mean that persons have an unlimited claim to health care with no balancing against cost? In a domestic case in 1995 (*R v. Cambridge PB*), a child with leukemia was refused treatment under the National Health Service on grounds of cost—by reference to the National Health Service and Community Care Act (1990). Most legal observers feel that the plaintiffs would win if the case were brought today. One shudders at the economic implications of this in a system that puts the bulk of health spending in the hands of the government. What happens if they get to work on the right to education?

But the European Court itself was comparatively modest in its activism. Compensation awards are really rather low. Still, despite some praise for its human rights verdicts, it has angered conservatives on occasion. The S.A.S. (a specialist antiterrorist unit of the British Army) shot dead three known IRA members who were planning an explosion in Gibraltar.

Their families brought cases to Strasbourg and the authorities were criticized (basically for not giving a warning to the IRA men), although no compensation was awarded.

Furthermore, the prohibition (Article 7) against retroactive criminal law was not strictly adhered to in two cases in 1996. Two men were convicted of raping their wives, even though an ancient common-law ruling by Lord Hale had made husbands immune from such prosecutions. They took their cases to Strasbourg after the Law Lords in Britain upheld the convictions. The European Human Rights Court said that a long line of precedents indicated that the law would be changed and that the men concerned should have been aware of this. Although no one would want to defend rapists, the decision was a little disturbing because it illustrated a jurisprudence that has become far too prevalent in America. This is outcome-oriented law, in which some desirable decision is identified and implemented whatever the legal processes involved. Even the late Lord Denning, notorious for twisting the common law to bring about some vague notion of abstract "justice," was unhappy with the original overturning of Hale's ruling. He correctly argued that Parliament should have passed a one-line statute subjecting husbands to the law of rape.

The vexed question of sovereignty is tackled in the new statute. Courts now have a legal duty to interpret law (either a pre-existing statute or one passed after October 2, 2000) within the framework of the new Human Rights Act. Although they do not have the power to invalidate a law in conflict with it, they may issue a "declaration of incompatibility," which is addressed to the government (with its majority in Parliament) to change the law. There is a fast-track procedure via delegated legislation. But the Lord Chancellor (chief law officer under the British system) has explicitly said that Parliament could always refuse to implement the judiciary's proposed change. There will be no U.S.-style Supreme Court in Britain.

Leaving aside the sovereignty question, there is a need to consider the change in judicial practice that the Human Rights Act will produce. Historically, in common-law jurisdictions courts have interpreted statutes almost literally, rigorously observed precedent, and left it to legislatures to develop the law in politically determined directions. Now the courts will do the developing because they will have to read regular domestic law in line with the Act. In code countries, where the judiciary is not bound by precedent, a court refers to the code to determine the meaning and purpose of law in difficult cases. British judges will have to do something similar when they adjudicate, for example, cases involving privacy and freedom of expression. An early challenge is almost certain to be against the Official Secrets Act, which forbids almost any disclosure of government information by, among others, retired officials publishing their memoirs. How are they to balance the right to free expression against the public interest? What was originally a political matter now becomes judicial.

Economic Rights

Apart from the diluted right to property, there are no specific economic rights in the new Act. But all is not lost for just as commercial advertising has been the accidental beneficiary of the First Amendment in America, so economic interests should gain from a strict interpretation of the negative rights enunciated now in Britain. Ernest Saunders has already won a case in Strasbourg over his treatment during the Guiness investigation. This arose out of the most notorious business scandal of the 1980s.[5] In the battle for control of Distillers (which was achieved by a share swap), Saunders, chairman of Guinness, and his accomplices were convicted (among other things) for an illegal scheme to keep the share price high. However, the Department of Trade and Industry used the Daconian Companies Act (1987), which gives suspects virtually no rights in an investigation. Saunders brought a case to Strasbourg arguing that the compulsion for him to give evidence, which the statute permits, amounted to self-incrimination (forbidden by Article 6 of the Convention). He was successful, although his convictions, which were based on that evidence, were not overturned.

It was a delightful example of unintended consequences, as I am sure the Court had no particular affection for corporate raiders. It is quite possible that Saunders will reopen his case and try to get his convictions overturned under the new British law. There may be other opportunities to bring economic questions into the judiciary, for example, the power of regulators to control business and grant privileges may well be challenged, although some observers fear that the right to privacy may well be used to prevent companies' reading the e-mails of their employees (even if they are sent on company-owned machines).

A Good Act?

From a classical-liberal and even a conservative perspective, the verdict on the Human Rights Act must be cautiously favorable. We have long bewailed the power explicit in the sovereignty of Parliament and had never believed Dicey's famous claim that it was somehow consistent with the rule of law.[6] And we have always advised judicial remedies to problems rather than the familiar and unreliable political and majoritarian prophylactics. However, that optimism about the judiciary has been seriously tempered in the past three decades. The U.S. Supreme Court has not properly protected economic liberties since 1937,[7] and its adventurous expansion of civil liberties, especially in discrimination cases, has burdened business significantly. The European Court of Human Rights has been no different, and the British judiciary, because of the debilitating effect of Parliamentary sovereignty, has rarely been given the opportunity to adjudicate on economic questions.

It would certainly be better if Europe could develop in such a way that there is genuine jurisdictional competition (as there used to be in the United States). There might be a need for an overarching legal rights framework, but this could be mild and unintrusive. People would simply migrate to areas with less regulation and more protection for property. But this will not happen in Europe (or Britain): the European Union had its own set of rights waiting for approval at a summit in Nice in December 2000. These rights, to be adjudicated presumably by the European Court of Justice, whose rulings are binding across European Union members, will not merely duplicate the Convention, they will be more extensive and intrusive. The more rights we have the less valuable they become. No fundamental charter, sacred document, or pristine constitution can repeal the laws of human and social behavior. □

1. The law was passed in 1998 and has been operative in Scotland since 1999.

2. See Norman Barry, "Hayek's Theory of Law," *Journal des Economistes et des Etudes Humaines*, vol. 9, 1999, pp. 371–85.

3. The law of libel has been slightly eased through case law and a statute (Defamation Act, 1996). It is said that these improvements were unconnected with the Convention on Human Rights.

4. In relation to Europe, the British Parliament is no longer sovereign. See Norman Barry, "Sovereignty, the Rule of Recognition and Constitutional Stability in Britain," *Hume Papers on Public Policy*, vol. 2, 1994.

5. See Norman Barry, *Business Ethics* (London: Macmillan, 1998), pp. 139–41.

6. See Norman Barry, *An Introduction to Modern Political Theory* (London: Macmillan, 2000), pp. 50–53.

7. See Norman Barry, "The Constitutional Protection of Economic Liberty, *Ideas on Liberty*, November 2000.

IDEAS ON LIBERTY
FEBRUARY 2001

Rules versus Rulers

By now *someone* presumably has been inaugurated president of the United States. It's a good time to reconsider voting as a method of making important decisions.

The presidential election has exposed to light a long-known but little acknowledged fact: democratic processes are like a cheap sweater. Don't look too close, and for gosh sakes, don't touch that loose thread!

It is not just that party hacks are ultimately in charge of counting the votes or in the most absurd of cases, reading chads like tea leaves. It goes much deeper. Voting no more reveals the "will of the people" than cat entrails would.

Imagine if we voted in order to make decisions in other areas of life. How about shopping for groceries? Currently, we each go to the supermarket of our choice when we wish, take a cart, and proceed through the store picking out only those items we (and our families) want, knowing full well that we will have to pay for what we take at the checkout counter. That system works rather well. We make our choices according to our tastes and within our budgets, and when we arrive home, we have all the things we bought.

Now imagine if we did our grocery shopping democratically.

We would all arrive at our assigned precinct supermarkets on the same day between 7 a.m. and 7 p.m. Instead of taking a cart and shopping individualistically, we would enter and be confronted by two (or in a really "liberal" society, three or four) sealed shopping carts already filled with items. Those are the "candidates." We are each given a ballot on which we register our choice. Before marking the ballot, we are able to examine the carts. We carefully look at them, noting that the items in the carts vary. Each of us must determine which cart is best for our own needs, which has more of what we want and less of what we don't want. Eventually we each make a decision and mark our ballots.

But that doesn't mean we get the cart we voted for. We have to wait for all the votes to come in. (We'll assume the decision is made at the precinct level.) At any rate, whichever collection of items receives the most votes is the one we each take home. We don't have to stop at the checkout counter, because the groceries are free—in the sense that we pay for them through the tax system. In what sense does the result reflect the will of the people?

That's not the end of the story. When we get our bags of groceries home, we are as likely as not to find that the items are not exactly the ones we saw in the cart at the store. Some are missing, their place having been taken by others not in the original cart. You might say that the winning candidate did not keep its "campaign" promises, or more euphemistically, that it grew in office.

That would be an unpleasant way to buy food and other items. Think how much worse it would be if we used that method to choose our social or religious activities or our medical care. (We are already far along the road in the latter category.)

Sheldon Richman is editor of Ideas on Liberty.

The point ought to be clear by now: for all the romanticism attached to democracy, it's a lousy way to make decisions. It is lousy precisely because it is collective. It's been said over and over again that in most elections, one vote does not count. It's simple arithmetic. Take any election in any sizeable jurisdiction, subtract one vote from the winner, and see if it makes a difference in the outcome. (This is true even of the last presidential election. At this writing, George Bush was leading Al Gore by 537 votes in Florida. Could an eligible Gore fan who stayed at home election day have made a difference? Yes—if he could have cast 538 votes.)

Powerlessness a Virtue?

The fact that no one person's vote is decisive is a *virtue* for those who approach democracy like a religion. They find something almost mystical in the idea that 100 million individually powerless people (about half of those eligible to vote) get together and collectively—magically—elect the president of the United States. It's the sort of thing that brings people like Roger Rosenblatt and Doris Kearns Goodwin to tears.

But that could be a virtue only if there were a "will of the people" that, first, actually exists, and second, is superior to the individual wills of individual people. There isn't. There is no reason to believe that an election reveals any such thing. People can have an infinite number of reasons to vote for someone. Like the grocery cart at the democratic supermarket, a candidate holds a hodgepodge of positions to which different voters will respond differently. Some voters won't be voting *for* anyone at all, but only *against* another candidate. The only thing an election reveals is who got the most votes. That's not terribly informative.

The obvious response to my argument is that individualism works for buying groceries but not necessarily for all things. Government, it is said, is established to provide so-called collective goods that markets fail to provide (or provide sufficiently). Even if that theory is valid, it fails to address the fact that the current government goes far beyond the provision of the few supposed collective goods. One can make a respectable case that the U.S. Constitution set up a government whose powers—"few and defined," as Mr. Madison put it—were limited to providing only those things that individuals purportedly could not provide for themselves in the marketplace. What does that have to do with the government we find ourselves with today? It is a government that essentially defines its own powers, relegating the Constitution to something of antiquarian interest only; it is a government whose primary activity is the transfer of wealth from those who produce it to those who don't.

Voting to select officeholders in a government whose powers are constitutionally defined and limited to protecting liberty is one thing. Voting to select officeholders who virtually define their own powers and who will exercise those powers to confiscate our wealth and regulate our peaceful activities is something else entirely.

Yes, voting is a better way to pick officeholders than violence or heredity. But the method of selection is less important than what those officeholders may legally do. In other words, I care less about *who* rules than what the rules *are*. □

IDEAS ON LIBERTY
FEBRUARY 2001

Tiger-nomics: Glorious Competition

by Raymond J. Keating

The ever-mounting accomplishments in the short professional golf career of Tiger Woods are nothing less than historic. In fact, Woods's mastery of golf offers lessons for duffers and PGA Tour pros alike. But his feats also serve as stunning reminders about the importance of competition not only on the golf course, but also in everyday economic life.

Consider Woods's phenomenal record. In 1999 he won eight tournaments on the PGA Tour, but managed to top that in 2000 with nine. From the end of the 1999 season into early 2000, Woods managed to string together six tour victories in a row, tying Ben Hogan for the second-longest winning streak ever. Through the close of the 2000 golf season, Tiger claimed 24 career tour victories.

But when it comes to golf's four majors—the Masters, the U.S. Open, the British Open, and the PGA Championship—what the young Mr. Woods has done is even more impressive. He ran away with the 1997 Masters by a record margin and with the lowest 72-hole score ever posted. Two years later he went on to win the 1999 PGA Championship.

Tiger truly made his mark, however, in 2000. In June he won the U.S. Open at Pebble Beach with a record 12-under-par score, and by the largest margin—15 strokes. In July, Woods traveled across the pond to win the British Open with a new scoring record—19 under par. With this victory at historic St. Andrews, Tiger Woods completed the career Grand Slam (a win in each major) at the youngest age ever—24 years old. Only four other golfers have ever won a career Grand Slam—Jack Nicklaus, Ben Hogan, Gary Player, and Gene Sarazen.

In August, Tiger went on to defend his title at the PGA Championship and take his fifth major. This tied Hogan's record of winning three straight majors.

For good measure, Woods captured the Canadian Open in September to complete golf's Triple Crown—winning the U.S., British, and Canadian Opens in one year. Lee Trevino was the only previous Triple Crown winner, in 1971.

Woods's performance last year arguably was the greatest ever. And no one disputes that there has never been anyone like Tiger Woods before, and that the game of golf will never be the same again.

Golf and Free Enterprise

Interestingly, golf is not all that different from the free-enterprise system. As I noted previously in these pages ("Fore: Watch Out for Government Golf!" August 1997), the PGA Tour golfer is a model of the rugged, individualistic entrepreneur. He pays his own expenses and is compensated according to his performance week to week. If the touring pro fails to make the 36-hole cut, he gets paid

Contributing editor Raymond Keating (RKeat614@aol.com) is chief economist for the Small Business Survival Committee, a columnist for Newsday, *and co-author of* U.S. by the Numbers: Figuring What's Left, Right, and Wrong with America State by State.

nothing. Yet if victorious, he earns a huge paycheck. As a result, competition is fierce. In *Fortune* magazine (May 12, 1997), Tim Smith, former deputy commissioner of the PGA, labeled tour players as the "ultimate capitalists."

Some, though, worry that Woods is bad for competition in golf. Even a handful of tour players feel that when he plays, the real contest is for second place.

In reality, Woods stands out as the fiercest of rivals. Rather than having a dampening effect, his dominance has turned up the competition.

The same, of course, is true of the most successful businesses—from Standard Oil in the early twentieth century to Microsoft at the century's close. In fact, jokes have circulated on the Internet speculating that if Woods maintains his winning ways, federal antitrust regulators may investigate. Antitrust enforcers have failed to grasp that the most dominant businesses innovated and served consumers to gain market share. And they have to work to stay on the cutting edge to maintain their dominance.

Woods obviously possesses enormous talent. But he combines that talent with hard work, an incredible ability to concentrate, shot-making creativity, and discipline of both mind and body. Woods also is a risk taker. As has been widely reported, after his 1997 Masters win, he actually decided his golf swing needed to improve, and proceeded to completely rebuild his swing so that it would hold up under all types of playing conditions and over time.

Woods has methodically corrected each weakness. At various points, he was thought to be too wild off the tee, not exact enough in his wedge play, inconsistent in his putting, or poor out of the sand. He worked at each, and now he is the best driver and the best putter and possesses the best short game on the tour.

All golfers compete against themselves as well—trying to beat their best performances. Woods is no different. His coach, Butch Harmon, told *Time* magazine in August of last year: "He's only at about 75% of what he's capable of achieving. That's the scary part."

After winning the career Grand Slam, Woods was quoted by *Sports Illustrated* (July 31, 2000), saying, "I thought I'd be at this point faster than it took." In fact, Woods has said time and again that he expects to win every tournament in which he plays. To some that may sound arrogant. In reality, though, that is how the greatest players think. Jack Nicklaus was the same way.

Competing Against History

Woods also competes against history, and Nicklaus, who holds golf's most impressive record—winning 18 professional majors—is Woods's primary opponent, along with future PGA Tour stars. Much like any leading business, Woods must stay sharp to compete with not only his rival on a particular Sunday afternoon, but also against those he will face next month, next year, and a decade from now.

As noted in many news reports, Woods taped Nicklaus's accomplishments to the headboard of his bed at the age of 10. In the August 16, 2000, *New York Times*, Woods spoke judiciously: "Am I pursuing Jack Nicklaus's records? He set the bar very high, and he won the biggest ones over and over again. Have I tried to chase him? I don't think it's realistic to think about that yet until you get into double digits, maybe the teens. It's going to take a long time. Hopefully, things will go well for a long period of time in my career."

While most golfers could not fathom matching Nicklaus, reading between the lines, Tiger Woods basically said: Just give me some time, and I have a real shot. By the way, at the age of 24, Nicklaus claimed three majors. At 24, Woods had five.

Woods not only has a chance to catch Nicklaus, but could also far surpass the Golden Bear's record in the majors. Along the way, Woods's commitment to excellence will continue to force his fellow PGA Tour players to push their games to new levels.

In the end, competition is the hallmark of Tiger-nomics. It applies to golf; it applies to the economy. After all, looming just over the horizon promises to be someone with a better putting stroke, or the next great idea or innovation. □

IDEAS ON LIBERTY
FEBRUARY 2001

Eugen von Böhm-Bawerk: A Sesquicentennial Appreciation

by Richard M. Ebeling

In January 1914 there appeared three articles in one of the leading newspapers in Vienna, Austria-Hungary, by Eugen von Böhm-Bawerk, world-renowned member of the Austrian school of economics and a three-time minister of finance. He warned his readers that the Austrian government was following a policy of fiscal irresponsibility. During the preceding three years, government expenditures had increased by 60 percent, and for each of these years the government's deficit had equaled approximately 15 percent of total spending.

The reason, Böhm-Bawerk said, was that the Austrian parliament and government were enveloped in a spider's web of special-interest politics. Made up of a large number of different linguistic and national groups, the Austro-Hungarian Empire was being corrupted through abuse of the democratic process, with each interest group using the political system to gain privileges and favors at the expense of others:

> We have seen innumerable variations of the vexing game of trying to generate political contentment through material concessions. If formerly the Parliaments were the guardians of thrift, they are today far more like its sworn enemies. Nowadays the political and nationalist parties . . . are in the habit of cultivating a greed of all kinds of benefits for their co-nationals or constituencies that they regard as a veritable duty, and should the political situation be correspondingly favorable, that is to say correspondingly unfavorable for the Government, then political pressure will produce what is wanted. Often enough, though, because of the carefully calculated rivalry and jealousy between parties, what has been granted to one has also to be conceded to others—from a single costly concession springs a whole bundle of costly concessions.

He accused the Austrian government of having "squandered amidst our good fortune [of economic prosperity] everything, but everything, down to the last penny, that could be grabbed by tightening the tax-screw and anticipating future sources of income to the upper limit" by borrowing in the present at the expense of the future. For some time, he said, "a very large number of our public authorities have been living beyond their means."[1] Such a fiscal policy, Böhm-Bawerk feared, was threatening the long-run financial stability and soundness of the entire country.

Eight months later, in August 1914, Austria-Hungary and the rest of Europe stumbled into the cataclysm that became the First World War. And far more than merely the finances of the Austro-Hungarian Empire were in ruins when that war ended four years later.

Richard Ebeling (Richard.Ebeling@hillsdale.edu) is Ludwig von Mises Professor of Economics and chairman of the economics department at Hillsdale College.

A "Great Mind"

Eugen von Böhm-Bawerk was born on February 12, 1851 in Brno, capital of the Austrian province of Moravia (now the eastern portion of the Czech Republic). He died on August 27, 1914, at the age of 63, just as the First World War was beginning.[2] Ten years after Böhm-Bawerk's death, one of his students, the Austrian economist Ludwig von Mises, wrote a memorial essay about his teacher. Mises said:

> Eugen von Böhm-Bawerk will remain unforgettable to all who have known him. The students who were fortunate enough to be members of his seminar [at the University of Vienna] will never lose what they have gained from the contact with this great mind. To the politicians who have come into contact with the statesman, his extreme honesty, selflessness and dedication to duty will forever remain a shining example. And no citizen of this country [Austria] should ever forget the last Austrian minister of finance who, in spite of all obstacles, was seriously trying to maintain order of the public finances and to prevent the approaching financial catastrophe. Even when all those who have been personally close to Böhm-Bawerk will have left this life, his scientific work will continue to live and bear fruit.[3]

Another of Böhm-Bawerk's students, Joseph A. Schumpeter, spoke in the same glowing terms of his teacher, saying, "he was not only one of the most brilliant figures in the scientific life of his time, but also an example of that rarest of statesmen, a great minister of finance. . . . As a public servant, he stood up to the most difficult and thankless task of politics, the task of defending sound financial principles."[4]

The scientific contributions to which both Mises and Schumpeter referred were Böhm-Bawerk's writings on what has become known as the Austrian theory of capital and interest, and his equally insightful formulation of the Austrian theory of value and price. These works have served as the foundation stones for much of twentieth-century Austrian economics and have also been starting points for some of the ideas of others as well, including the Swedish, or Stockholm, school of economics, beginning with Knut Wicksell. The sesquicentennial of Böhm-Bawerk's birth seems an appropriate opportunity for an appreciation of his life and work.

Carl Menger

The Founder, Menger

The Austrian school began 1871 with the publication of Carl Menger's *Principles of Economics*. In this work, Menger challenged the fundamental premises of the classical economists, from Adam Smith through David Ricardo to John Stuart Mill. Menger argued that the labor theory of value was flawed in presuming that the value of goods was determined by the relative quantities of labor that had been expended in their manufacture. Instead, Menger formulated a subjective theory of value, reasoning that value originates in the mind of an evaluator. The value of means reflects the value of the ends they might enable the evaluator to obtain. Labor, therefore, like raw materials and other resources, derives value from the value of the goods it can produce. From this starting point Menger outlined a theory of the value of goods and factors of production, and a theory of the limits of exchange and the formation of prices.

Böhm-Bawerk and his future brother-in-law and also later-to-be-famous contributor to the Austrian school, Friedrich von Wieser, came across Menger's book shortly after its publication. Both immediately saw the significance of the new subjective approach for the development of economic theory. During a year of postgraduate studies at the University of Heidelberg in Germany, they wrote research monographs extending Menger's ideas.

In the mid-1870s, Böhm-Bawerk entered the Austrian civil service, soon rising in rank in the Ministry of Finance working on reforming the Austrian tax system. But in 1880, with Menger's assistance, Böhm-Bawerk was appointed a professor at the University of Innsbruck, a position he held until 1889. During this period he wrote the two books that were to establish his reputation as one of the leading economists of his time, *Capital and Interest*, Vol. I: *History and Critique of Interest Theories* (1884) and Vol. II: *Positive Theory of Capital* (1889). A third volume, *Further Essays on Capital and Interest*, appeared in 1914 shortly before his death.[5]

In the first volume of *Capital and Interest*, Böhm-Bawerk presented a wide and detailed critical study of theories of the origin of and basis for interest from the ancient world to his own time. Though later analysts have sometimes suggested that Böhm-Bawerk had not shown sufficient sympathy in evaluating the ideas of those who preceded him, there is nonetheless the clear image of an absolutely logical and encyclopedic mind at work.

But it was in the second work, in which he offered a *Positive Theory of Capital*, that Böhm-Bawerk's major contribution to the body of Austrian economics may be found. In the middle of the volume is a 135-page digression in which he presents a refined statement of the Austrian subjective theory of value and price. He develops in meticulous detail the theory of marginal utility, showing the logic of how individuals come to evaluate and weigh alternatives among which they may choose and the process that leads to decisions to select certain preferred combinations guided by the marginal principle. And he shows how the same concept of marginal utility explains the origin and significance of cost and the assigned valuations to the factors of production.

In the section on price formation, Böhm-Bawerk develops a theory of how the subjective valuations of buyers and sellers create incentives for the parties on both sides of the market to initiate pricing bids and offers. He explains how the logic of price creation by the market participants also determines the range in which any market-clearing, or equilibrium, price must fall, given the maximum demand prices and the minimum supply prices, respectively, of the competing buyers and sellers.[6]

Theory of Capital and Interest

It is impossible to do full justice in the space available to Böhm-Bawerk's theory of capital and interest. But in the barest of outlines, he argued that for man to attain his various desired ends he must discover the causal processes through which labor and resources at his disposal may be used for his purposes. Central to this discovery process is the insight that often the most effective path to a desired goal is through "roundabout" methods of production. A man will be able to catch more fish in a shorter amount of time if he first devotes the time to constructing a fishing net out of vines, hollowing out a tree trunk as a canoe, and carving a tree branch into a paddle.

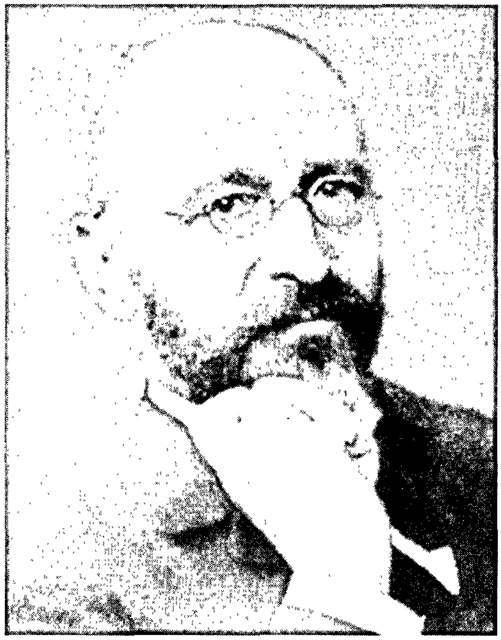
Greater productivity will often be forthcoming in the future if the individual is willing to undertake, therefore, a certain "period of production," during which resources and labor are set to work to manufacture the capital—the fishing net, canoe, and paddle—that is then employed to paddle out into the lagoon where larger and more fish may be available. But the time involved to undertake and implement these more roundabout methods of production involve a cost. The individual must be willing to forgo (often less productive) production activities in the more immediate future (wading into the lagoon using a tree branch as a spear) because that labor and those resources are tied up in a more time-consuming method of production, the more productive results from which will only be forthcoming later.

This led Böhm-Bawerk to his theory of interest. Obviously, individuals evaluating the production possibilities just discussed must weigh ends available sooner versus other (perhaps more productive) ends that might be obtainable later. As a rule, Böhm-Bawerk argued, individuals prefer goods sooner rather than later. Each individual places a premium on goods available in the present and discounts to some degree goods that can only be achieved further in the future. Since individuals have different premiums and discounts (time-preferences), there are potential mutual gains from trade. That is the source of the rate of interest: it is the price of trading consumption and production goods across time.

Refuting Marx

One of Böhm-Bawerk's most important applications of his theory was the refutation of the Marxian exploitation theory that employers make profits by depriving workers of the full value of what their labor produces. He presented his critique of Marx's theory in the first volume of *Capital and Interest* and in a long essay originally published in 1896 on the "Unresolved Contradictions in the Marxian Economic System." In essence, Böhm-Bawerk argued that Marx had confused interest with profit. In the long run no profits can continue to be earned in a competitive market because entrepreneurs will bid up the prices of factors of production and compete down the prices of consumer goods.

But all production takes time. If that period is of any significant length, the workers must be able to sustain themselves until the product is ready for sale. If they are unwilling or unable to sustain themselves, someone else



Eugen von Böhm-Bawerk

must advance the money (wages) to enable them to consume in the meantime.

This, Böhm-Bawerk explained, is what the capitalist does. He saves, forgoing consumption or other uses of his wealth, and those savings are the source of the workers' wages during the production process. What Marx called the capitalists' "exploitative profits" Böhm-Bawerk showed to be the implicit interest payment for advancing money to workers during the time-consuming, roundabout processes of production.[7]

He also defended his theory of capital, production, and interest against a variety of critics, the most important of the exchanges being with the American economist John Bates Clark, one of the early developers of the marginal productivity theory of the value of a factor of production.[8] At the turn of the century, Böhm-Bawerk also defended his theory of the benefits of saving and roundabout investment, and the competitive market's coordination of consumption and production, against L. G. Bostedo, who presented a proto-Keynesian argument that saving was inimical to the necessary incentives to stimulate investment activity.[9] And he also wrote an essay defending the Austrian emphasis on deductive theory as the foundation of economic analysis against the arguments of the German historical school, which believed that "theory" emerged through an examination of "the facts."[10]

In 1889, Böhm-Bawerk was called back from the academic world to the Austrian Ministry of Finance, where he worked on reforming the systems of direct and indirect taxation. He was promoted to head of the tax department in 1891. A year later he was vice president of the national commission that proposed re-establishment of a gold standard. Three times he served as minister of finance, briefly in 1895, again in 1896–1897, and then from 1900 to 1904. During the last term Böhm-Bawerk demonstrated his commitment to fiscal conservatism. Ernest von Koerber, the Austrian prime minister in whose government Böhm-Bawerk served, devised a grandiose and vastly expensive public works scheme in the name of economic development. An extensive network of railway lines and canals were to be constructed to connect various parts of the Austro-Hungarian Empire—subsidizing in the process a wide variety of special-interest groups.

Böhm-Bawerk tirelessly fought what he considered fiscal extravagance that would require higher taxes and greater debt when there was no persuasive evidence that the industrial benefits would justify the expense. At Council of Ministers meetings Böhm-Bawerk even boldly argued against spending proposals presented by the Austrian Emperor, Franz Josef, who presided over the sessions. When he resigned from the Ministry of Finance in October 1904, Böhm-Bawerk had succeeded in preventing most of Prime Minister Koerber's giant spending project.[11] But Böhm-Bawerk's 1914 articles on government finance indicate that the wave of government spending he had battled so hard against broke through once he was no longer there to fight it.

University Seminar

During the 1890s, while serving in various capacities in the Ministry of Finance, Böhm-Bawerk also ran a highly acclaimed seminar at the University of Vienna.[12] It was discontinued from 1900 to 1904, when he was minister of finance, but in 1905 he returned to a full-time professorship at the University of Vienna, teaching "Introduction to Economics" and "Investigations into Political Economy," as well as an advanced seminar titled "Topics on Themes in Economic Theory." This seminar soon attracted some of the keenest minds among the younger Austrian economists, including Mises and Schumpeter, in the years before Böhm-Bawerk's death in August 1914.

A few months after his passing, in December 1914, his last essay appeared, a lengthy piece on "Control or Economic Law?"[13] He explained that various interest groups in society, most especially trade unions, suffer from a false conception that through their use or the threat of force, they are able to raise wages permanently above the market's estimate of the value of various types of labor. Arbitrarily setting wages and prices higher than what employers and buyers think labor and goods are worth merely prices some labor and goods out of the market.

Furthermore, when unions impose high nonmarket wages on the employers in an industry, the unions succeed only in temporarily eating into the employers' profit margins and creating the incentive for those employers to leave that sector of the economy and take with them those workers' jobs. What makes the real wages of workers rise in the long run, Böhm-Bawerk argued, was capital formation and investment in those more roundabout methods of production that increase the productivity of workers and therefore make their labor services more valuable in the long run, while also increasing the quantity of goods and services they can buy with their market wages.

To his last, Eugen von Böhm-Bawerk defended reason and the logic of the market against the emotional appeals and faulty reasoning of those who wished to use power and the government to acquire from others what they could not obtain through free competition. This sesquicentennial of his birth reminds us of his lasting contributions as one of the greatest economists of all time, as well as his example as a principled man of uncompromising integrity who in the political arena unswervingly fought for the free market and limited government. □

1. Quoted in Eduard Marz, *Austrian Banking and Financial Policy: Creditanstalt at the Turning Point, 1913–1923* (New York: St. Martin's Press, 1984), pp. 26–27.

2. The biographical material about Böhm-Bawerk's life and career are drawn primarily from two works, Shigeki Tomo, *Eugen von Böhm-Bawerk: Ein grosserosterreichischer Nationalokonom zwischen Theorie und Praxis* (Marburg: Metropolis-Verlag, 1994); and Klaus H. Hennings, *The Austrian Theory of Value and Capital: Studies in the Life and Work of Eugen von Böhm-Bawerk* (Brookfield, Vt.: Edward Elgar, 1997).

3. Ludwig von Mises, "Eugen von Böhm-Bawerk: In Memory of the Tenth Anniversary of His Death," *Neue Freie Presse*, August 27, 1924, p. 9; an English translation of this article will appear in Richard M. Ebeling, ed., *Selected Writings of Ludwig von Mises*, vol. I (Indianapolis, Ind.: Liberty Fund, forthcoming 2001).

4. Joseph A. Schumpeter, "Eugen von Böhm-Bawerk, 1851–1914," reprinted in Schumpeter, *Ten Great Economists: From Marx to Keynes* (New York: Oxford University Press, 1951), p. 145.

5. Eugen von Böhm-Bawerk, *Capital and Interest*, 3 vols. (South Holland, Ill.: Libertarian Press, 1959). There are also earlier English translations of these works, prepared by William Smart: *Capital and Interest: A Critical History of Economical Theory* (New York: Augustus M. Kelley, 1965 [1890]) and *The Positive Theory of Capital* (New York: Books for Libraries Press, 1971 [1891]). A translation of some of Böhm-Bawerk's essays on the same themes, translated by William Scott, was published under the title *Recent Literature on Interest (1884–1899): A Supplement to "Capital and Interest"* (London: Macmillan, 1900).

6. Böhm-Bawerk presented and defended the Austrian theory of value and price in several articles. Two of them, "The Austrian Economists" (1891) and "The Ultimate Standard of Value" (1894), are reprinted in *Shorter Classics of Böhm-Bawerk* (South Holland, Ill.: Libertarian Press, 1962), pp. 1-24, 303–70.

7. Eugen von Böhm-Bawerk, "Unresolved Contradiction in the Marxian Economic System" (1896), reprinted in *Shorter Classics*, pp. 201–302; the same translation was published earlier under the title, *Karl Marx and the Close of His System* (New York: Macmillan, 1898).

8. Eugen von Böhm-Bawerk, "The Positive Theory of Capital and Its Critics, I: Professor Clark's Views on the Genesis of Capital," *Quarterly Journal of Economics*, January 1895, pp. 113–31; "The Origin of Interest," *Quarterly Journal of Economics*, July 1895, pp. 380–87; "Capital and Interest Once More: I. Capital vs. Capital Goods," *Quarterly Journal of Economics*, November 1906, pp. 1–21; "Capital and Interest Once More: II. A Relapse to the Productivity Theory," *Quarterly Journal of Economics*, February 1907, pp. 247–82; and, "The Nature of Capital: A Rejoinder," *Quarterly Journal of Economics*, Nov. 1907, pp. 28–47; and by John Bates Clark, "The Genesis of Capital," *Yale Review*, November 1893, pp. 302–315; "The Origin of Interest," *Quarterly Journal of Economics*, April 1895, pp. 257–78; "Real Issues Concerning Interest," *Quarterly Journal of Economics*, October 1895, pp. 98–102; and "Concerning the Nature of Capital: A Reply," *Quarterly Journal of Economics*, May 1907, pp. 351–70.

9. L. G. Bostedo, "The Function of Savings" (1900), and Eugen von Böhm-Bawerk, "The Function of Savings" (1901), both reprinted in Richard M. Ebeling, ed., *Austrian Economics: A Reader* (Hillsdale, Mich.: Hillsdale College Press, 1991), pp. 393–413.

10. Eugen von Böhm-Bawerk, "The Historical vs. the Deductive Method in Political Economy," *Annals of the American Academy of Political and Social Science*, vol. I (1891), pp. 244–71.

11. This episode is discussed in great detail in Alexander Gerschenkron, *An Economic Spurt That Failed: Four Lectures in Austrian History* (Princeton, N.J.: Princeton University Press, 1977). The author's interpretation, however, is that Böhm-Bawerk was a disloyal cabinet member irresponsibly opposing Koerber's railway and canal projects. Böhm-Bawerk is called an "anti-hero," and the chapter devoted to detailing his role in fighting these public-works projects is titled "The Stumbling Block."

12. For a brief description of the seminar, see, Henry R. Seager, "Economics in Berlin and Vienna" (1893), reprinted in Bettina Bien Greaves, ed., *Austrian Economics: An Anthology* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996), pp. 44–46.

13. Eugen von Böhm-Bawerk, "Control or Economic Law?" (1914), reprinted in *Shorter Classics*, pp. 139–99.

Economics

Markets and Marginalism

To do your best in your personal activities, you have to "equate at the margin," which, as I explained last month, means allocating your time over different activities so that the marginal value of time in every activity is the same. The importance of equating at the margin extends beyond individuals doing as well as possible personally; it is also crucial to the success of the general economy. And because of the information and incentives transmitted through market prices, people and businesses, responding to their private concerns, are led to cooperate in ways that are constantly moving margins toward equality throughout the economy. A discussion of this process provides additional insight into the advantages we all realize from the communication and cooperation motivated by market prices.

There are a large number of firms in the economy, each concerned primarily with increasing profits. But the decisions these firms make affect all the others. For example, the more that one firm produces, the more scarce resources it has to use and the less other firms can produce. Ideally, each firm will produce whatever amount it chooses in a way that minimizes the sacrificed value elsewhere in the economy. Achieving this ideal requires an enormous amount of information on such things as weather conditions, resource discoveries, hostilities between countries, productive technologies, and the particular circumstances and subjective preferences of millions of workers, resource owners, and consumers.

No government agency could ever acquire and constantly update all this information and use it properly. Fortunately, this information is communicated through market prices, with the input prices that firms pay reflecting the marginal value of those inputs in their best alternative uses. So with each firm motivated to choose the input combination that minimizes its cost of producing a given amount of output (which requires equating the marginal productivity per dollar cost of all inputs[1]), it also chooses the input combination that produces that output at a minimum sacrifice of value elsewhere in the economy. This equating at the margin reflects an impressive amount of coordination, with each firm responsive to the value of inputs to others.

Outputs and Marginal Adjustments

But it is not enough that each firm minimize the value lost (the cost) from producing its output to make the best use of our limited resources. Each firm could be producing its output at the lowest cost, with the *combination* of all firms' outputs being too costly. For example, we could produce dozens of disposable diapers daily for every American with the least-cost combination of inputs. This is obviously too many disposable dia-

Dwight Lee (dlee@terry.uga.edu) is Ramsey Professor at the Terry College of Business, University of Georgia, and an adjunct fellow at the Center for the Study of American Business at Washington University in St. Louis.

pers because the marginal costs (even though as low as possible) of diapers would be far greater than their marginal value—the value sacrificed to produce one more diaper is greater than the diaper is worth. Producing the combination of all goods that creates the greatest value for the resources used requires not only that each good be produced at least cost, but that each good be produced only up to the point where its marginal value equals its marginal cost.

Again, equating at the margin generates the most valuable combination of products over all firms. And by simply responding to market prices, each firm has access to all the necessary information. The price of a firm's product reflects its marginal value, and input prices determine the firm's marginal production costs. This information, when used by firms trying to make as much profit as possible, results in that combination of outputs that creates the most value. Each firm increases its profits by expanding output as long as the price it receives for its product is greater than its marginal cost (the value sacrificed by reducing the amount produced by other firms).[2] So when all firms produce the amount where price equals marginal cost, each firm is maximizing its own profit and the value of the combination of goods produced is maximized. Because market prices coordinate production decisions, these decisions are equated at the margin over all firms, and it is impossible to increase the value of the combination of goods produced by expanding the output of some firms and reducing the output of others.

The Big Advantage Is Liberty

I have discussed a level of "perfection" never reached in the real world. The relevant margins never reach complete equality because the countless number of preferences, circumstances, and technologies affecting the value of inputs and outputs constantly changes. But market prices constantly change to provide information on new conditions and to reward behavior that pushes the margins toward equality. That reduces the cost and increases the value of what is being produced. These market adjustments do a far better job maximizing the value of economic decisions by keeping all decision-makers responsive to others than any group of government planners could ever do.

But the greatest advantage of the market is the liberty it allows. People can pursue their individual values and concerns instead of being herded into broad categories by remote authorities and told how to behave to promote some vision of the general good. For example, a business may not maximize profits because the owner wishes to employ disadvantaged youth or take time off for volunteer work. Or a worker may choose not to take the highest-paying job because he doesn't want to move away from a sick parent. People make these types of decisions every day, and the values they reflect can never be communicated through the political process and properly responded to by political authorities. But people can communicate their values and concerns through the effect their decisions have on market prices. And when people do so, they can be confident that others will consider those concerns in their own decisions. The result is a pattern of mutual adjustment and coordination that creates far more wealth and opportunity than could ever be achieved by central direction. ☐

1. For example, if the marginal productivity for $1 of input X is 2 while the marginal productivity for $1 of input Y is only 1, then the firm could expand its use of input X by $1 (increasing output by 2 units), reduce its use of input Y by $2 (reducing output by 2 units), therefore maintaining the same output at a cost of $1 less.

2. This statement has to be qualified if the firm is a monopolist because price and marginal revenue diverge, as explained in every microeconomics text. But unless perpetuated by government, this monopoly "distortion" is rather benign when considered over time. Indeed, dynamic economy efficiency is increased when firms can strive for, and temporarily achieve, "monopoly" power.

IDEAS ON LIBERTY
FEBRUARY 2001

Ignoring Real Privacy Problems

by James Plummer

The folks who make up the behemoth known as the federal government have been fretting about privacy, especially Privacy in the Information Age. Proposed commissions, innumerable conferences, and government reports hype the "danger" posed by online booksellers' keeping a list of your favorite authors or your insurance company's knowing if you're sick.

All this fretting serves as so much smoke and mirrors for the very real violations of personal privacy perpetrated by the ever-growing state. Let's take a quick look at ten issues that many self-proclaimed privacy advocates seem to dismiss as less egregious than amazon.com having the gall to recommend I buy a Bill Hicks CD.

1. Federal Web sites. The hypocrisy is perhaps most clearly evident in the privacy practices of government agencies. The Federal Trade Commission (FTC) is pressuring private e-commerce companies to follow stringent rules regarding the collection and use of consumer information. The FTC is seeking to codify their "rules" regarding whom businesses can sell or give the information to, and whether consumers can opt in or out of the information-gathering.

It turns out that only 3 percent of government agency Web sites audited by the General Accounting Office follow those FTC recommendations—and even the FTC was among the 97 percent of violators. Government Web sites apparently swap sensitive information on citizens like last month's Pokémon cards. As House Majority Leader Dick Armey asked, "Which worries you more: the IRS disclosing your personal financial information, or Gap.com knowing how many pairs of jeans you've bought this year?"

2. Mailboxes. Individuals who don't have too-permanent addresses find post office boxes a convenient way to receive mail. Those seeking a bit more privacy have found that private mailboxes, such as the ones available at Mail Boxes Etc., afford even more protection. But in late 1999, the U.S. Postal Service required that anyone wishing to open a new private mailbox supply his home address and two forms of identification. Groups including the National Coalition Against Domestic Violence have decried the new requirements, since it makes it that much harder for people to keep their whereabouts unknown from potential stalkers—not to mention government snoops. The Postal Service has so far refused to back down in the face of these protests.

3. Brady Law databases. When the Brady Act was passed, one of its key provisions was that background checks on gun buyers would eventually be instant and that federal authorities must immediately "destroy all records"

James Plummer (jplummer@consumeralert.org) is a policy analyst with Consumer Alert, a nonpartisan market-oriented consumer group based in Washington, D.C.

created by the National Instant Criminal Background Check System (NICS). This was to assure that the federal government would not create a national database of firearms owners. But the FBI decided once again that the letter of the law was but mere suggestion. The bureau announced it would be saving records of gun sales for at least six months, ostensibly as an "audit record" to keep track of how well the background check system is working. (A National Rifle Association challenge to the FBI lost in the first court round, but an appeal is pending.)

In a related matter, the Veterans Benefits Administration has turned over 90,000 names to the FBI for inclusion in the NICS "no sale" list. The names are those of veterans, not convicted felons, whose supposedly private medical records included an administrative finding that they were "mentally incompetent." Besides veterans afflicted with post-traumatic stress (a diagnosis on a written questionnaire), the list also includes "incompetent surviving spouses, adult helpless children and dependent parents" of vets.

4. Know Your Customer. If at first you don't succeed, snoop, snoop again. That seems to be the government's motto as Treasury et al. have tried to sneak through the backdoor of Congress bank-snooping rules that were defeated by a torrent of unfavorable citizen reaction. "Know Your Customer" rules would in fact require banks to spy on their customers and report anything "abnormal" about an individual's pattern of withdrawals and deposits to the government.

Not to be deterred, anti-privacy forces tried to impose similar requirements on "international" transactions, and the consumers who make them, in a supposed anti-money-laundering bill. Thankfully, that bill, HR 3886, seems dead for now.

5. National ID. Although the Social Security number is still too widely used as a de facto ID number, the federal government has been quite busy trying to saddle us with a de jure one. The first try was the HillaryCare program in 1993. Part of the proposed socialized health-care system would have mandated that every citizen carry a health identifier card, with medical history embedded on an electromagnetic strip—and with the potential, no doubt, for other kinds of information to be tied to those records. The bar-code crowd tried again with the Health Insurance Portability and Accountability Act of 1996, which directed the Department of Health and Human Services to tag every patient with a unique health identifier. Thankfully, amendments by Representative Ron Paul defunding the identifier have passed the last two appropriations processes. But, cash-poor as it may be, the provision remains on the books.

The national ID card reared its head again in 1996, when the President signed an immigration law, part of which mandated that a state driver's license have the license-holder's Social Security number printed on it. The thinking behind this is that only with a national ID system can we stop the scourge of illegal immigrants from "taking American jobs away." Fortunately, that provision of the bill was repealed in 1999, before it went into effect.

6. Wiretaps. The ACLU and others who monitor civil liberties have noted that the Clinton regime has been the wiretap-happiest administration to date. Congress helped the administration earn this dubious honor by passing the Communications Assistance to Law Enforcement Act (CALEA) in 1994. CALEA forced phone companies to install wiretap devices directly into their systems to provide federal law enforcement with easier access to their customers' communications. At the time, FBI Director Louis Freeh testified that the FBI would not use CALEA authority to trace the location of cell-phone users. But last year, in a familiar pattern, the FBI convinced the FCC that under CALEA, cell-phone companies must give the government the beginning and ending location of a cell-phone user's call.

The FBI has also argued that it has the right to collect digital content after a call has gone through—keyed-in numbers such as extensions and bank account numbers—with only a "pen register" warrant issued by a federal magistrate. In the analog age, pen-register warrants enabled investigators to find out what number a call was placed to, as opposed to a search warrant issued by a judge, which was needed to actually listen in on phone calls. A federal court overruled that position in August. And in its fight to make sure it hears everything, the FBI has also had mixed success in barring foreign companies not subject to the FBI's whims from domestic telecommunications.

7. IRS audits. Twenty-five years ago Richard Nixon was nearly run out of town for just suggesting the IRS take a closer look at his "enemies." But under longtime Hillary Rodham Clinton friend Commissioner Margaret Milner Richardson and her successors, the IRS has acted like a political attack dog. One of the earliest targeted on the enemies list was the Western Journalism Center (WJC), whose Web site WorldNetDaily.com was asking a lot of inconvenient questions at the time about the strange death of Vincent Foster.

As a result, WJC has since spun off WorldNetDaily into a for-profit corporation. WND has continued tracking the IRS as they have gone after a virtual who's who of Clinton antagonists, from the Heritage Foundation (its four-year audit is not yet over) to the Christian Coalition to Juanita Broaddrick, who has accused Bill Clinton of raping her in 1978.

8. Filegate. Another oldie but goodie, this one is still having repercussions today. When more than 900 FBI files of Republican political appointees mysteriously appeared in the White House, the Clintons blamed a "bureaucratic snafu." Depositions by Linda Tripp and others taken in the ongoing civil litigation (available at www.judicialwatch.org) have revealed that information from the files was copied into White House databases for later use.

9. Echelon. First formed as part of the American-British alliance created after World War II, Echelon is an automated eavesdropping network that seemingly swaths the entire globe. Run by the intelligence agencies of five Anglophone countries (the United States, United Kingdom, Canada, Australia, and New Zealand) and headed by our own National Security Agency, the system intercepts "billions of messages per hour" from phone, fax, and e-mail communications. Recent investigations by the European Union and others have revealed that Echelon computers search through those messages and flag for human analysis those with keywords such as "bomb," "Vince Foster," or "CIA."

And the keen part, from the spooks' perspective, is that by having their pals in MI6 spy on Americans while the NSA spies on British citizens, the two can swap information while claiming not to violate laws barring them from spying on their own citizens.

10. Carnivore. Carnivore is the FBI's answer to Echelon—a "black box" with secret software inside attached to an ISP's computer network. Carnivore monitors all traffic (e-mail, Web surfing, chats, and so on) on the ISP and, the FBI claims, only gives the authorities the information they have a court order for.

Of course, there's no way to keep an eye on the FBI. Clinton Attorney General Janet Reno sought some of that elusive verification in the form of an "independent" review by a leading university. But when universities saw all the secrecy restrictions and limits on what they would even be allowed to review, most blanched. Fox News reported that scientists at MIT, University of California, San Diego, and Purdue all declined to submit proposals. The Department of Justice finally settled on a team—larded with government contractors, ex-Clinton advisers, and security-clearance types—assembled by the IIT Research Institute in Illinois to conduct the review. (We only know so much about the review team because John Young of www.cryptome.org realized the electronically redacted proposal released by Justice could easily be unmasked.)

ISPs have understandably been rather silent on the issue ever since an unnamed ISP, presumed to be Earthlink, lost a court battle to keep FBI from installing Carnivore. They may get back some of their gumption now that Network Ice, a leader in the consumer firewall business, has released "Altivore," a free program ISPs can install and run themselves so as to extract for the FBI only relevant court-ordered data.

Of course, this is but a partial list, and a case could be made for any number of government actions to be included among the top ten. If the debate in Washington continues to focus on the information practices in the private sector and ignores much-needed reform of government abuses, it will be that much harder to even agree on a top 100. □

IDEAS ON LIBERTY
FEBRUARY 2001

The Non-Existent Frontier Bank Robbery

by Larry Schweikart

One of the enduring images of movies and television about the frontier west in America is the bank robbery. In a typical Hollywood scene, several riders, clad (in recent movies) in long coats—despite summertime frontier temperatures of up to 125 degrees!—slowly enter town, conspicuously scanning the cityscape for lawmen. The riders tie up their horses and enter the bank in broad daylight. Then they move with lightning speed to draw their guns, force the cashier or president to open the safe, throw the money in saddlebags, and hightail it for their horses outside. In a cloud of dust, they scramble out of town, with an occasional gunshot from one of the befuddled sheriffs trailing behind. The townspeople may mount a posse, but this belated action proves ineffective, as the crooks gleefully reach their hideout, the next town, or Mexico, whichever comes first.

There is one thing wrong with this scenario: it almost never happened. In 1991, Lynne Doti and I published *Banking in the American West from the Gold Rush to Deregulation*, in which we surveyed primary and secondary sources from all the states of the "frontier west."[1] This included every state west of the Missouri/Minnesota/Texas line, specifically, Arizona, California, Colorado, the Dakotas, Kansas, Idaho, Nebraska, Nevada, New Mexico, Oklahoma, Oregon, Utah, Washington, and Wyoming.[2] The time frame was 1859–1900, or what most historians would include in the "frontier period." Based on some previous research I did on Arizona and Doti did on California, we expected that we would not find a great number of bank robberies, but when we looked at the total picture for the West, the data surprised us.

Put generally, we found the western bank-robbery scene to be a myth. Yes, a handful of robberies occurred. In the roughly 40 years, spread across these 15 states, we identified three or four definite ones; and in subsequent correspondence with academics anxious to help us "clarify the record," perhaps two or three others were pointed out. We missed two "biggies," both by Butch Cassidy and the Sundance Kid (including the famous Telluride robbery in the late 1890s). Still, the record is shockingly clear: there are more bank robberies in modern-day Dayton, Ohio, in a year than there were in the entire Old West in a decade, perhaps in the entire frontier period!

What is more relevant to those interested in liberty and free markets is *why* there were so few robberies. Certainly people in the Wild West were no less greedy than later generations of criminals. In the 1920s, for example, a spate of western bank robberies plagued the Great Plains states: rewards soared, bank insurance was offered for the first time, and western bankers discussed bank robberies with increasing frequency at their meetings. Career criminals such as Bonnie and Clyde became infamous for their ability to strike

Larry Schweikart (schweikart@erinet.com) teaches history at the University of Dayton.

quickly and escape. So if the crooks didn't change, what did?

Equally interesting is the simultaneous rise of government regulation aimed at bank failures—but not robberies. After the 1890s almost every western state began to regulate other types of bank behavior to "protect" the consumer. Why were there so few bank robberies before the government got involved? Do technological factors explain the dramatic change?

In our study of how banks started in the early West, Doti and I were struck by the fact that virtually all bankers began as "something else." Few bankers from the east moved past the Mississippi to establish a bank, at least, not before laying the groundwork in other businesses first.

Several prominent bankers had ties to eastern financial firms, such as the Koutze brothers of Nebraska and the Speigelbergs of New Mexico. Yet the first thing these men (there were no female western bank founders before 1900) did when they settled in a frontier town was to open a mercantile establishment—a "general store." Was there no demand for banks when they arrived? Of course. That wasn't the point: the future bankers knew that banking in the 1850s, 1860s, and 1870s demanded trust and public confidence, which had to be earned. Only by setting up a business that townspeople could rely on could the entrepreneurs later open a bank.

Creating a record of good business sense and reliability in another area of enterprise constituted only one of several requirements for a frontier banker. Another involved personal appearance. Many, if not most, western bankers looked the part. Their dress—and even their girth—was viewed by locals as testimony to their personal prosperity. Bankers had to demonstrate that they, personally, had the wherewithal to support a bank in times of trouble. Expensive dress played as critical a part in the life of a western banker, as do the feather boas on a showgirl, the gold chains on a rapper, or the Armani suits on a Wall Street broker.

Symbolic Building

Besides demonstrating an affinity for business and personal wealth, the banker had to show the community that he meant business by constructing a building that would symbolically reflect stability, permanence, and safety. The bank buildings were designed by some of the leading architects in the country (although many of the great names in American architecture constructed bank buildings only after 1900).

The buildings were in the dead center of town, with other stores on each side. This left only two walls "open" to blasting without disturbing residents, who tended to sleep above their establishments. The bank front faced into the town, and smashing through it would be obvious. That left the rear wall the most vulnerable. Even then, however, blasting through a wall was no easy (or quiet) chore. Bankers double-reinforced rear walls, and should the robbers get inside, they still had to deal with an iron safe. Safe storage of money was a key to successful banking: one Oklahoma banker kept his cash in a small grated box with rattlesnakes inside; an Arizona banker had a safe, but put his money in a wastebasket covered by a cloth, hoping thieves would take the safe and ignore the rest. Still others slept, literally, with the bank's assets under their bed.

Eventually, though, early iron safes appeared. Constructed in the "ball-on-a-box" design, they featured a large metal box on legs that held important documents. Actual gold and silver, plus paper money, was stored on top of the box in a large "ball safe," which proved daunting to separate from the bottom, or, more important, to haul off. Dynamite could break it off from its base, but what does one do with a huge round iron ball? The absence of plastic explosives made surgical entrance difficult, though certainly not impossible. These safes were later abandoned in favor of more conventional Diebold safes, named after the Cincinnati company that supplied many of them. The rectangular safes sported metal doors several inches thick. Again, one could penetrate them given enough time, but that was a luxury most thieves lacked. In short, penetrating a vault or safe constituted a major, difficult undertaking that most robbers avoided. But for our purposes here, the key is that the vault and safe, along with the building itself, made up the "symbols of safety" that reassured depositors their money was safe.

Indeed, many western banks commonly left the vault open during the day to allow customers a full view of the safe. Customers also saw fine wooden counters, excellent brass finishings (sometimes gold), and in banks in larger cities, beautiful chandeliers and marble floors. Ornate and ostentatious materials and furnishings contributed to the overall message of the owner's wealth, the bank's permanence, and the institution's stability and safety. Once regarded as irrelevant or odd, it turns out that the fine interiors had a definite purpose in maintaining the solvency of frontier banks.

Direct Approach

Given the difficulty of liberating cash from such buildings, it is not surprising that robbers usually chose the more direct approach. Several gunslingers marching headlong into a bank may have seemed like a good idea to some, and certainly Butch Cassidy's gang pulled off the successful Telluride robbery in such a mode. His gang had the advantage of Cassidy's brilliant planning: a shrewd evaluator of horse flesh, Cassidy had stationed (Pony Express-style) horses at exactly the points where he knew his own horses would be wearing out, ensuring that his gang had fresh mounts all the way to their hideout. Even so, one has to search extensively to find bank robberies of even this type. There was one in Nogales, one in California, and perhaps a couple in other locations. But like the rear-wall blasting, the front-door robbery is notoriously absent in western records.

So where did the myth of the western bank robbery arise? Some of it can be traced to Missouri, where the James and Quantrill gangs plundered at will during the Civil War era. Their expeditions ranged as far north as Northfield, Minnesota. But Hollywood is certainly guilty of misrepresentation.

The fact is, under the best circumstances, few gangs could ride into a town where almost every adult male was armed, walk inconspicuously to the building in the middle of town, and escape with everyone shooting at them. Moreover, railroads and stagecoaches made easier targets. Stagecoaches only had a driver and an armed guard, but train schedules were easier to predict. Even then, after a few trains were hit—especially by the Butch Cassidy gang—the railroads hired the Pinkerton detectives to put together a special operations force of crack shots and expert riders who rode in separate cars with their horses, or even separate trains that trailed behind the "target." The Pinkertons could react rapidly to a robbery, ultimately making it too difficult to consistently hit trains.

Interestingly, at the same time that banks were relatively free from robberies, they became gradually more vulnerable to instability of other types. Following the demise of the Second Bank of United States in 1836, the nation's banking system was comprised of a network of privately owned banks chartered by the state governments. (A few states themselves created their own monopoly banks, but those collapsed in the Panic of 1837.[3]) All the state-chartered banks could print their own notes, which circulated as money. Beginning in the late 1830s, several states also passed "general incorporation laws," which, when applied to banks, were known as "free banking laws." While these had weaknesses, especially in the volatile bonds that some states allowed to be deposited as collateral with the state treasurer, overall the combination of state charters and free banks led to one of the most stable and prosperous periods known in American financial history. During the Panic of 1857, for example, the South—which had branch banking, as opposed to the single-unit banks in the North—had virtually no failures or suspensions.[4] Meanwhile, surprisingly to advocates of government monopoly control of money, competitive bank notes proved remarkably easy to assess: *Dillistin's Bank Note Reporter* and other reporters gave fairly current values of notes. Contrary to the predictions of some, when money was taken out of the hands of the government and subjected to a private market, it produced a stable free-market money supply.

The Civil War changed the structure of banking laws, mainly to ensure bond sales to support the war effort. In the National Bank and Currency Acts of 1863–64, the government created a system of federal charters (that were more restrictive than the state charters), and allowed the national banks to issue money. Quickly realizing that privately issued notes would outperform government money, Congress passed a 10 percent tax on all private notes. Without actually banning private money, the government had eliminated all competition in cash.

At the same time, a national financial market gradually took shape, in which local banks, through "correspondent accounts," deposited some of their money in larger urban institutions that could pay interest. A bank in Colorado suddenly could be affected not only by a local robbery but also by a downturn in the railroad bond market in Chicago. Suddenly, to many people the stability and solvency of the individual local banker no longer provided the reassurance it once had. Bankers themselves were the first to notice that robberies posed less of a threat than a panic or than an unscrupulous banker. Within 20 years most western states, with bankers in the lead, passed new banking laws focused on revealing to the public a bank's position.

Sunshine Laws

Known as "sunshine laws," these state regulations required an annual examination of every chartered state and federal bank and the posting of the condition of the bank (as the examiners found it) in the local papers. Despite this regulatory creep, the system still relied on individual consumers to a large extent. The assumption was that if informed, the people could decide on their own if banks were safe. Bank examiners admitted they could do little more than a cursory investigation, and then only (usually) once a year. But the significant facts were that the industry itself took the lead and that the government's role was restricted to publishing information. Of course, the caveat remains that since banks first were formed in America, going back to the Bank of North America in 1781, state legislatures had regulatory power over them.

Still, even in the age of national banks, banks emphasized physical material symbols of safety as a means to reassure depositors. Ads run in local papers in the late 1800s constantly reaffirmed the soundness of banks, especially their capital. The ads almost universally carried a mention of the size and strength of the bank vault and the ornate beauty of the bank building. Again, these references told depositors that their money was really guaranteed, not by the bank examiner who validated the numbers, but by the actual cash that the bank protected in its vault. And even in the age of national banks, bank robberies remained few and far between.

Ultimately, technological change and regulatory fervor changed banking forever. With the introduction of the automobile, and a network of passable roads, all robbers could gain the edge once enjoyed only by insightful planners such as Butch Cassidy, namely the ability to outrun their pursuers on a regular basis. In Oklahoma it was called "running the cat roads." One could rob a bank near a state border, then escape by car to a neighboring state, safe from the lawmen who would have had a personal stake in their capture. States could not generically recognize sheriffs from neighboring states without opening up law-enforcement issues across the board.

By the mid-1920s, there was a rash of robberies in Iowa, Oklahoma, the Dakotas, and other parts of the West unheard of in the glory days of Butch Cassidy or the Daltons. Banks turned to insurance companies to post large rewards and instituted new bank security measures, some of which proved humorous. In Arizona, for example, one bank installed teller-controlled tear-gas guns over the teller cages, but removed them after a nervous employee gassed hapless customers. George Wingfield, who owned a large chain of Nevada banks, purchased a shotgun and shells for every cashier in the chain, personally handing out the firearms.[5] But for many banks in the open spaces, the mobility brought by the automobile—before the widespread use of police radios and the federalization of some robberies when a state line was crossed—gave the crooks decided advantages.

While bankers expressed some anxiety about robberies, clearly their main concern remained large-scale financial instability brought about by the interconnected national markets. In the late 1800s several state bankers conventions proposed reform measures directed at ending the instability through the introduction of a "lender of last resort." Again, it is worth noting that regulatory reform came from the industry concerned about its own health and was not pushed on it by disgruntled consumers. The new reforms coincided with the rise of the Progressive movement and involved abandoning the old sunshine laws in favor of more state-directed regulation. After all, some reasoned, panics had occurred in 1873, 1893, and 1907 despite the sunshine laws. The final nail in the coffin of self-policing by the banks probably occurred when, after the Panic of 1907, America's premier banker, J. P. Morgan, who had almost single-handedly bailed the government out of two financial disasters, announced that the nation's financial system had grown beyond the ability of any individual, or even any syndicate, to support.

Not long thereafter, Congress passed a variant of the reform plans submitted by the state bankers associations, which comprised the bulk of the Federal Reserve System.[6]

The largest number of bank robberies ever seen in the West did not occur until after the Federal Reserve System was in place, by which time a more subtle change had taken place. Once the state and federal governments started to assume responsibility for the banking system—in the eyes of the public—the individual bank owner, the bank building, and the physical manifestations of safety became less important. Instead, customers gradually came to rely on the word of the government, through the official sanctions of the examinations, that a bank was solvent. Worse, at the national level, the entire structure supposedly was under the supervision of a benign Federal Reserve Board of Governors. Both assumptions proved illusory in the 1920s, when a steady rockslide of bank closures struck the nation, turning into an avalanche after 1930. We shall leave for a later debate the role played by the creation of federal deposit insurance in "stabilizing" the system, but it is significant that in both the matter of robberies *and* financial instability, banks became less solid in the 50 years after regulations were introduced.[7]

The simultaneous demise of competitive note issue and the physical "symbols of safety" made banks more vulnerable than at any time in the "Wild West." □

1. Norman, Okla.: University of Oklahoma Press, 1991.

2. Some may quibble with our omission of Texas as "frontier west," but this was based both on the early Texas constitution that forbade banking and on the fact that a lively discussion still rages over whether Texas is "south" or "west."

3. For a detailed look at the antebellum history of banking, particularly in the south, see Larry Schweikart, *Banking in the American South, from the Age of Jackson to Reconstruction* (Baton Rouge: Louisiana State University Press, 1987); Schweikart, *The Entrepreneurial Adventure: A History of Business in the United States* (Fort Worth: Harcourt, 2000). A survey of the literature is found in Larry Schweikart, "American Commercial Banking: A Bibliographic Survey," *Business History Review*, Fall 1992, pp. 606–61.

4. Charles Calomiris and Larry Schweikart, "The Panic of 1857: Causes, Transmission, Containment," *Journal of Economic History*, December 1990, pp. 807–34.

5. Larry Schweikart, "A New Perspective on George Wingfield and Nevada Banking, 1920–1933," *Nevada Historical Quarterly*, Winter 1992, 162–76.

6. The best survey of these developments remains Eugene N. White, *The Regulation and Reform of the American Banking System, 1900–1929* (Princeton, N.J.: Princeton University Press, 1983).

7. As a teaser, on deposit insurance, see Charles Calomiris, "Deposit Insurance: Lessons from the Record," *Economic Perspectives*, May/June 1989, pp. 10–30, and his "Is Deposit Insurance Necessary? A Historical Perspective," *Journal of Economic History*, June 1990, pp. 283–95.

IDEAS ON LIBERTY
FEBRUARY 2001

Your One-Stop Source for Sound Economics

"No dictionary of a living tongue can ever be perfect."
—SAMUEL JOHNSON

Walk into any bookstore and you'll usually find two or three dictionaries of economics. Like any scientific discipline, economics has its own insider terminology, schools of thought, and famous experts. If you haven't taken a course in economics, you may need a reference guide when a writer uses the term externality, liquidity preference, Laffer curve, or Keynesian economics. An article in *Ideas on Liberty* might refer to the Coase theorem. Who is Coase and what is his theorem? It's time to buy a good economics dictionary.

There are several dictionaries to choose from. You want one that is comprehensive and objective. Not all dictionaries are alike.

Let's start first with the ones you ought to avoid. I place *The Routledge Critical Dictionary of Global Economics* in this negative category. Unfortunately, the editor, Robert Beynon, is a journalist who either has limited knowledge or is highly prejudiced. The focus is on globalization, the end of communist command economies, and the technological and financial revolutions. Certainly Milton Friedman and the Chicago school deserve attention in these fields, but no entry exists for either one. In fact, while the book has separate entries on John Maynard Keynes, Karl Marx, Adam Smith, and David Ricardo, it offers none for Irving Fisher, Gary Becker, Ludwig von Mises, and F.A. Hayek. The latter two are obvious omissions since they predicted the collapse of Soviet-style central planning and have much to say about global competition. Moreover, why would a book highlight MIT's Robert Solow and Franco Modigliani and leave out their better known colleague Paul A. Samuelson? Skip this one.

The New Palgrave: A Socialist Plot?

Routledge isn't the only one putting out an incomplete and biased dictionary. Another popular one is *The New Palgrave*, a four-volume encyclopedia written by top economists in the late 1980s. The set is now available in paperback for $225. Don't waste your money. First, most of the articles are too advanced for the non-economist and even many professional economists. Second, *The New Palgrave* gives a hopelessly distorted picture of sound economics. Every article on Marxism is written by an avowed Marxist. And the entry on capitalism isn't written by Friedman or Hayek, but socialist Robert Heilbroner, whose bibliography at the end of the

Mark Skousen (http://www.mskousen.com; mskousen@aol.com) is an economist at Rollins College, Department of Economics, Winter Park, FL 32789, a Forbes *columnist, and editor of* Forecasts & Strategies. *His new book,* The Making of Modern Economics, *will be published this month by M. E. Sharpe.*

subject excludes the works of Friedman, Hayek, Mises, and other defenders of capitalism. There's not even a passage on supply-side economics. Sure, there are a few articles written by Friedman, Murray Rothbard, Israel Kirzner, and Roger Garrison, among others, but they are few and far between. It's tragic that this biased reference work is found in virtually every university library in the world.*

Okay, what is worth buying? Believe it or not, Routledge! The same publisher that offers the incomplete, biased *Global Economics* also publishes the superior *Routledge Dictionary of Economics* (1995, paperback edition). The right hand must not know what the left hand is doing. Donald Rutherford, a lecturer at the University of Edinburgh, has worked hard to create a comprehensive, objective work. Many dictionaries leave out members of the Austrian and Chicago schools, but not this one. *Routledge Dictionary* offers separate biographies of Austrians (Menger, Böhm-Bawerk, Schumpeter, Mises, and Hayek) and Chicagoans (Friedman, Stigler, Knight, and Simons).

Another good source is the *Penguin Dictionary of Economics*, now in its fifth edition, but it is printed in smaller print with fewer illustrations.

You Can't Beat This One

My all-time favorite choice for a single comprehensive volume on sound economics is *The Fortune Encyclopedia of Economics* (Warner Books, 1993). Editor David R. Henderson did a masterful job of collecting the views of 141 economists on a wide variety of subjects, including biographies, the major schools (Austrian, Monetarist, Keynesian, Marxist, Supply Side, and Neoclassical), and specific issues such as free trade, privatization, the national debt, antitrust, and environmentalism. I give it an A+. It should replace *The New Palgrave* on college reference shelves. Only one problem: It's out of print. To obtain a copy, check amazon.com or bookfinder.com. □

*For an insightful review, see Mark Blaug, *Economics Through the Looking Glass: The Distorted Perspective of the New Palgrave Dictionary of Economics* (London: Institute of Economic Affairs, 1988).

BOOKS

Hard Green: Saving the Environment from the Environmentalists—A Conservative Manifesto

by Peter Huber

Basic Books • 2000 • 288 pages • $25.00 hardcover; $15.00 paperback

Reviewed by Joseph L. Bast

Peter Huber's new book will delight as well as infuriate people who seek a consistent free-market approach to environmental issues. He delivers a devastating blow to the views of environmentalists who are antitechnology and antimarket, and does so with great vigor and wit. But "Hard Green," the new paradigm Huber erects in its place, is hardly the "conservative manifesto" he promises.

First, Huber performs an invaluable service by untangling and then debunking the six main themes in antimarket environmentalist thinking: the Malthusian's fear of scarcity, the Luddite's fear of complexity, the socialist's contempt for property, the communist's belief in central planning, the ascetic's love of frugality, and the New Ager's search for a secular religion. In each case, Huber's analysis is deadly to the underpinnings of environmentalist belief.

Human creativity trumps natural resource depletion, according to Huber, and history proves this to be so. "Behind every human mouth there cogitates a brain," and those brains, when allowed to operate in an environment of free markets, fuel the prosperity that thwarts Malthusian predictions.

How can complexity be "brittle" when it is the result of human design and technology, Huber asks, yet be stable when it is the result of blind evolutionary processes taking place over millions of years? Isn't human progress, like nature itself, more like honey than a sand pile, slowly and easily accommodating change?

Huber ridicules the environmental movement's leaders for trusting government to protect the environment despite gruesome evidence of human rights abuses and ecological devastation in the provinces of the former Soviet Union. Communists "despoiled the environment with gross, arrogant, blundering, callous, stupid savagery almost unimaginable to us capitalists."

So far so good. But when Huber turns from his attack on the environmentalists to the creation of his own environmental approach, the book deteriorates.

Hard Green is the name Huber gives his new conservationism to distinguish it from Amory Lovins's "Soft Green" philosophy. It champions human ingenuity against the ideology of limits; privatizing pollution; limiting government power; expanding public and private protection of forests, lakes, and shores; and increasing reliance on technologies like nuclear power and genetic engineering.

There is much to like in the Hard Green approach. Huber understands and explains persuasively how rising wealth leads to greater environmental protection, how markets and property rights are essential to creating wealth, and how government has often failed when given the job of protecting the environment. This is, indeed, a paradigm for an environmentalism that is pro-freedom and pro-human at the same time as it is pro-wolf, pro-wilderness, and pro-clean air.

But Hard Green is not free-market environmentalism. At various points in his book Huber distances himself from libertarians who challenge the existence of "public" goods or believe everything, even Yellowstone, should be privatized. Huber has vague doubts about the efficacy of markets, and he looks to government to scratch his itch: "Proper protection of the environment requires more of something or other: more regulator, tax collector, or licensing authority, perhaps?" Given what we know and Huber himself has written about government, it makes little sense to look for that "something" there.

Huber recommends controlling air pollution by having government create artificial markets for emission permits, something Fred Smith of the Competitive Enterprise Institute derisively but correctly calls "market socialism." When writing about conserving wilderness areas, Huber seems more concerned about winning over "the man in the Winnebago" than following free-market ideas to their logical conclusion. He grants wilderness preservation an exemption from the general rules of economics, going so far as to create a new category of assets—"uneconomic resources"—that he claims governments are able to manage effectively.

Huber makes a sort of second-best argument for his position: "It is by affirming the legitimate government role in the truly public sphere that we can be all the more determined to exclude government more strictly from the private." Yet this sort of trade has never been honored by the other side in the past. Giving government a role beyond the very limited functions of protecting life, liberty, and property has invariably cost us more than we have benefited, and not infrequently put us on a slippery road to serfdom.

One hopes that readers who find Huber's critique of mainstream environmentalism convincing will go on to read the works of true free-market environmentalists such as Terry Anderson, John Baden, Jane Shaw, Fred Smith, and Bruce Yandle. Unfortunately, none of those names appears anywhere in the book. □

Joseph Bast is president of The Heartland Institute and author of Eco-Sanity: A Common-Sense Guide to Environmentalism *(Madison Books, second edition 1995).*

Monopoly Politics

by James C. Miller III

Hoover Institution Press • 1999 • 157 pages • $17.95

Reviewed by Robert Batemarco

The Founding Fathers were well aware that it takes more than ideas, as important as they are, to permit freedom to flourish. It takes institutions—private property, foremost, and political institutions that will protect rather than plunder it. Thus the political system they established was designed with an intricate system of checks and balances. Their intent was to create competition among the branches of government (legislative, executive, and judiciary) as well as between various levels of government (central, state, and local) to keep any one of them from amassing too much power.

When this competition breaks down, all our freedoms are in jeopardy. Likewise, a breakdown in the competition between current government officeholders and would-be officeholders can also make citizens' lives and property less secure. James Miller ably analyzes this breakdown and its consequences in his book *Monopoly Politics*.

To make his case Miller compares "commercial markets" and "political markets" (an oxymoron if I ever heard one). He draws analogies between these methods of satisfying human wants, likening voters to consumers. More telling are the differences he describes between the commercial and the political realms. The key is that commercial decisions are made individually and political decisions are made collectively. This guarantees dissatisfaction with the latter, since many, perhaps even the majority, do not get what they selected. Such dissatisfaction is compounded by the virtual impossibility of removing an unsatisfactory government official until his term is up. In contrast, suppliers of commercial services can usually be terminated in short order.

Monopoly Politics is at its most convincing when it demonstrates the lengths to which politicos go to squelch competition. "They pass ambiguous laws and promote complicated regulations in part to increase the demand for constituent service—which only they can provide." They also vote themselves free mailings to constituents, limit ballot access to third-party candidates, and buy votes with tax dollars.

Miller puts his expertise as a public-choice economist to good use as he shows how proposed campaign-finance "reforms" currently being bandied about would make the problem he describes even worse, piling more obstacles on those which already make it difficult for outsiders to successfully challenge entrenched incumbents. He counters with his own solutions. Since he sees the contrived advantages of incumbency as playing the major role in weakening political competition, his logical cure is to remove those advantages. He would do that by ending the congressional privileges of unrequested franked mail and free access to Capitol TV and radio studios, restricting officials' ability to collect "protection" money by controlling the proliferation of legislation and limiting the discretion of regulatory agencies, and making it more difficult to buy votes by eliminating budgetary "pork" and replacing the current tax code with a flat tax. He would also repeal all laws limiting campaign contributions.

Just as competition within free markets leads to economic efficiency, Miller claims that more political competition would generate "political efficiency." And that is the main problem I have with the book—its obeisance to political efficiency. What Miller means by that phrase is meeting the demands of voters, specifically the "median voter." This is a dubious goal in my mind. If the "median voter" wanted to protect domestic industry by high tariffs, or to guarantee "fairness" by taxing away all incomes over $200,000, then the enactment of such meretricious policies would be construed as efficient. This is not to imply that the author favors any of those policies, merely that raising "political efficiency" to an ideal does nothing to defend us against them.

To the extent that they constrain the ability of current officeholders to exercise power and increase political competition, Miller's ideas are sound, but unfortunately they only deal with some of the symptoms of our underlying illness. A greater degree of political competition might make things marginally better from the standpoint of those of us who believe in liberty and limited government. As long as people feel themselves entitled to handouts from the state, however, politicians will find ways to cater to them. Only if people were to become as mindful of their liberties as the Founding Fathers were will we restore the proper relationship between government and individual. □

Robert Batemarco is a vice president of a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York.

Everyday Stalinism: Ordinary Life in Extraordinary Times: Soviet Russia in the 1930s

by Sheila Fitzpatrick

Oxford University Press • 1999 • 288 pages • $27.50

Reviewed by Drew Cline

Free people are a peculiar lot. Eventually their lives become so leisurely that they manufacture unnecessary hardships purely for the exercise or the entertainment found in such challenges. Witness the super-successful television show, "Survivor," in which contestants willingly forsook all modern conveniences simply to show off their hearty ruggedness (and to win $1 million, of course).

This type of diversion is the byproduct of freedom and prosperity. Captive people afford themselves no such entertainment for their very lives are little more than a relentlessly brutal, never-ending game of "Survivor" in which there are no commercial breaks or season-ending finales, only constant, inescapable drudgery mixed with fear.

Such was life for Soviet subjects in the 1930s, as revealed by Oxford University historian Sheila Fitzpatrick in her book *Everyday Stalinism*. In a concise and illuminating way, Fitzpatrick details the heartless brutality of the Soviet regime—its paralyzing, random rule of terror; cold-blooded, methodical ethnic and social cleansing; and cruel, premeditated eradication of hope, prosperity, and happiness.

Focusing entirely on the 1930s, the height of Stalin's tyranny, Fitzpatrick reveals a horrifying world of misery and despair that was the everyday life of the average "Homo Sovieticus." To chronicle this wholly impoverished existence, Fitzpatrick sets her book into topical chapters, each explaining a particular subject of Soviet life, such as economic hardship, family disorder, or the ubiquitous presence of the NKVD (the predecessor of the infamous KGB) and other government spies.

Fittingly, Fitzpatrick begins her book on everyday Soviet life with a chapter on the state titled, "The Party Is Always Right." She opens by noting, "Few histories of everyday life start with a chapter on government and bureaucracy. But it is one of the peculiarities of our subject that the state can never be kept out, try though we may."

Indeed, Fitzpatrick's wide-ranging research shows that the ever-present state was by far the most important force shaping the lives of Soviet citizens in the 1930s. She reports the findings of an American academic who interviewed Russian women in the 1990s about their family lives. He found that these women dated their lives not by important family events such as marriage and childbearing, as Western women do, but by acts of the state, such as food shortages or the Great Purges. Diaries that Fitzpatrick pored through also reveal the extent to which Soviet oppression directed the daily thoughts of Soviet subjects.

"These Stalin-era diaries are particularly interesting for the amount of time and thought their writers gave to public affairs, especially if one defines that concept broadly to include the economy and the availability or otherwise of consumer goods," she writes. "Private life and personal emotions are of course present in the diaries, but they seem confined and crowded by public events and pressures, always liable to be thrust from center stage by some external crisis." In Stalin's Soviet Union, every detail of life was directed by the state. There was no refuge to which the Soviet captive (the residents of the Soviet Union certainly weren't citizens) could escape from the omnipresent forces of government and live, even for a short time, just as they pleased.

Americans may think of government every now and then—on tax day or when we have to renew our driver's licenses or when we have to call the police. But the Soviet resident thought about the government all day, every day. From rising in his cramped, government-provided apartment and devouring his state-rationed breakfast; through performing his mundane government job and enduring the paternalistic rantings at the state-organized meeting he was required to attend; to whispering conversations to avoid the ears of government spies—the average Soviet's every waking moment was touched in some way by the state.

Fitzpatrick relates terrifying tales of brainwashed children turning their parents in to the authorities, husbands and wives disavowing each other, and friends and neighbors spying on one another at social gatherings and even funerals. People needed passports to travel from town to town within their own country and permission from the government simply to place a flowerpot on the windowsill.

Simply put, life in the Soviet Union in the 1930s was one long, never-ending game of "Survivor" in which the stakes literally were life or death. In uncovering the brutal facts of "everyday Stalinism," Fitzpatrick has dealt another very powerful blow to the myth of the benevolent socialist state. □

Drew Cline is director of publications for the John Locke Foundation.

Maritime Supremacy and the Opening of the Western Mind

by Peter Padfield

Overlook Press • 1999 • 340 pages • $35.00

Reviewed by George C. Leef

Peter Padfield, according to the famed military historian John Keegan, is "the best naval historian of his generation." But in *Maritime Supremacy*, Padfield goes well beyond the usual naval history to show that there was a connection between maritime supremacy and the freeing of people from the shackles of omnipotent government in the sixteenth, seventeenth, and eighteenth centuries. Padfield's interweaving of famous sea battles involving the Dutch, English, French, and Spanish with changes in philosophy and government is expertly done and strongly reinforces the vital idea that freedom works better than state control.

The connection between freedom and success in the military and economic realms has been remarked on before, of course. Padfield's new book is a forthright and ringing restatement of that truth. He writes that freedom has always been a distinguishing mark of merchant power "since both trade and consultative government require the widest dissemination of information and free expression of opinion; thus the basic freedoms of trade spread through all areas of life, tending to break down social hierarchies and the grip of received ideas, creating more open, mobile and enterprising cultures. Liberty has always been the pride and rallying cry of powers enjoying maritime supremacy." His history of the great European conflicts from the Spanish Armada through the end of the eighteenth century proves the point.

The first part of Padfield's account pits that paragon of despotic rule, the Spanish Empire, against the English and the Dutch. In both instances, the smaller, freer trading nations overcame the larger, militarily stronger adversary that had grown wealthy only through plunder. The story of the Armada is better known, but the Spanish-Dutch conflict makes for even more interesting reading, and more starkly illustrates Padfield's thesis about the virtues of freedom.

In 1639, the Spanish King decided to reassert control over the rebellious Dutch who were ostensibly "his" subjects. At this point the Dutch were clearly the freest people in Europe, in commerce, religion, and thought. They had grown wealthy through trade. Chafing under Spanish control, the northern Dutch provinces rebelled in the 1590s and managed to secure their independence. But Spain wanted them back and assembled another Armada that was to defeat the Dutch at sea and then land an army. The Spanish ships were manned by conscripts; the Dutch ships manned by sailors who knew they were fighting for their liberty and way of life. In a battle known as The Downs, the Dutch humiliated the Spanish fleet and thereby preserved their freedom.

In the 1670s the French and English monarchs allied to crush the Dutch who were just "too successful" in trade. (One recurring motif in the book is the foolish "zero-sum game" thinking of rulers who believed that if another nation had too much trade, it caused them to have too little and the solution was to resort to warfare.) Outnumbered and outgunned, the Dutch fleet took their rivals by surprise in the Battle of Sole Bay in 1672 and so mauled the Anglo-French navy that 15 years of peace resulted.

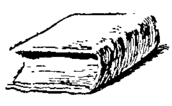
Padfield next provides a vivid description of the events leading to the Glorious Revolution of 1688. Knowing that another Anglo-French alliance was in the making, the Dutch conceived of an audacious plan to convert England into an ally by invading and overthrowing the autocratic James II. Against all odds, the plan succeeded and consequently William and Mary acceded to the English throne, agreeing to abide by considerable restraints on royal prerogative. Padfield writes, "[T]he flame of True Freedom had passed with naval supremacy and constitutional, consultative government from the United Provinces to Great Britain, where it was regarded with quite as much national pride."

The latter half of the book is devoted to the famous conflicts of the eighteenth century between France and England. England repeatedly triumphed despite the large advantage France enjoyed in size and population. France was hobbled by its far more regimented economic system, its archaic tax system, and the royal penchant for flooding the country with paper money to pay for its prodigious war expenses. It was again the triumph of the more-free over the less-free nation.

Padfield observes that the assistance Louis XVI decided to give to the Americans during the Revolutionary War was contrary to the advice of the liberal economist Turgot, who had been attempting to modernize the French economy and who foresaw that another war against England would ruin the shaky French finances and undo his reform efforts. But the King's desire for revenge against the English trumped Turgot's advice. So, ironically, freedom in America owed much to the decision to trample on it in France.

This is beautifully written history conveying an important philosophic message. ☐

George Leef is the director of the Pope Center for Higher Education Policy at the John Locke Foundation and book review editor of Ideas on Liberty.



The Color of School Reform: Race, Politics, and the Challenge of Urban Education

by Jeffrey R. Henig, Richard C. Hula, Marion Orr, and Desiree S. Pedescleaux

Princeton University Press • 1999 • 292 pages • $35.00

Reviewed by G. Gregory Moo

Race, contend the authors of *The Color of School Reform*, is pivotal in efforts to reform public education in urban communities. Important too is government's ability to facilitate development of civic capacity—"the capacity to collectively set goals and effectively pursue them"—which is the heart and soul of this book.

Drawing on research done in Atlanta, Baltimore, Detroit, and Washington, D.C., communities where for years African-Americans have held educational leadership positions, the authors conclude that the chronically poor academic performance of minority students results from the lack of "civic capacity" building. And they stress the need to mobilize minorities in the task of getting better at politics.

But herein lies the book's fatal flaw. The authors' focus on civic capacity is a focus on the left's never-ending call to embrace the false tenets of "progressive education" and an ideology that values the collective over the individual and government control over a free market.

The authors' underlying assumption is that "progressive" ideals and tactics offer the one true path to an enlightened future. In citing others' research and occasionally by the cautious use of their own words, the four authors obliquely embrace artifacts of socialism. Why not "expand the scope of conflict" and bring back a Saul Alinsky-style of mobilizing people? Had the authors titled the book "The Use of Public Resources to Bring Progressive Reform in Human Nature and Public Education," I would have less cause for criticism. Then the title would have plainly let the cat out of the bag. As it stands, the chosen title implies a book about school reform, which it is not.

Indeed, the book focuses more on building political skills than on improving student learning (an issue that is almost never mentioned). Ignoring that Washington, D.C.'s per capita student expenditure is among the nation's highest, the book names "inadequate resources" as a principal reason for poor student performance. But then, lack of adequate resources is the education establishment's oft-repeated, all-purpose mantra.

This is not to say that the book doesn't provide provocative insights—it certainly does. However unintentionally, it offers some help to those interested in reforming education by improving student performance. Several case studies reveal a corruption of purpose and the resulting misallocation of public funds. By the authors' own account, political patronage drains much-needed money from classrooms to pay the salaries of unneeded administrators. In Atlanta this practice is the result of the "Atlanta Compromise," which "required the board of education to hire an African-American superintendent and reserved 50 percent of all administrative positions in the system for blacks."

School districts thus become employment agencies and tax dollars become the grease superintendents use to smooth the game of base politics. Yes, race-based hiring preferences have played a role in bringing minorities up to and beyond LBJ's "starting line." But this book makes it obvious that race-based hiring of teachers and administrators—rather than competency-based hiring—has also greatly impeded student learning. This lack of student learning produces adults who cannot compete in the marketplace, and adults who cannot compete come to depend on race-based hiring preferences to land teaching and administrative jobs. The cycle repeats again and again.

Perhaps it is time for citizens—black and nonblack—in Atlanta, Baltimore, Detroit, and Washington, D.C., to withhold support from educational regimes that absorb millions of dollars and are impervious to student-learning–centered change. The authors, wedded to the idea of politically driven education, would disagree and lead parents and children down a wrong path. The better path leads to a free market and parental choice. □

G. Gregory Moo, an educational consultant, is the author of Power Grab: How the National Education Association Is Betraying Our Children.

Eat, Drink and Be Merry: America's Doctor Tells You Why the Health Experts Are Wrong

by Dean Edell, M.D.

Quill • 2000 • 347 pages • $14.00 paperback

Reviewed by Charles Stampul

Dr. Dean Edell is the host of a widely syndicated radio program. He has distinguished himself in the medical communication profession by providing sound and unbiased medical advice; exposing sloppy, irresponsible, and dangerous health reporting; revealing the downfalls of government regulation; and crusading against the politicization of disease. In doing so, Edell has earned a reputation for controversial and iconoclastic views. An eye surgeon who takes a skeptical look at much of "mainstream" American medicine, Edell puts his refreshingly unorthodox ideas on display in this engaging book.

Especially unpopular with certain vocal interest groups is his opposition to measures to subsidize breast cancer and AIDS research. Government spending on disease research, Edell asserts, does not necessarily increase the chances of finding a cure. Moreover, research in one area of medicine commonly leads to a breakthrough in another. Federal grants to research universities, therefore, (if they are to exist at all) should not be restricted to the study of specific illnesses.

Equally controversial is the subtle case Edell makes for ending the war on drugs. The fight to stop recreational drug use has, according to the author, many silent victims. Alcohol, a drug that causes agitation and depression, is legal. Yet heroin, a drug that relaxes and uplifts users, and in controlled doses actually permits addicts to live productive lives, is illegal. If those predisposed to drug addiction could readily obtain narcotics from physicians, the author argues, there would very likely be less child abuse and lower unemployment. Edell also observes that there are many silent victims in the fight to stop recreational drug use. For example, as a result of stringent drug laws, pain sufferers, including children forced to undergo spinal taps, are commonly denied effective pain medication, despite evidence that use of narcotics to combat pain does not lead to recreational use.

While it is unthinkable to the majority of Americans to allow people who want to alter their consciousness to get the drugs they want, most of the same individuals see nothing wrong with putting children on one of the same drugs sold to addicts on street corners. Edell questions whether children diagnosed with attention deficit disorder are simply too creative and intelligent to sit quietly for long periods of time and criticizes the widespread use of Ritalin to calm them down.

Edell has the courage to tell people when their objections to health-related practices are unreasonable and the understanding of economics to demonstrate why. To individuals who complain about the high cost of brand-name prescription medicines, for example, he explains that countless hours of research go into the development of each new pill that hits the market. For every one new medication that works there are many more that do not. The cost of testing drugs that ultimately do not prove effective must be recovered through sales of those that do. That sensible argument may not satisfy the petulant crowd that thinks that medicines should be an entitlement, but it is nevertheless true.

Addressing the question of whether physicians are overpaid, Edell argues that the cost of a doctor's time is a simple matter of market economics: you have to pay a worker enough to entice him to go into and stay in a line of work, and the difficulties and sacrifices of being a doctor are very high. Limiting the amount physicians can charge for their services would dissuade many bright and talented people from entering the medical profession.

A steadfast surveyor of medical news, Edell reports on breakthroughs months before they are covered elsewhere. He discusses the counterintuitive elements of research studies, and he is careful not to raise people's hopes and fears. Edell believes that, owing in part to capricious scientific journalism, an alarming number of people are seeking medical attention unnecessarily. In America, where health care is treated as a benefit and entitlement, unnecessary visits to doctors' offices and emergency rooms increase the costs of medical services and insurance, pricing out the poor and unemployed.

Americans enjoy better health today than at any other time in history. Yet we seem to worry more about health now than ever before. At the same time, we expect more. We are no longer satisfied with medical breakthroughs—we want and expect miracles. Dr. Edell's book urges Americans to be cautious of products that promise to deliver. It is a must read for those who are overly concerned about their health. □

Charles Stampul writes "On Principle" (on_principle@excite.com), an individualist ethics column.

IDEAS ON LIBERTY
FEBRUARY 2001

Congress and Public Safety Unionism

The National Labor Relations Act (NLRA) applies to unionism in private-sector employment, except in the railroad and airline industries, where the Railway Labor Act sets the rules. No federal statute regarding unionism applies to state and local government employees. Rather, each state adopts its own rules, and 20 states have chosen not to engage in compulsory collective bargaining with unions representing public safety employees (such as police, firefighters, and emergency medical personnel).

In 1985 the U.S. Supreme Court ruled, in *Garcia v. San Antonio Metropolitan Transit Authority*, that states have exactly the same legal standing as private employers when it comes to labor market regulation. Thus Congress may, if it chooses, impose minimum-wage, maximum-hour, and labor-relations regulations on the states in their role as employers. Almost immediately after the *Garcia* ruling, former Representative William Clay of Missouri proposed a federal statute that would force all states to adopt compulsory collective bargaining for all state and local government employees. That proposal got nowhere then, but it was resurrected for state and local public safety employees in the last (106th) Congress (S. 1016 and H.R. 1093). Worse, the idea drew substantial bipartisan support in the Senate as well as the House.

Charles Baird (cbaird@bay.csuhayward.edu) is a professor of economics and the director of the Smith Center for Private Enterprise Studies at California State University at Hayward.

The record of disaster in the states that already give public safety unions such privileges is clear. Public safety disappears. When firefighters are prevented by their unions from fighting fires, and when police are prevented by their unions from maintaining order and pursuing criminals, civil society dissolves into chaos. The police and fire strikes in San Francisco during the 1970s illustrate the point. The proposed legislation would expose the 20 states that now deny NLRA-style privileges to public safety unions to similar disasters. Sure, the bill proscribes strikes by public safety personnel; but here, too, the record is clear. Public-sector unions with NLRA-style privileges are almost never deterred by laws that make strikes illegal, and they are never prosecuted for breaking the law. The 107th Congress should drive a stake through the heart of this idea as soon as possible.

Support from Democrats

It is no surprise that Democratic members of Congress support granting special privileges to unions. For example, in exchange for in-kind and monetary support from the unions at election time, those members have long supported giving unions the power to force workers to pay union dues and fees. The more money unions can take from workers, the more they can share with politicians.

But it is a surprise that the public safety union bill received substantial Republican support in the 106th Congress. Perhaps this is because police and firefighters are thought to be more politically conservative than other government employees. However, this is terribly myopic. To paraphrase Henry George, those who think this idea can be limited to just public safety workers are like those who tell you of tigers who live on oranges. If Congress commits this folly it will soon be besieged with demands from other state and local government employee unions for similar favors. The National Education Association has long sought such legislation on its own behalf. Surely it will argue that if it is all right to force states to empower public safety unions, it is also all right to force states to empower teacher unions. Teachers are just as vital as police and firefighters, aren't they? What about garbage collectors and tax collectors? They are pretty vital too. In the end, states will lose control over all their government employee labor relations. This hardly seems consistent with the usual Republican rhetoric about federalism.

Congress not only should kill the public safety union bill, it should force the states that have granted NLRA-style privileges to any government employee unions, whether public safety or not, to rescind them. Congress has constitutional authority under the Fourteenth Amendment to prevent states from abridging the "privileges or immunities" of citizens of the United States.

The principles of exclusive representation and union security abrogate the First Amendment rights of government employees who wish to remain union-free. Government is the employer, hence there is sufficient government action to give rise to Bill of Rights concerns.

Under the Bill of Rights, government is not supposed to intrude on an individual citizen's right to associate or not associate with any legal private organization. A voluntary union of government employees is a legal private organization. But forcing dissenting government workers to join, pay dues to, or be represented by such an organization is an abridgment of their freedom of association. No unionist would argue that a government should refuse to hire a worker who refuses to buy and consume snake oil, but every unionist argues that a government should refuse to hire a worker who refuses to buy and consume unwanted union representation.

Moreover, in government employment, mandatory bargaining in good faith (a feature of the NLRA incorporated into most state collective bargaining statutes) forces governments to share the making of public policy with privileged, unelected private organizations. Ordinary private organizations can lobby government, but only government employee unions have the privilege of laws that force government agencies to bargain in good faith with them. Good faith bargaining is conducted behind closed doors. It requires government agencies to compromise with government employee unions. Government agencies are forbidden to set unilateral terms and conditions of government employment (questions of public policy) without the concurrence of government employee unions. These unions actually share governmental authority.

Before the New Deal, the Supreme Court routinely struck down as unconstitutional legislation that delegated governmental authority to private groups. Since then the Court has ignored the Constitution (or reinterpreted it to suit the passions and prejudices of the moment) and upheld government employee unionism. Now only Congress can put things right. All it takes is courage and dedication to the Constitution as it was understood by those who wrote it.

I am not hopeful. □