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Hayek's Rules of Order

The Road to Serfdom had influenced her early on. And when she looked out on a Britain laid waste by 30 years of postwar nationalization and welfare statism, Margaret Thatcher knew that the old Austrian's work had been nothing if not prescient.

It was in 1974, however, that F.A. Hayek became relevant again for Thatcher. Britain's economy was in torpor. The people were dependent. Great cities were covered in rust and barnacles left by the ghost of Keynes. And even as Hayek's ideas smoldered in her subconscious, it wasn't until Hayek received his Nobel that his ideas were rekindled in Thatcher and her party.

"One of the precursors of Thatcherism was a revival of interest in Britain and worldwide in the work of the Austrian economist and political philosopher, Friedrich Hayek, who won the Nobel Prize for economics in 1974," Thatcher's historians write.

Alongside Milton Friedman, who won his Nobel Prize in 1976, Hayek lent great prestige to the cause of economic liberalism, helping to create the sense of a rightward shift in the intellectual climate, valuable in all sorts of ways to [Thatcher] and others arguing the cause, such as Ronald Reagan.

Mere politicians, made crooked and venal by incentives, were being touched by ideas — one of the few antidotes to power.

Britain enjoyed an economic renaissance after she, her party, and her government had been reintroduced to Hayek's writing. But the credit, according to MargaretThatcher.org, may belong more to his philosophy than his economics. After all, "While there is no reason to doubt Hayek's emblematic significance to the Thatcherites in their search for new roots, it was as a political and economic philosopher that he mattered, not as an economist," the site states.

Hayekian thinking is economic thinking, to be sure. It is also philosophy. But I would urge that Hayek's thought is something else, too. Despite Hayek's resistance to scientism, Hayekianism is a kind of science. To make the point, I borrow a slice from peer-progressive writer Steven B. Johnson, who in his book *Emergence* writes,

Indeed, some of the great minds of the last few centuries — Adam Smith, Friedrich Engels, Charles Darwin, Alan Turing — contributed to the unknown science of self-organization, but because the science didn't exist yet as a recognized field, their work ended up being filed on more familiar shelves.

File him wherever you like. Hayek was a complexity scientist before the discipline had a name. And that might be his greatest gift to humanity. The Wikipedia entry on complex systems even mentions Hayek.

Hayek might have asked, "For what can the teeming molecules that hustled themselves into self-reproducing metabolisms, the cells coordinating their behaviors to form multicelled organisms, the ecosystems, and even economic and political systems have in common?" But he did not. That was theoretical biologist Stuart Kauffman in *At Home in the Universe*. And maybe Hayek's answer would have looked something like Kauffman's: "The wonderful possibility, to be held as a working hypothesis, bold but fragile, is that, on many fronts, life evolves toward a regime that is poised between order and chaos."

In this editor's opinion, Hayek's greatest contributions apply in many domains of inquiry. And the conclusions one must draw from these insights are eternal lessons for experts, eggheads, and executives of every kind.

1. Complex orders are emergent — that is, they can't be centrally designed or controlled.
2. Knowledge is primarily local, situational, in context, and in flux.
3. Prediction in complex systems is difficult, if not impossible.
4. Complex orders are far more likely to arise from simple rules.
5. Simple rules are far more likely to arise from human complexity.
6. The social sciences require humility in the face of complexity.
7. Governance requires humility in the face of complexity.

Hayek gave us a lot more than seven bullet points. But if, like Thatcher, every person in the world could have studied and embraced even these few distillations of his thinking, fewer sets of wax wings would have been melted away by the fires of ideology. Fewer mass graves would have been dug up in places like Cambodia. And fewer citizens today would divide themselves along party lines over whether people should be centrally controlled through the bank or through the bedroom.

The good news is, Hayek's ideas haven't stopped burning since that catalyzing event in 1974. The only question is, who out there is waiting to have their minds set ablaze by his insights? **FEE**

Parking, Prices, and the End of Circling

An interview with Max Marty

Max Marty is CEO of the start-up Volo, whose app of the same name is designed to let people use their devices to find parking — especially when time really is money. Marty, along with team members Tilman Thederan, James Lee, and Elizabeth Hunker, is attempting to solve parking problems with peer-to-peer networking and dynamic pricing. But the solution is not without controversy.



The Freeman: So take us through it, Max. You're in the car, say, a minute out from your destination. It's a busy day in a major city. Street parking is scarce. What do you do with Volo?

Marty: It can work a minute out from your destination if you pull over and initiate a search, but it's best to not use your phone while you're driving or

looking for a parking spot. So the first thing you'd want to do is use it when you're leaving your point of origin. Think of it as a layer on top of a navigation app, a layer that adds parking to it. Instead of using Waze or Apple maps or whatever, you'd initiate Volo as you leave. You then tell Volo where you're headed, how far you'd be willing to walk from a parking spot, and how much you'd pay to have a spot open up as you're arriving. You then initiate the search, and while you're driving, Volo is asking everyone around your destination if they're going to be leaving when we calculate that you'll be arriving. If Volo finds you someone leaving as you're arriving, it reroutes you to their precise parking spot — wherever it happens to be — and coordinates with both parties to make sure the outbound driver is at their car just as you're arriving.

The Freeman: So it seems like people are renting and leasing parking spots. Don't these "belong" to the public (read: municipalities)?

Marty: The person, it could be any of us — any user who happens to be parked anywhere — isn't selling you

a parking space. They don't own the parking space. They don't even rent it, unless you consider a meter renting. What they're doing is *coordinating* with you to leave precisely when you're arriving. If someone else pulls up just as you pull up, you can cancel the pairing and no money exchanges hands. The point is fairly simple: There is often too much demand and not enough supply of parking in a given area. Why? Econ 101. A lot of parking is operating entirely outside of the price mechanism. Creating a price mechanism, even one that merely moves money between users inside of the system itself, can alleviate the problem by helping people figure out who values a particular spot at a particular time the most in terms of its opportunity cost.

The Freeman: So who is objecting to this technology? And what do you have to say to them?

Marty: There are two groups who are objecting that we've run into: one group who worries about what I've called "artificial squatting," and another group who doesn't care what positive consequences accrue from such a system, because they feel that they won't reap the benefits and instead will have to now pay for something they've been getting "for free" until now.

Squatting — let's call it natural squatting — is a very legitimate concern, and it's really annoying. It's basically when a person sits around in a parking spot longer than they should. I think there was an episode of *Seinfeld* where someone left their car in a parking spot for two years for fear of moving it, because, you know, you don't want to let some *other* bastard take it.

Artificial squatting, on the other hand, is a situation in which the price mechanism *induces* someone to wait for you on a parking spot longer than they would otherwise. As far as I know, of the companies trying to find a way to

create a two-sided exchange, we're the only company with the kind of market-making mechanism designed to make artificial squatting completely unprofitable.

It's a bit much to go into here (I go into detail about it on my [medium.com](#) blog), but suffice [it] to say it's a combination of how long pairings last and how we compete down the price of pairings. You just can't make enough per hour to justify waiting around for very long outside of when you'd naturally leave.

As for the other objection about "free parking," there is not now, nor has there ever been, "free parking." Not only do we pay a personal price every time we try to park in a crowded parking lot in terms of our wasted time, gas, accident rate (looking at parking spots instead of the road is distracting and dangerous), frustration, and so forth. But, there are a ton of negative externalities that circling and congestion (the natural result of using your time instead of a price) cause. For example, less walkability, less efficient mass transit, pollution, etc. The economist Donald Shoup goes into great detail on this point.

The Freeman: Allowing people to unlock the value in their own capital, or in underused goods and services, seems like a no-brainer. But many of these technologies — despite their widespread benefits — are an affront to old systems. How do you think sharing-economy plays will eventually unentrench entrenched interests?

Marty: I think there are two important components. First, we need to try out new, weird-sounding ideas because, though some of them will be duds, some won't. And we don't know which weird ideas are going to succeed at making our economy more efficient, and all of us will become more prosperous later. For every Airbnb and Uber out there, there are a hundred companies trying similar models that didn't turn out to be the right one.

Second, we need to allow the old method of doing things to pass if it turns out to be more wasteful, of lower quality, etc., than the new method. Unfortunately, there is no easy solution here, but a lot of it comes down to what

voters demand their politicians do — or don't do — about a given situation. The only reason we're seeing reform in the hotel and taxi sectors is because so many people are rabidly in favor of the new models, and politicians and regulators are being forced to pay attention to the masses rather than the special interests. Thank goodness for that.

The Freeman: It seems like this kind of technology has a plethora of applications beyond just parking. I suppose if you knew about them, you wouldn't advertise it here (you'd go make money). But can you give us a glimpse?

Marty: I'm a huge econ geek, so I'm going to nerd out on this question a bit. If you think about it, parking isn't really fundamental to our model. Volo is simply a way

PARKING ISN'T
really fundamental to our model.
Volo is simply a way to exchange
value with someone at a particular
point in space and time.

to exchange value with someone at a particular point in space and time. Anything you can think of could be exchanged on Volo. The key is that we're reducing the transaction cost for transactions that would otherwise be hard to coordinate. We do this

by intelligently figuring out when two people are going to happen to intersect, and when one has something the other wants. The possibilities are endless if you think about it. And I hope people do! In fact, I hope people come up with these ideas spontaneously while using Volo.

The Freeman: In general terms, what is it like to start a Silicon Valley tech business? Is there any glamour to it? Do you have a life?

Marty: Running a tech business is like riding a rollercoaster. Lots of highs, lows, and the occasional lulls, with the difference being you don't know when the ride is going to end. You have to be more than okay with that — you have to embrace it. If that sounds glamorous, then it is; if it sounds like a nightmare, then that's what it'll be. As for a life? Well, you learn to mix your life and your start-up — willingly or unwillingly in some cases.

The Freeman: Max Marty, thank you. And good luck with your new venture.

Marty: Thanks to you! And keep up the good work.

FEE

Hayek's "Rejuvenating Event"

How the Austrian economist's Nobel Prize changed the world

B.K. MARCUS



Swedish socialist Gunnar Myrdal was not happy about sharing his Nobel Prize with that Austrian “reactionary,” F.A. Hayek. The so-called Nobel for economics, established by the central bank of the world’s leading welfare state, was only five years old in 1974. It had already become meaningless — according to Myrdal — if they were going to bestow it on this apologist for capitalism.

Forty years ago today, the Royal Swedish Academy of Sciences announced that the “Prize in Economic Science in Memory of Alfred Nobel” would be awarded to both Myrdal and Hayek. It would be hard to find a less compatible pair of economic thinkers.

Myrdal was Keynesian before Lord Keynes himself. His biographer would later write, “If his contribution had been available to readers of English before 1936, it is interesting to speculate whether the ‘revolution’ in macroeconomic theory ... would be referred to as ‘Myrdalian’ as much as ‘Keynesian.’” By contrast, Hayek was the foremost opponent of the Keynesian revolution.

Myrdal had helped found the Econometric Society, whose original motto was “science is prediction.” Hayek and his fellows in the Austrian School insisted that economics wasn’t a quantitative science, that prediction

was impossible, and that econometrics was at best a form of history. Where Myrdal wanted the State to use economic science to plan for a more humane tomorrow, the Austrians claimed the future was constantly being renegotiated by entrepreneurs in a dynamic dance with consumers. Not only did the Austrians oppose central planning; they claimed it was impossible!

While Myrdal worked to modernize Western left-liberalism and to strengthen the hand of an enlightened State in the pursuit of progress and social justice, Hayek denied that the idea of social justice had any meaning. He adhered to a more individualist understanding of liberalism, according to which the market needs no external regulation.

As Myrdal saw it, if such a backward thinker as Friedrich August von Hayek could be awarded the highest honor in economics, then the whole institution needed to be abolished.

He was not the only one to object to the prize. Peter Nobel, a great-grandnephew of Alfred, insists that no member of his family ever wanted an economics prize in the first place.

Technically, what is commonly called the Nobel Prize for Economics isn’t a Nobel Prize at all. The will of Alfred Nobel, a Swedish armament manufacturer and the inventor of dynamite, established the official Nobel Prizes in 1895. The categories were physics, chemistry, medicine, peace, and literature. There was no prize for economics — until 1968, when Sweden’s central bank created and endowed a new prize “in memory of Alfred Nobel.”

Hayek himself, while grateful for the recognition, said he would “have decidedly advised against it,” had anyone consulted him on whether or not such a prestigious award

should be given. "The Nobel Prize confers on an individual an authority which in economics no man ought to possess," Hayek explained in his speech at the Nobel banquet.

This does not matter in the natural sciences. Here the influence exercised by an individual is chiefly an influence on his fellow experts; and they will soon cut him down to size if he exceeds his competence. But the influence of the economist that mainly matters is an influence over laymen: politicians, journalists, civil servants and the public generally.

Hayek was clearly onto something, as we can see when an interventionist like Paul Krugman wins the prize. But as Samuel Brittan of the *Financial Times* wrote in 2003, the *soi-disant* Nobel "has not ... in the least increased the willingness of policy makers to accept international free trade or reject the 'lump of labour' fallacy — matters on which most academic theorists are agreed."

When a free-market economist wins a Nobel Prize, the public does not suddenly embrace laissez-faire capitalism, but the Swedish socialist may have been prescient if he worried that honoring the Austrian would somehow hurt economic science as he conceived it. Hayek's work, then as now, is used as the antidote to Myrdal's conception of economics — that is, economics as interventionism.

One biographer describes Hayek's Nobel as "the great rejuvenating event in his life." It rescued him from obscurity — and apparently brought him out of a long emotional depression.

After his bestselling 1944 book *The Road to Serfdom*, Hayek had been unable to repeat the success. No other book of his would attract a popular readership, and scholars, even those who generally shared his political philosophy, saw Hayek's economic work as obsolete. He had, indeed, left economic theory largely behind to pursue a broader understanding of history, social theory, philosophy, and law.

But after sharing the self-styled Nobel with Myrdal, Hayek's star began to rise again, not just in the West — where he would later receive honors from the British and American governments, and meet with Pope John Paul II to discuss the pressing concerns of political economy — but, much more importantly, in the Eastern Bloc countries.

Milton Friedman (another "reactionary" Nobel laureate, according to Myrdal), wrote:

There is no figure who had more of an influence on the intellectuals behind the Iron Curtain than Friedrich Hayek. His books were translated and published by the underground and black market ... read widely, and undoubtedly influenced the climate of opinion that ultimately brought about the collapse of the Soviet Union.

Hayek became infamous with the socialists of all parties, and he is considered an extremist even by many moderates. But he was no purist. He made so many concessions to the welfare state that some are uncomfortable with his prominence within the freedom movement. In a letter to Rose Wilder Lane, Ayn Rand offered Hayek as "an example of our most pernicious enemy." She also described him as "the kind who do more good to the communist cause than ours."

In that second assessment, at least, she was obviously wrong. The history of ideas — and the impact of those ideas on actual freedoms in the real world — is complex, nonlinear, and thoroughly unpredictable. And the Austrians are clearly right about the nature of prediction: Who could have foreseen that the central bank of the world's leading welfare state would pilfer the name of an arms dealer and end up resurrecting the career of the leading opponent of socialism and central banking?

Today Hayek is remembered more for his lifelong opposition to all top-down attempts to manage the economy than for his compromises in twentieth-century politics. He is remembered for concepts such as local knowledge and spontaneous order — ideas that are more readily evident to a generation that has grown accustomed to the disruptive innovation of distributed networks, digital currency, and the sharing economy.

But we don't need the developments of the last 40 years to vindicate Hayek's life's work. Myrdal's outrage in 1974 should have been evidence enough of the Austrian's importance to the cause of liberty. **FEE**

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The Liberty to Leave

Secession is a right, despite slavery's blight and the Civil War

DOUG BANDOW



As the Scots debated independence, the British government responded with every argument imaginable—except the threat to invade. Prime Minister David Cameron is no Abraham Lincoln.

So also it appears with Catalonia's push for a referendum to secede from Spain, though the latter responded far less gently to Basque separatism in past years. No one threatened military action during Quebec's lengthy flirtation with independence from Canada. The Czechoslovakian government peacefully, even cheerfully, bade farewell to Slovakia two decades ago.

Still, not everyone is willing to accept smaller territories going their own way. Yugoslavia broke up with an orgy of violence. Oddly, the United States supported every resulting independence bid, except those mounted by Serbs. The latter were expected to live under Muslim-Bosnian, Croatian, and Kosovar-Albanian majorities, irrespective of the rulers' brutality. Washington even mounted a military campaign to break Kosovo off of Serbia, while reacting hysterically to similar Russian behavior toward Abkhazia and South Ossetia, which seceded from the country of Georgia. Washington responded equally badly to Crimea's departure from Ukraine, though no one really knows the wishes of that majority-Russian land, since the official referendum was anything but fair.

In international politics the only rule regarding secession is that you get to do it if you can either convince or force the other party to agree. And there is no consistency even within a country. Today it is hard to imagine Washington launching drone strikes or sending in the 82nd Airborne if Texas voters approved an ordinance of secession.

Yet the U.S. government waged war on its own people during the American Civil War. In fact, it really wasn't a "civil war," which typically involves two or more parties

seeking to control the territorial whole. In this case, it was a conflict over coerced union. Should states be prevented from severing a political connection they no longer support?

The victors write the histories, it is said. And so it is with the fighting that tore America apart. The South, of course, was no beau ideal of civilization: Slavery was hideous, but removing it is not why most northerners supported war. Lincoln himself originally promised not to interfere with slavery within the states and wrote, in an op-ed response to journalist Horace Greeley, "My paramount object in the struggle *is* to save the Union, and is *not* either to save or to destroy slavery." Had the North won the war quickly, slavery would have survived.

Moreover, people retrospectively assume that the practice could not have been ended without war. Yet only in Haiti did a violent revolution overthrow a slave regime. Human bondage disappeared peacefully from the rest of the world. Brazil was the last nation to abolish the horrid practice, and it did so voluntarily in 1888, 23 years after the end of the American Civil War.

Even more important, the Southern states departed the Union in two waves. The original seven exited because of fears over the survival of their "peculiar institution." But the four outer Southern states—Virginia, Tennessee, North Carolina, and Arkansas—left only after Lincoln called up troops to coerce the others. One North Carolina citizen explained, "Union sentiment was largely in the ascendant and gaining strength until Lincoln prostrated us. He could have adopted no policy so effectual to destroy the Union.... Lincoln has made us a unit to resist until we repel our invaders or die."

Washington need not have responded to secession with war. A number of unionists thought the Southern states should have been allowed to leave in peace. For instance, the *New York Tribune's* Greeley opined, "We hope never

to live in a republic whereof one section is pinned to the residue by bayonets.” Col. Robert E. Lee, who rejected command of the Northern forces, similarly explained, “I can anticipate no greater calamity for the country than a dissolution of the Union.... Still, a Union that can only be maintained by swords and bayonets, and in which strife and civil war are to take the place of brotherly love and kindness, has no charm for me.”

For many, the prospect of serious combat seemed unlikely. Stereotypes abounded: Yankee shopkeepers and secessionist blowhards would never fight, it was thought.

But by the fourth year of war, 150 years ago, that illusion had been shattered. Blood flowed in vast quantities. In the summer campaign in Virginia, Ulysses S. Grant’s forces suffered nearly 60,000 casualties, roughly the number in Lee’s Army of Northern Virginia. Casualty lists filled Northern newspapers. Unionist Sen. Henry Wilson of Massachusetts admitted a change of heart: “If that scene could have been presented to me before the war, anxious as I was for the preservation of the Union, I should have said: ‘The cost is too great; erring sisters, go in peace.’”

Moreover, by 1864 Northerners employed total war against their erstwhile countrymen. Down in the South, William Sherman announced, “I can make Georgia howl,” and he ravaged the countryside on his infamous March to the Sea. Grant ordered an even more thorough desolation of Virginia’s Shenandoah Valley. It was to be “barren

waste,” he said, so that even a crow would have to carry its own rations if flying through.

America’s decentralized republic also died. Washington inaugurated the national security state, with severe restrictions on civil and political liberties.

Taxes and economic controls proliferated. And Washington took a major step to becoming the Leviathan that Thomas Hobbes wrote about. After all that, the benefit of eliminating slavery was partially overturned when Reconstruction ended and Southern states reimposed white supremacist rule. It took another century to rid the nation of this horrid blight.

IF THERE IS one rule that should apply to campaigns for separation, secession, independence, and the like, it is that people should be allowed to peacefully choose with whom they desire to associate politically.

Today it is hard to imagine how anyone could justify killing 620,000 Americans to prevent a minority from departing what began as a voluntary political union. If there is one rule that should apply to campaigns for separation, secession, independence, and the like, it is that people should be allowed to peacefully choose with whom they desire to associate politically.

The decision to separate should never be taken lightly—for practical reasons, if nothing else. But an essential element of individual liberty should be the right to choose one’s political future. And that should be the case whether one is Scottish or Catalanian, Croat or Serb, American or someone else. The people have a right to be free. **FEE**

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Sending Money Home: Technology or Bureaucracy?

Remittances are helping poor people globally, but regulators loom

IAIN MURRAY



Some of the world's poorest people depend on the money they receive from relatives working in developed countries. In fact, this money dwarfs the world's official foreign aid budget, and the gap is increasing.

In 2011, total private flows of aid totaled \$680 billion—almost five times the \$138 billion official figure. As I noted in 2005, “the future of aid to developing countries is private.”

This increase in private aid is great news for all concerned. Except, perhaps, for bureaucrats, who are loath to let good deeds go unpunished. World Bank and United Nations bean counters are denouncing remittance transfer fees as exploitative. The U.S. Consumer Financial Protection Bureau (CFPB) has issued a rule to crack down on supposed fraud and exploitation affecting the existing remittance-transfer infrastructure. Its most important provision is the right to cancel a money transfer within 30 minutes of its being initiated. Proposals to cap the fee charged by remittance firms have also been agreed to internationally.

Critics claim that high transfer fees are the result of a so-called market failure. Yet, markets in remittances are frequently overregulated. Many African governments have exclusive deals with money transfer companies, which operate as national monopolies, free from competitive discipline. And there are other regulatory pitfalls that drive up prices. A Western Union spokesman told *The Guardian*:

Our pricing varies between countries depending on a number of factors, such as consumer protection costs, local remittance taxes, market distribution, regulatory structure, volume, currency volatility

and other market efficiencies. These factors can impact the fees and foreign exchange rates offered by corridor and service type.

All this suggests that the remittance market needs less regulation. Proper competition, lower taxes, less restrictive “consumer protection” measures (which quickly become outdated), and less red tape in general would all likely increase the flow of funds between individuals.

Such a solution would be inconceivable for global bureaucrats. Indeed, their house organ, *The New York Times*, recommended in August that the industry should be not only nationalized, but internationalized, with the World Bank taking on the role of remittance service provider, a role the *Times* actually described as “critical”:

The World Bank could pool deposits from banks and nonbank money transfer agents and parcel them to recipient banks, using its formidable certification protocols to verify that the money is coming from and going to legitimate parties. Such pooling could also reduce exchange fees, a big cost to migrants. Equally important, the World Bank could use its relationships with regulators around the world to enhance the remittance system's integrity.

Technology is already solving many of the problems faced by the money transfer industry, making the industry obsolete in the process. For example, in the central Asian republic Kyrgyzstan, which relies heavily on remittances—accounting for 31 percent of its GDP, mostly from within the former Soviet Union—an Italian entrepreneur named Emanuele Costa is able to promote bitcoin as an alternative to the expensive, heavily regulated money transfer firms.



aslysum/Shutterstock.com

Costa can do this because Kyrgyzstan is notably less oppressive and more free-market-oriented than its neighbors, and it has much less regulation than is typical in the area. He regularly hosts meetups to explain the currency to potential recipients and has installed a bitcoin ATM at a pizzeria (which, as Eurasianet notes, has been “bombarded with calls” since it publicized its existence).

In Kenya, meanwhile, a bitcoin startup called BitPesa offers money transfers “twice as fast and 75% cheaper” than traditional competitors. Kenya is an especially interesting place for this innovation to happen, as it was the scene of a “cell phone revolution” that allowed its telecommunications market to work around a serious case of government failure. As a result, most Kenyans now use a form of mobile wallet on their cell phones.

The potential for bitcoin to revolutionize the global remittance industry is hard to overstate. It largely cuts out the middleman, reducing the fees and charges some view as exploitative. Converting to local currency would be the most significant charge for most users. Bitcoin facilitates the establishment of trust through its “blockchain” public ledger, potentially reducing fraudulent transfers to near zero (although there is always the chance of someone stealing a wallet key). Taxes, at the moment, are minimal.

For these reasons, bitcoin represents the best hope to ensure that all of the \$680 billion in remittances goes to the people who need it. That might be why in America, bitcoin is most popular among Hispanics, who send more money abroad than any other group.

Yet, roadblocks remain. If Kyrgyzstan joins Moscow’s customs union as expected, bitcoin’s days may be numbered there, as Russian officials have taken a dim view of anonymous payment vehicles. Meanwhile, in the U.K., where many Kenyan remittance senders live and work, banks are wary of taking bitcoin businesses on as clients. As BitPesa’s founder told *The Guardian*:

Most U.K. banks won’t let Bitcoin businesses open bank accounts. These businesses want to be licensed, but U.K. banks shy away, just like Barclays cut Somalia off the map.

British banks are highly regulated and probably fearful of what regulators might do to them if they did business with companies that present “reputational risk”—as defined by regulators, of course.

In the United States, the CFPB rule mentioned above could threaten to make bitcoin illegal for remittance purposes. The average time for a bitcoin transaction to go through is around eight minutes, and reversing a transaction is impossible unless an escrow service is used. It is possible that the rule may not apply to a decentralized network like bitcoin, but in its short existence, the CFPB has not become known for reading its powers narrowly.

Regulators could wind up killing off the solution to problems created by, well, regulators. If they are serious about reducing costs and decreasing the potential for fraud in remittances, they will stand aside and let bitcoin develop in this role. If the choice is between a distributed, autonomous cryptocurrency network approved by the people who need the remittances most, or a combination of policies approved by *The New York Times*, the World Bank, and international regulators, Public Choice economics suggests that the technological option faces a long struggle ahead. **FEE**

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Liberty Is Best Defended by Means of a Single Moral Foundation



CRAIG BIDDLE

There is only one demonstrably true moral foundation for liberty: rational egoism. It consists of many integrated principles, but it is a single foundation.

Why should people be free? Observe that “should” is a moral concept. Either it is true that people should be free, or it is not. If it is true, and if we want to defend this truth, we need to understand and articulate why it is true.

People should be free because people have a moral right to live their lives as they see fit (life), to act in accordance with their own judgment (liberty), to keep and use the product of their effort (property), and to pursue the goals and values of their choice (pursuit of happiness). This is the principle of individual rights.

Where does this principle come from? Why do individuals have rights? We have rights because rights are requirements of human life in a social context. Man’s basic means of living is his reasoning mind. We live by using reason, observing reality, identifying the nature of things, making causal connections, integrating these into concepts and principles, and acting in accordance with our consequent knowledge. To the extent that we are forced to act against our judgment, we cannot live fully as human beings; we are relegated to “living” as puppets, serfs, or slaves.

If someone points a gun at Max’s head and tells him to shut up, or to hand over his wallet, or to “choose” a different career or a different lover or the like, Max cannot act fully on his judgment; thus he cannot live fully as a human being. A human life is a life guided by the judgment of one’s own mind.

This is why initiating physical force against people is morally wrong and properly illegal: It stops them from employing their basic means of living.

What’s so important about acting on one’s judgment and living fully as a human being? That is, as a matter of fact, what each individual morally should do. We can see this by going still deeper into the philosophic foundation.

Underlying and supporting the principle of individual rights is the principle of egoism, the truth that each individual should act in his self-interest and is the proper beneficiary of his own productive actions. Egoism holds that each person should pursue his life-serving values, neither sacrificing himself to others nor sacrificing others to himself, and that each should deal with others only on voluntary terms, by mutual consent to mutual advantage. Where does this principle come from? It is derived from still deeper principles—principles concerning the objective standard of moral value, and the very reason man needs values and morality in the first place.

The proper standard for determining whether an action or policy or institution is good or bad, right or wrong, is the factual requirements of the individual’s life. Why? Because people are individuals—each with his own mind, his own body, his own life—and because the only reason individuals need values or moral guidance is in order to live. If a person doesn’t want to live, he doesn’t need values or guidance at all; he can simply stop acting and he will soon die. Only a person’s choice to live makes values possible (to him) and necessary (for him). He can’t pursue values unless he’s alive, and he doesn’t need to pursue values unless he wants to live. Objective morality is derived from—indeed, is an expression of—the factual requirements of the individual’s life.

There is a great deal more to the moral and philosophic hierarchy undergirding rights, but the foregoing is an indication of the kinds of observations and principles involved. (For elaboration, see Ayn Rand’s *The Virtue of Selfishness* or my book *Loving Life*.)

Why is this moral foundation the only one capable of supporting liberty? A peek at alternative codes provides an indication:

Altruism holds that we have a “constant duty”—an unchosen obligation—“to live for others,” says Auguste Comte; that we must be “servants of Humanity, whose we are entirely,” and, therefore, that we must “eliminate

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Liberty Is Best Defended by Means of Multiple Moral Dimensions

MAX BORDERS



Ultimately, there are only two forces in this world that matter: power and persuasion. Those who love liberty shun power.

But to be persuasive, you have to be capable of guiding people down different paths. To increase the odds of bringing people into our orbit, we should learn to think along multiple moral dimensions in support of a free society. In other words, if we're going to be freer, we have to learn to *speak in a variety of moral languages*. Why? Because people operate in those moral languages—even freedom lovers.

Indeed, if we were to rely on a single moral foundation—say, rational egoism—we would be vulnerable. To see why, let's examine Craig Biddle's objectivist position.

PREMISE ONE: *Initiating force is wrong because it stops someone from acting on his rational judgment, the basic means of sustaining (and furthering) his life.*

This premise can be true at times, but it is susceptible to attack as a generalized ethic. For example, few take seriously the notion that a 20-percent tax on Warren Buffett's income deprives Buffett of the means to sustain his life. If it takes \$30,000 per year to sustain his life, then Buffett has a million times more money than he needs. Premise one, therefore, may actually provide justification for the statist to take Buffett's wealth. I don't think we want that.

Now, if we argued that taxing Buffett diverts capital that's actually lifting people out of poverty, we'd fall outside the scope of rational egoism.

PREMISE TWO: *Egoism holds that each individual should pursue his own life-serving values, neither sacrificing himself to others nor sacrificing others to himself.*

Suppose there is something about Buffett's happiness or life-serving values connected to his many assets. One might argue that taking a portion of Buffett's wealth deprives him of such, and that an egoist ethic gives primacy to his happiness. There is an important insight here, but is it strong enough to function on its own?

Even if we suppose that rational egoism justifies the connection between happiness and wealth, we'd have to

show that taxing Buffett made him less happy, and that such a consideration was more important than some competing value—for example, keeping certain people out of desperate poverty. Remember: All of this is about *persuading others*. So even if readers of this publication think personal happiness for billionaires is more important than poverty alleviation, a lot of people don't.

PREMISE THREE: *A related and even more widely accepted moral code, altruism, holds that the standard of morality is self-sacrificial service to others.*

Now, there are a number of alternative moral considerations that will be competing with rational egoism, and these moral systems will be wired deep within people. Altruism competes among them. Should defending liberty leave these off the table?

What's more, Craig does not distinguish between ethics and politics here. So an ethic of self-sacrifice (à la Mother Teresa and Auguste Comte) does not automatically translate into politics of forced redistribution.

Instead of accepting the objectivist's definition of altruism as a universal duty to sacrifice to others, suppose we simply acknowledge that people can have moral instincts to be concerned for the less fortunate. And, indeed, if we accepted rational egoism as the *single* moral foundation for liberty, we would not be able to defend free markets on grounds that entrepreneurship and markets are the most effective poverty fighters. The rational egoist is not comfortable with utilitarian thinking. But surely that approach is important to defending liberty.

PREMISE FOUR: *The proper standard for determining whether an action or policy or institution is good or bad, right or wrong, is the factual requirements of the individual's life.*

Factual requirements?

So egoism, an ethic that each individual should pursue his own life-serving values, is justified by the idea that people must act according to their own minds. And this justification, says Craig, has a basis in *fact*—that is, what is required for the individual to live. We've already shown

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the doctrine of rights.” “The whole notion ... must be completely put away,” Comte says.

Utilitarianism holds that “the measure of right and wrong” is “the greatest happiness of the greatest number,” according to Jeremy Bentham. Crucially, “That standard is not the agent’s own greatest happiness, but the greatest amount of happiness altogether,” writes John Stuart Mill. The individual must sacrifice his values, his goals, and possibly even his life to the more important collective happiness. Thus, the individual cannot have inalienable rights; such rights are “nonsense upon stilts,” writes Bentham.

Egalitarianism holds that we have a “duty” to establish “equality of opportunity” for all members of society and that “it is incorrect that individuals with greater natural endowments and the superior character that has made their development possible have a right to a cooperative scheme [i.e., a legal system] that enables them to obtain even further benefits in ways that do not contribute to the advantages of others,” writes John Rawls. Consequently, “no basic liberty is absolute”—not even “freedom of thought and liberty of conscience, or political liberty and the guarantees of the rule of law, is absolute,” he says. Individuals do not have “the right to own certain kinds of property (e.g., means of production) and freedom of contract as understood by the doctrine of laissez-faire.”

Judaism, Christianity, and Islam oppose rights, too. Both the Bible and the Koran condone slavery and call for the murder of unbelievers and for many other rights violations besides.

Far from undergirding liberty, all of these codes undermine liberty.

Only the morality of rational egoism supports the principle of individual rights. If we want to defend liberty on solid moral ground, we have to know what that ground is, we have to advocate it, we have to refer to it, and we have to encourage others to do the same. **FEE**

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that not all initiation of force (taxing Buffett) deprives people of their means of living in any profound sense.

But as importantly, the reason people need moral values at all is not *merely* to live. We need moral values in order to live *with each other*. Most people want to live in peace. Assuming a conversation with those who want peaceful coexistence, we need to be able to discuss all sorts of different moral frameworks that operate, at least, to minimize conflict.

For this, a single moral foundation is not enough.

And that is the basis of my rather different ideas about what it means to live free. No—not basis—but rather a “constellation of beliefs.” As we float out in the moral universe with each other, often moving in different directions, we must do our best not to collide. And that requires understanding people with different perspectives.

If we’re going to gain and preserve a free society, we’d better be prepared to speak in a variety of moral languages: utilitarian, Aristotelian, rights talk, and so on. Why? Because people begin at different starting points.

The main problem with any attempt at grounding some political philosophy on a single foundation is that said foundation becomes an easier target: *Do away with that spindly column and the whole edifice comes down*. If you have a constellation, it can cohere.

Such is not to argue that we can’t take issue with other moral languages. It is rather to acknowledge that they’re out there—and they motivate people. Put another way: Assume we all think freedom is good—that is, we personally value it, and we’ve joined together in a community. Will that community hang together as well if we make membership contingent on everyone embracing a single foundational belief?

That we’re all reading this publication demonstrates my point. To widen and deepen our community, we’d better learn to justify liberty across a number of values—and integrate them. One person’s axiom can be another’s antagonism. If we’re going to convince others that freedom is the goal, we must convince them that freedom makes room for different values.

If we don’t, power may prevail. **FEE**

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Hayek: The Knowledge Problem

We must stand humble before complexity and order without planning

JEFFREY A. TUCKER

F.A. Hayek is an epic figure in the history of human freedom. He stood for liberty at a time when most intellectuals in the world embraced ideologies of command and control. His literary legacy continues to provide some of the most powerful arguments ever made for the depoliticization of the social order, including its commercial life.

But, in my personal experience, he can also be one of the most difficult thinkers to grasp.

After F.A. Hayek died in 1992, for example, a magazine commissioned me to do a final tribute to his life and work, summing up his main contributions. It was supposed to be for a popular audience. There's nothing like such a writing assignment to reveal how much you actually know — or do not know — about a subject.

I thought it was going to be a snap. I covered his biography and politics just fine; I mentioned his business-cycle studies and his work on capital theory. But of course his main contribution to the world of social science is summed up in the phrase “the knowledge problem.” Even though I read most of his major works, and read his seminal articles on the problem of knowledge, I was stunned to find myself with writer's block.

What I came to realize is that I didn't understand, much less appreciate, his writing on this topic. So I covered the basics (the knowledge needed to run the social order is distributed in individual minds and inaccessible to planners), but my heart wasn't in it. That's where matters stood for me for about 20 years.

I tried to make an effort to get how it was that Hayek was able to write vast literature on this one subject, why his seminal article “The Use of Knowledge in Society” was the most cited article in the second half of the twentieth century, why innumerable dissertations have been written on Hayek's insight, and why he has influenced countless scholars in so many disciplines for so long.

Part of the problem is that Hayek did not always write with his logic and conclusions on his sleeve. His rhetorical style is not so much hortatory or doctrinaire as it is searching and exploratory. You get the sense that he is thinking through an issue as he writes, struggling to find the right combination of words, the right phrasing, the right examples, to capture his insight — which always seems to be unfolding in real time rather than stated like a final product for consumption.

For someone who is looking for final answers and pure theory, this type of writing can be frustrating. There was the additional problem that Hayek can just be downright annoying in places, contradicting himself by endorsing political programs at odds with his own theory. He also has a habit of backing away from the hardest conclusions of his own narrative. If you seek a clear definition of ideas like freedom or property rights in Hayek's work, you will come away disappointed. He often seemed so consumed by the complexity of the world that he shied away from clarity for fear that he had missed something. For readers looking for ironclad deductions and arguments, his approach can give the impression of being an elaborate display of obscurantism.

In order to understand Hayek and to learn from him, you have to be prepared to think alongside him as he writes. His work presumes an open mind that is ready to think about complex topics, most often from the inside out. He is asking and seeking to answer a set of questions completely different from what most people are even willing to consider. Most readers are not prepared to consider them. This is a point it took me many years to understand.

What changed for me? I needed a visual application of the knowledge problem, something that connected the theory with reality. This happened to me at a bar atop one of the highest spots in São Paulo, Brazil, a spot where

you could make a complete turn and see the lights of the city as far as you looked. It was a world without end, in all directions.

I was overwhelmed at its utter incomprehensibility. It was too much for my mind because it is too much for any mind. The revelation hit me like a truck: This is an order that no one can possibly comprehend in either its totality or its parts, and, as such, is an order that no one can possibly control. It cannot be built by anyone in particular; it is built only by an extended and hyper-complex process that is driven by individual minds and that takes many generations to unfold.

It can only be harmed by those who would presume to control it — and the bureaucrats and politicians in this city surely do. The regulators can pass regulations. The planners can order buildings built and torn down. They can loot those who are willing to comply. But, in the end, in this city of more than 11 million people, even in the presence of overweening government, society somehow takes its own course. How this happens, and why, cries out for explanation.

“The knowledge of the circumstances of which we must make use never exists in concentrated or integrated form,” explains Hayek, “but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess.”

I came to realize, right there, that this is not just about São Paulo. It’s about any city in the world. In fact, it’s about every social setting, large or small. It’s about the whole world. Only individuals possess the knowledge that nearly all social scientists — and bureaucracies — imagine that they can, must, and do possess. Anyone who seeks to control the social order is presuming that the unanswerable questions are already answered and proceeds from that point. Hayek is digging deeper to observe that we cannot possibly know what we must know if we seek to design, much less rule, the world. The knowledge is dispersed and, by its nature, uncollectible.

Is Hayek describing a world of disconnected chaos and

uncoordinated randomness, a nihilistic social order of swirling unpredictability? That is not the world in which we live. Why not? Because of the existence of institutions like prices, mores, habits, signaling systems of culture and learning — of knowledge that we all possess, not always consciously but mostly inchoately. They are institutions that we ourselves have not created, but they assist us in making the most of our lives.

“We make constant use of formulas, symbols, and rules whose meaning we do not understand,” writes Hayek, “and through the use of which we avail ourselves of the assistance of knowledge which individually we do not possess. We

have developed these practices and institutions by building upon habits and institutions which have proved successful in their own sphere and which have in turn become the foundation of the civilization we have built up.”

As I stood at the same bar in São Paulo looking all around me, my vision changed from macrocosm to microcosm. I observed two people standing close by. They were embracing, kissing intimately. I wondered whether this was a first date or if they had been together for many years. I had no access to that information, and nothing they did gave me the answer. They seemed to be courting each other but at what level and in what way I could not know. And yet this information was foundational to everything both of them were thinking at the time. To truly understand this relationship, I would have to know not just something but countless bits of information I could not really know.

What’s more, even this two-person society was not comprehensible to the two people themselves. Part of the spark of their relationship was the emotional dance they were engaged in right there on the spot. Their intimacy was their means of accessing, however incompletely and briefly, the true spirit of each other’s intellectual and emotional state of mind. They can come close, through every means available, but never entirely achieve that oneness for which true love strives.

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Even so, both people in this two-person society were seeking longingly and lovingly for the ideal, coordinating their actions through shared cues, language, and symbols. And in so doing, they created their own micro-order right there, as had everyone else in that bar, as has every one of the 11 million people in that city, as has every one of the 7 billion people on this planet.

We all seek some form of individuality but also a connection to others. We can create institutions to make this possible, but mostly we embed ourselves within them. The institutions emerge from within the structure of our shared experience, chosen and not imposed, and we gravitate toward those who work and eschew those who don't, in an ever-evolving process of discovery.

Let's say you set out to plan the world. "If we possess all the relevant information," writes Hayek, "if we can start out from a given system of preferences, and if we command complete knowledge of available means, the problem which remains is purely one of logic." We only need to plug in the right data into our calculus and issue orders. The problem is that this solution presumes that the unsolvable problem — gaining that information — has already been solved.

What is the significance of this revelation? It lays waste to a century — or many centuries — of intellectual pretense. The social order is built by the coordination of plans. If those plans are always individual plans, radically individuated and subjectivized, coordinated only through evolved institutions created by no one in particular, the dreams of every would-be master of the universe come crashing down.

The most obvious conclusion is also the most powerful one from a political point of view. The source of order is not the government, even though people continue to believe that despite all evidence. The bureaucratic class and the politicians who empower that class are no more or less smart than you and I are. They are just people with no special insight. Because of government's legal right to plunder, the government is corrupt and exploitative. It takes stuff from people. That's about the whole of it. It is not the source of anyone's order.

What then is the source of social order? It is our individual minds, however imperfect they may be in making judgments about our world. Freedom is the only real option there is. Anything else is based on a lie — a

"pretense of knowledge," as Hayek would say. Anything that subverts that freedom, which means any State at all, amounts to an attack on the very source of social order.

"If we can agree that the economic problem of society is mainly one of rapid adaptation to changes in the particular circumstances of time and place," Hayek concludes, "it would seem to follow that the ultimate decisions must be left to the people who are familiar with these circumstances, who know directly of the relevant changes and of the resources immediately available to meet them. He continues:

We cannot expect that this problem will be solved by first communicating all this knowledge to a central board which, after integrating all knowledge, issues its orders. We must solve it by some form of decentralization. But this answers only part of our problem. We need decentralization because only thus can we ensure that the knowledge of the particular circumstances of time and place will be promptly used.

I'm drawn to Hayek's use of the terms "immediately" and "promptly." With these words he introduces the ultimate enemy of all those who would control the world: the passage of time. With the existence of time comes change, and with change comes new and different knowledge. Even if it were possible somehow to gain a complete snapshot of the world with all its existing knowledge, by the time it could be used for any purpose to bend the world from its course to another, that knowledge would be outdated and hence useless. Even under the best circumstances, the planners would only be planning the past.

Here, then, is the knowledge problem. It is about more than the ability to plan an economy. It is about the whole of our lives. It is about the ability to plan and direct the course of civilization. That capacity to manage the world, even the smallest part of it, will always and everywhere elude our grasp. That's a beautiful insight, because it reveals the truth about human freedom.

Freedom is not just one way to organize society. It is the only way. **FEE**

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Still Great, Still Ignored

Hayek's "pretense of knowledge" 40 years later

DEVON DOWNES

When F.A. Hayek won the Nobel Prize in Economic Science in 1974 for his "pioneering work in the theory of money and economic fluctuations," the world was a particularly dark place for the Austrian economist. Three years earlier, Richard Nixon had scrapped the gold standard. Nixon spent his presidency instituting wage and price controls, creating new bureaucracies, and, along with Federal Reserve Chairman Arthur Burns, expanding the money supply to create an artificial boom economy (conveniently in time for Nixon's 1972 reelection bid). If Nixon's and his successors' policies suggest anything, it is the vindication of Hayek's warnings.

Hayek began his famed Nobel lecture, "The Pretence of Knowledge," by speaking frankly about the prominent economists of his day: "We have indeed at the moment little cause for pride: as a profession we have made a mess of things."

Many economists had assumed they knew what was best. Everything would be just fine if only the nations of the world would agree to central interventions by governments. Where Keynesians made prescriptions for society based on idealized aggregates, Hayek offered a plea for intellectual humility in his magnum opus, *The Constitution of Liberty*:

The case for individual freedom rests chiefly on the recognition of the inevitable ignorance of all

of us concerning a great many of the factors on which the achievement of our ends and welfare depends.... Liberty is essential to order to leave room for the unforeseeable and unpredictable; we want it because we have learned to expect from it the

opportunity of realizing our many aims. It is because every individual knows so little and, in particular, because we rarely know which of us knows best that we trust the independent and competitive efforts of many to induce the emergence of what we shall want when we see it.

Today, you would think the inherent incompetence

of government would speak for itself: from children trapped in failing schools to a health care website that still doesn't work as of this writing, the pretense of knowledge still afflicts political elites. Intellectuals are no less human than the people they seek to control. As such, they are no less fallible.

Hayek recognized that the great achievements of civilization grew "from the free efforts of millions of individuals," not from the whim of a bureaucrat's central plan. With Ludwig von Mises and Milton Friedman, he paved the way for the resurgence in classical liberal thought. Forty years later, Hayek's concerns are still relevant, and they're still being ignored. **FEE**

Devon Downes is a student at Warren County High School in Virginia. He hopes to attend a FEE seminar in 2015.

TODAY, YOU would think the inherent incompetence of government would speak for itself: from children trapped in failing schools to a health care website that still doesn't work as of this writing, the pretense of knowledge still afflicts political elites.

Bitcoin: Currency of Currencies

Might fiat currency one day be denominated in bitcoin?

STEVE PATTERSON



123dartist/Shutterstock.com

Bitcoin's creation represents a watershed moment in monetary history. For the first time, a currency combines the strengths of commodity money with the convenience of fiat money, while avoiding the problems with both. Bitcoin is a new type of currency created for a new type of world: the digital world. And as more people trust bitcoin, it has the potential to completely overturn the established financial system.

Around the globe, nearly everybody uses fiat money — paper currency not redeemable in anything. But this wasn't always the case. With few exceptions, paper emerged as a popular currency for a specific reason: It was redeemable in precious metals. Only recently has this not been the case. This concept of redeemability, when applied to bitcoin, suggests that history might repeat itself in a big way.

For the last millennium, a key storyline in the history of money has been the relationship between precious metals and paper. Gold, silver, and paper have all been used as currencies. At times, precious metals were used directly as currency; circulating coins were stamped in gold or silver. At other times, paper bills were used as currency — either redeemable in gold or silver, or not backed by anything at all.

Given enough time, all experiments with fiat paper money have ended in failure. So I want to focus on the success story: paper currency, redeemable in precious

metals, emerging as the dominant form of money. How did it happen?

The story goes like this: several centuries ago, gold and silver were the most popular currencies in the Western world. (For the sake of brevity, I will refer to “gold and silver” as just “gold” in this article.) People often stored their gold in vaults with goldsmiths to keep it safe. On depositing their gold, they would be issued a paper receipt, which they could redeem on demand — like a coat check at a fancy hotel.

So, if person A wanted to trade with person B, he could pick up his gold from a goldsmith and exchange it for whatever good or service he wanted with person B. Then, person B could take his new gold back to a goldsmith, who would issue him a new receipt. Not the smoothest process, but it worked.

As you can imagine, people found a way to streamline this system. Instead of trading physical gold, person A could simply trade his paper receipt — his claim for the gold — to person B. That way, gold ownership transferred without the hassle of lugging physical gold around. The paper receipt was essentially as good as gold.

Person B could also now avoid carrying metal around by trading his paper receipt. He might exchange it with person C, who could turn around and trade it again with person D, and so on. Physical gold didn't need to actually

circulate, unless people wanted to redeem their receipts for it. Thus, paper receipts emerged as a popular form of currency. And, as I'll argue in a moment, this system has huge implications for bitcoin.

In theory, under this system, the total supply of paper currency was limited by the amount of gold stored in vaults. But in practice, the goldsmiths would sometimes create fake receipts, not backed by anything; it's called "fractional-reserve lending," and it's a topic for another time. The important part is this: The monetary system relied on trust placed in goldsmiths. You had to believe that the paper receipts were tied to something concrete — that they weren't just created out of thin air.

Under this system, paper currency is valuable because it represents a claim to a finite amount of gold. If the supply of currency becomes unlimited, detached from the finite supply of gold, that currency eventually becomes worthless. The paper is no longer as good as gold; it's only as good as paper, which isn't very good at all. Unfortunately, this process of currency devaluation has happened dozens of times throughout history.

Governments have also denominated their currencies in relation to precious metals. For example, during half of the twentieth century, one U.S. dollar could officially be redeemed for 1/35 ounce of gold. But, due to political mischief, the United States canceled its policy of redeemability during the 1970s, and the dollar has been a fiat currency ever since.

What does this have to do with bitcoin? Here's my theory: The same phenomenon that happened with gold and paper can happen again with bitcoin and paper. The redeemability of bitcoin will give it incredible use as a currency. It's more convenient to use than paper — just as paper is more convenient to use than gold — but unlike paper, it is inflation-proof.

If that sounds like a bunch of abstract mumbo jumbo, here it is in more concrete terms: Right now, people across the world are accepting bitcoin through payment processors like Bitpay, and they immediately convert their bitcoin into local currency. They might sell a product for one BTC, but they instantly redeem that bitcoin for, say, dollars, euros, or yen. It's this process that I imagine will change in the future, with huge implications.

Naturally, people are redeeming their bitcoin right now because they're unsure; it's a new type of currency, and they don't want to get stuck holding something worthless.

But what happens when the fear and uncertainty around bitcoin diminish? If you know you can immediately redeem your bitcoin safely, the incentive to actually do so lessens. It's like holding a goldsmith's receipt. Yes, you can go to the vault and get your gold, but it's an unnecessary hassle when you could just hold on to the receipt instead.

Bitcoin is easier to transact than paper; you can send it anywhere on the planet. Plus, it is protected from counterfeiting, unlike paper money. And nobody has to worry about fractional-reserve bitcoin receipts — every bitcoin is publicly viewable by visiting the corresponding address on the blockchain. And, you, not a goldsmith, have final access to your bitcoin if you hold the keys. With all of these advantages, the incentive to redeem your bitcoin shrinks.

Here's where it gets really exciting. If bitcoin is held as this sort of meta-currency, one feature cannot be overstated: It is inflation-proof. Paper is way more convenient than gold, but it has a catastrophic Achilles' heel: It can be printed out of thin air. Bitcoin is way more convenient than paper, and *we don't have to worry about its inflation*. It merges superportability with supersecurity. Historically speaking, no currency has ever existed with both of these properties.

And this convenience says nothing about the technical potential for bitcoin. Keep in mind, bitcoin is software, and it can evolve even greater properties in the future. You can't say that about gold.

Just as paper emerged on the back of gold, bitcoin might emerge on the back of paper. If redeeming bitcoin for local currency becomes superfluous, the monetary world might be turned on its head. Instead of denominating bitcoin in fiat currency, fiat currency might end up being denominated in bitcoin. After all, it was the connection with precious metals that protected paper currency from inflation and gave it significant appeal. And it could be argued that bitcoin has an even more strictly limited supply than precious metals do.

It might sound idealistic, but bitcoin could represent the beginning of a new financial world built on a solid, digital, noninflationary foundation. As with the emergence of gold, silver, and paper as money, the market will ultimately decide which currency is best. **FEE**

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The Dawn of the Surveillance State

America has been spying on its citizens for a hundred years

GARY MCGATH



Wikimedia.org

We think of mass surveillance as a product of modern technology—applying computing power to scoop up communications and metadata in bulk. But large-scale spying on Americans got its real start in 1917, when the United States entered World War I. The government wanted to build up an apparatus to crush all criticism.

In his 1917 Flag Day speech, President Woodrow Wilson claimed that Germany had “filled our unsuspecting communities with vicious spies and conspirators and sought to corrupt the opinion of our people in their own behalf.” He warned, “Woe be to the man or group of men that seeks to stand in our way in this day of high resolution.” The next day, Congress gave teeth to his warning with the Espionage Act, which criminalized opposition to the war. In 1918, the Sedition Act made prohibitions on dissent even broader.

The apparatus for searching out people with supposedly disloyal tendencies was already in place. The Council of National Defense, created in 1916, had begun urging the states to create their own Councils of Defense. Some of them paid close attention to everything people were saying and promoted persecution of anything sounding disloyal or foreign. In Iowa, elderly women were jailed for speaking German over the telephone, and a pastor was imprisoned for giving part of a funeral service in Swedish.

In Oklahoma, Governor Robert L. Williams formed an extralegal state Council of Defense, which in turn created an Oklahoma Loyalty Bureau, employing secret service agents to find sedition in communities. The Tulsa County Council of Defense formed a secret organization to look for dissidents.

The Bureau of Investigation (later called the FBI) got into the act, creating the American Protective League

(APL)—a private, quasi-official espionage organization. The APL boasted that it was “organized with approval and operating under the direction of the United States Department of Justice, Bureau of Investigation.” Because it was nominally private, the government didn’t have to take responsibility for its actions. Its 1,200 branches put local public schools under surveillance, checked on people who didn’t buy war bonds, and investigated Lutheran clergymen who didn’t express public support for the war. APL members detained over 40,000 people, opened mail, and raided factories, union halls, and private homes.

The federal government did its own share of outrageous searches and seizures. A 1918 pamphlet, “War-time Prosecutions and Mob Violence,” by the National Civil Liberties Bureau cites numerous raids, with vast amounts of printed materials confiscated, from September 1917 onward. The International Workers of the World (IWW) and the International Bible Students’ Association—a branch of what’s now known as the Jehovah’s Witnesses—were targeted repeatedly.

The Feds also took control of all radio stations when the United States joined the war. Amateur radio was shut down, along with many commercial stations. In 1918 the federal government nationalized telephone and telegraph service, an act that Postmaster General Albert S. Bursleson declared necessary “to prevent communication by spies and other public enemies.”

Most of the surveillance apparatus was dismantled after the war was over, and communications returned to private hands. However, the Sedition Act, which made it all possible, still remains on the books, though in a more limited form. In 1971, it was used to indict Daniel Ellsberg for leaking the Pentagon Papers, which showed that the government had been systematically misleading the public about the Vietnam War. In 2013, it was the basis for bringing charges against Edward Snowden.

And even if most of the organizations created during this wave of hysteria are now defunct, as historian Lon Strauss

has written, we can “see the foundation that influenced subsequent decisions.... There’s a direct connection with the type of surveillance state that produced the NSA; that foundation was created in the First World War.”

Mass surveillance might be grabbing headlines, but unfortunately, it’s nothing new. **FEE**

Gary McGath is a freelance software engineer living in Nashua, New Hampshire.

In Retrospect

Kevin Heaton

Song harvests slow churned the breeze
with a thousand cattle calls. Prairie dog’s
jump-yip was a flee tune too late
for nighthawk’s come hither.

I too have mistaken my share of calculated
moves. But it’s been a bison’s age since
I thrashed out a wallow.

Passing it all by a candle led me to a brighter
light—forty years of home fires singed
the aints from off my mind. Today, a junebug
out-jogged me and I didn’t care. I took my ice
cream by the hearth.

Kevin Heaton (kevinspoetrysite@gmail.com) is the author of six chapbooks of poetry and his poems have appeared in a variety of periodicals, including Beloit Poetry Journal, Guernica, and Raleigh Review.

Ends, Means, and Leonard Read

An old dictum has done a lot of damage throughout history

GARY M. GALLES

Many of the most monstrous deeds in human history have been perpetrated in the name of doing good—in pursuit of some “noble” goal.

– Leonard Read

“The end justifies the means” has a long legacy. In 400 BC, in his famous *Electra*, Sophocles wrote, “The end excuses any evil.” Fast-forward 400 years, and Ovid, in *Heroides*, wrote, “the result justifies the deed.” And perhaps most famously, Machiavelli echoed this idea in his sixteenth-century book *The Prince*.

You can hear echoes of this sentiment in American popular culture, from former Oakland Raiders owner Al Davis’s motto, “Just win, baby,” to Charlie Sheen’s philosophy of “winning.”

But do the ends *really* justify the means?

Those who believe so have rampaged through human history—particularly when they have exercised real political power. This belief has motivated all manner of tyrants and would-be social reformers, who have treated those living under their power as mere means. Immanuel Kant set out history’s most famous answer to *exitus acta probat*. But no one has offered a better, modern rebuttal to this view than FEE founder Leonard Read.

Time and again, Read returned to the idea that each person has sovereignty over himself—the power to choose, which is indispensable to that ultimate human end: one’s own happiness and flourishing. Read constantly emphasized the importance of individual growth, emergence, or personal blooming. And he reminded us that you are not free to the extent others control you. Your

potential to create moral improvements is stunted by those who would use you to create their version of Utopia.

Read’s approach reflects a widely ignored aspect of this ends-means issue: Individuals and their development are *both* ultimate ends in themselves, and yet their services can be the means to others’ ends. This is the essence of voluntary cooperation. As a consequence, rather than framing policy as a question of ends versus means, the principle must be that no use of individuals as means to others’ ends can violate their potential for growth as the ultimate ends of society.

As Leonard Read wrote, when “the emergence of the individual ... [is] our objective,” rather than pigeonholing people into some designed or utopian social structure, then “the means ... must be radically different.”

When our ultimate end is the greatest development

of individuals’ human potential, then any means that undermines that development is inconsistent with society’s only purpose, which is to ensure life, liberty, and the pursuit of happiness. Otherwise, whenever violent aggression is used as an instrument of social design or control, all that human potential becomes diminished by degree.

One of Read’s powerful illustrations of his view was the redistributive State, grown gargantuan. The general view is that it benefits recipients, ennobles those who design and enact the transfers, and doesn’t “really” harm those

T H E H A R M
imposed on those involuntarily taken from is not negated by a mere slogan with no clear meaning except that others want more of your resources for their purposes.



from whom it takes, because they are just paying their “fair share” to society. But the coercive process degrades everyone involved.

The harm imposed on those involuntarily taken from is not negated by a mere slogan with no clear meaning except that others want more of your resources for their purposes. Coercive funding deprives individuals of power over their honestly acquired income, derived from their self-ownership, based on others’ envy. As importantly, it pre-empts the growth that occurs as individuals engage in acts of kindness and charity.

Recipients of State transfers live on confiscated resources. And they are enticed to become non-producers wholly dependent on others for their survival. Their moral, intellectual, and social maturation gets short-circuited. Self-responsibility withers and sometimes dies. Integrity and the virtues it makes possible are put at grave risk. As Leonard Read wrote, “Unless an individual is self-controlling, his life is not truly his own.”

Along the way, those who direct the process increasingly become dictators over others’ actions, which sets up the moral corrosion and corruption that having power ultimately gives rise to. As Lord Acton reminded us, such power corrupts. No one ever became better because he or she acquired more power over others.

Another illustration is the Ralph Waldo Emerson quote Read cited more often than any other in his books: “Cause and effect, means and ends, seed and fruit, cannot be severed; for the effect already blooms in the cause, the end pre-exists in the means, the fruit in the seed.”

Recognizing individuals as ends in themselves and as potential collaborators means that no social goal justifies treating people as cogs in some political apparatus. When the individual “is assigned that niche or role which the political priests believe will best serve whatever societal pattern they have formulated,” damage to the core of an individual’s humanity is assured.

“However lofty the goals, if the means be depraved, the result must reflect that depravity,” Read wrote.

He argued that when individuals and their development are recognized as the ends that matter, the morality of the consequences actually generated by policies and programs—as opposed to the imagined utopian results—is implied in the means employed. “Examine carefully the means employed,” he wrote, “judging them in terms of right and wrong, and the end will take care of itself.” **FEE**

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Ludd vs. Schumpeter

Fear of robot labor is fear of the free market

WENDY MCELROY

“**R**eport Suggests Nearly Half of U.S. Jobs Are Vulnerable to Computerization,” screams a headline. The cry of “robots are coming to take our jobs!” is ringing across North America. But the concern reveals nothing so much as a fear—and misunderstanding—of the free market.

In the short term, robotics will cause some job dislocation; in the long term, labor patterns will simply shift. The use of robotics to increase productivity while decreasing costs works in basically the same way as past technological advances, like the production line, have worked. Those advances improved the quality of life of billions of people and created new forms of employment that were unimaginable at the time.

Given that reality, the cry that should be heard is, “Beware of monopolies controlling technology through restrictive patents or other government-granted privilege.”

The robots are coming!

Actually, they are here already. Technological advance is an inherent aspect of a free market in which innovators seek to produce more value at a lower cost. Entrepreneurs want a market edge. Computerization, industrial control systems, and robotics have become an integral part of that quest. Many manual jobs, such as factory-line assembly, have been phased out and replaced by others, such as jobs related to technology, the Internet, and games. For a number of reasons, however, robots are poised to become villains of unemployment. Two reasons come to mind:

1. Robots are now highly developed and less expensive. Such traits make them an increasingly popular option. The *Banque de Luxembourg News* offered a snapshot:

The currently-estimated average unit cost of around \$50,000 should certainly decrease further with the arrival of “low-cost” robots on the market. This is particularly the case for “Baxter,” the humanoid robot with evolving artificial intelligence from the

U.S. company Rethink Robotics, or “Universal 5” from the Danish company Universal Robots, priced at just \$22,000 and \$34,000, respectively.

Better, faster, and cheaper are the bases of increased productivity.

2. Robots will be interacting more directly with the general public. The fast-food industry is a good example. People may be accustomed to ATMs, but a robotic kiosk that asks, “Do you want fries with that?” will occasion widespread public comment, albeit temporarily.

Comment from displaced fast-food restaurant workers may not be so transient. *NBC News* recently described a strike by workers in an estimated 150 cities. The workers’ main demand was a \$15 minimum wage, but they also called for better working conditions. The protesters, ironically, are speeding up their own unemployment by making themselves expensive and difficult to manage.

Labor costs

Compared to humans, robots are cheaper to employ—partly for natural reasons and partly because of government intervention.

Among the natural costs are training, safety needs, overtime, and personnel problems such as hiring, firing, and on-the-job theft. Now, according to *Singularity Hub*, robots can also be more productive in certain roles. They “can make a burger in 10 seconds (360/hr). Fast yes, but also superior quality. Because the restaurant is free to spend its savings on better ingredients, it can make gourmet burgers at fast food prices.”

Government-imposed costs include minimum-wage laws and mandated benefits, as well as discrimination, liability, and other employment lawsuits. The employment advisory *Workforce* explained, “Defending a case through discovery and a ruling on a motion for summary judgment can cost an employer between \$75,000 and \$125,000. If an employer loses the motion for summary judgment—which,

much more often than not, is the case—the employer can expect to spend a total of \$175,000 to \$250,000 to take a case to a jury verdict at trial.”

At some point, human labor will make sense only to restaurants that wish to preserve the “personal touch” or to fill a niche.

The underlying message of robotophobia

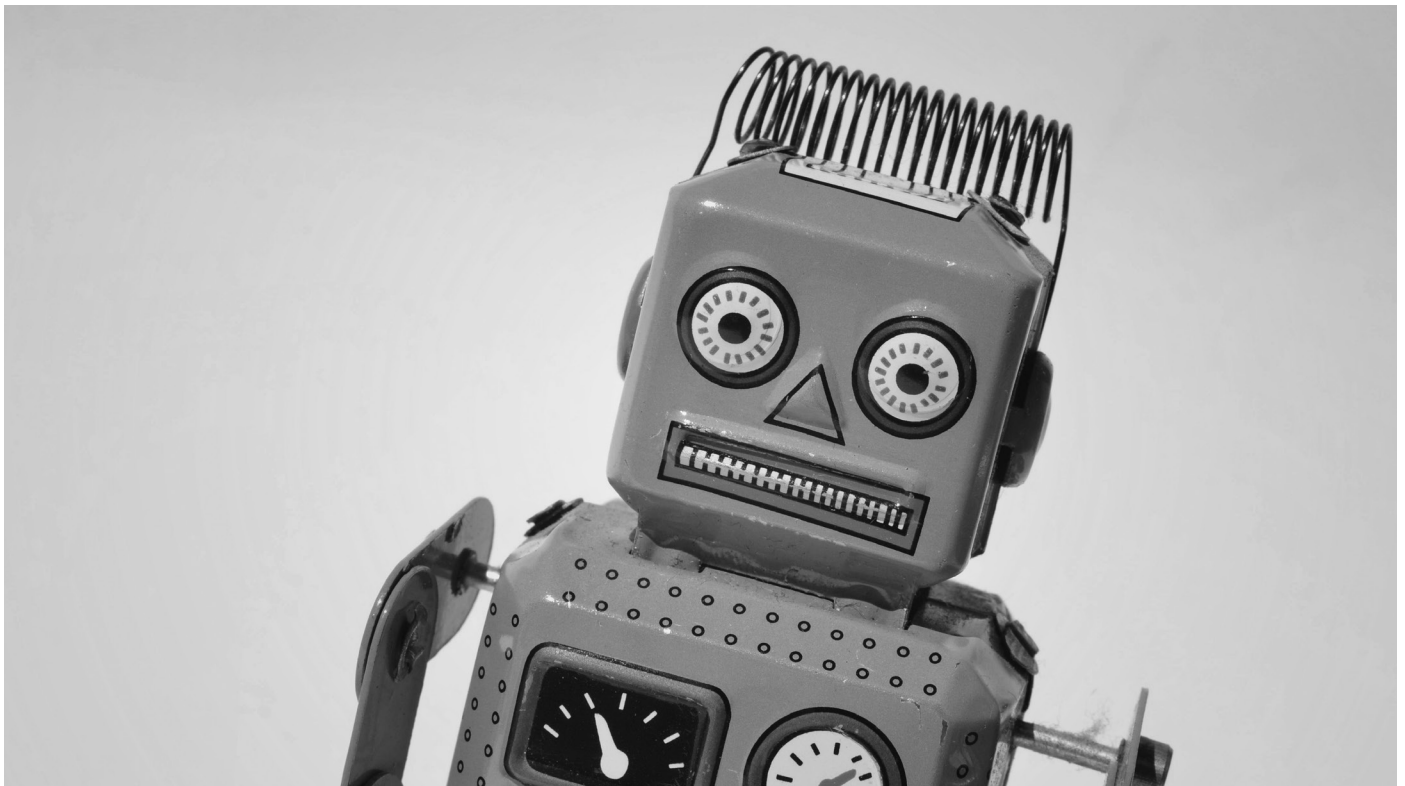
The tech site *Motherboard* aptly commented, “The coming age of robot workers chiefly reflects a tension that’s been around since the first common lands were enclosed by landowners who declared them private property: that between labour and the owners of capital. The future of labour in the robot age has everything to do with capitalism.”

Ironically, *Motherboard* points to one critic of capitalism who defended technological advances in production: none other than Karl Marx. He called machines “fixed capital.” The defense occurs in a segment called “The Fragment on Machines” in the unfinished but published manuscript *Grundrisse der Kritik der Politischen Ökonomie (Outlines of the Critique of Political Economy)*.

Marx believed the “variable capital” (workers) dislocated by machines would be freed from the exploitation of their “surplus labor,” the difference between their wages and the selling price of a product, which the capitalist pockets as profit. Machines would benefit “emancipated labour” because capitalists would “employ people upon something not directly and immediately productive, e.g. in the erection of machinery.” The relationship change would revolutionize society and hasten the end of capitalism itself.

Never mind that the idea of “surplus labor” is intellectually bankrupt; technology ended up strengthening capitalism. But Marx was right about one thing: Many workers have been emancipated from soul-deadening, repetitive labor. Many who feared technology did so because they viewed society as static. The free market is the opposite. It is a dynamic, quick-response ecosystem of value. Internet pioneer Vint Cerf argues, “Historically, technology has created more jobs than it destroys and there is no reason to think otherwise in this case.”

Forbes pointed out that U.S. unemployment rates have



changed little over the past 120 years (1890 to 2014) despite massive advances in workplace technology:

There have been three major spikes in unemployment, all caused by financiers, not by engineers: the railroad and bank failures of the Panic of 1893, the bank failures of the Great Depression, and finally the Great Recession of our era, also stemming from bank failures. And each time, once the bankers and policymakers got their houses in order, businesses, engineers, and entrepreneurs restored growth and employment.

The drive to make society static is a powerful obstacle to that restored employment. How does society become static? A key word in the answer is “monopoly.” But we should not equivocate on two forms of monopoly.

A monopoly established by aggressive innovation and excellence will dominate only as long as it produces better or less expensive goods than others can. Monopolies created by crony capitalism are entrenched expressions of privilege that serve elite interests. Crony capitalism is the economic arrangement by which business success depends upon having a close relationship with government, including legal privileges.

Restrictive patents are a basic building block of crony capitalism because they grant a business the “right” to exclude competition. Many libertarians deny the legitimacy of *any* patents. The nineteenth century classical liberal Eugen von Böhm-Bawerk rejected patents on classically Austrian grounds. He called them “legally compulsive relationships of patronage which are based on a vendor’s exclusive right of sale”: in short, a government-granted privilege that violated every man’s right to compete freely. Modern critics of patents include the Austrian economist Murray Rothbard and intellectual property attorney Stephan Kinsella.

Pharmaceuticals and technology are particularly patent-hungry. The extent of the hunger can be gauged by how much money companies spend to protect their intellectual property rights. In 2011, Apple and Google reportedly spent more on patent lawsuits and purchases than on research and development. A *New York Times* article addressed the costs imposed on tech companies by “patent

trolls”—people who do not produce or supply services based on patents they own but use them only to collect licensing fees and legal settlements. “Litigation costs in the United States related to patent assertion entities [trolls],” the article claimed, “totaled nearly \$30 billion in 2011, more than four times the costs in 2005.” These costs and associated ones, like patent infringement insurance, harm a society’s productivity by creating stasis and preventing competition.

Dean Baker, co-director of the progressive Center for Economic Policy Research, described the difference between robots produced on the marketplace and robots produced by monopoly. Private producers “won’t directly get rich” because “robots will presumably be relatively cheap to make. After all, we can have robots make them. If the owners of robots get really rich it will be because the government has given them patent monopolies so that they can collect lots of money from anyone who wants to buy or build a robot.” The monopoly “tax” will be passed on to impoverish both consumers and employees.

Conclusion

Ultimately, we should return again to the wisdom of Joseph Schumpeter, who reminds us that technological progress, while it can change the patterns of production, tends to free up resources for new uses, making life better over the long term. In other words, the displacement of workers by robots is just creative destruction in action. Just as the car starter replaced the buggy whip, the robot might replace the burger-flipper. Perhaps the burger-flipper will migrate to a new profession, such as caring for an elderly person or cleaning homes for busy professionals. But there are always new ways to create value.

An increased use of robots will cause labor dislocation, which will be painful for many workers in the near term. But if market forces are allowed to function, the dislocation will be temporary. And if history is a guide, the replacement jobs will require skills that better express what it means to be human: communication, problem-solving, creation, and caregiving. **FEE**

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Entrepreneurs Make Science Work

Getting breakthroughs out of the laboratory

MATTHEW MCCAFFREY



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Science doesn't necessarily mean progress until it moves out of the lab and into the market.

Consider graphene: This major scientific breakthrough was discovered by Andre Geim and Konstantin Novoselov. They were awarded the Nobel Prize in Physics in 2010 for their work on the substance. Graphene is a layer of pure carbon just one atom in diameter, making it the thinnest existing material — it's essentially two-dimensional. And it's remarkable in other ways, as well: It's the lightest known substance, the strongest compound, the best conductor of heat at room temperature, and the best conductor of electricity. Because of these special properties, graphene, along with similar materials, is being touted as the Next Big Thing in science — and maybe in business, too.

Since the initial results were produced, research to commercialize graphene has taken off in a big way. For

instance, the University of Manchester announced it will be devoting £60 million to develop applications of the technology, and other universities and firms are following suit with similar ventures.

The story of graphene is a useful heuristic for scientific achievements in general, because when it comes to human progress, people tend to overlook one enormously important point: Scientific discoveries and technological advances do not *in and of themselves* improve the welfare of humankind.

For science to improve our lives, it has to be part of them first. A scientific breakthrough in a laboratory, however technologically revolutionary, does not immediately benefit most people. In fact, the majority of scientific results are simply consumption goods for researchers and the institutions they work for. Universities and other publicly funded organizations, operating outside of

most market forces, don't usually produce lasting value in the marketplace. It's only when entrepreneurs spread breakthroughs through the market that they begin to change lives for the better.

The role of markets can't be emphasized enough, because it's the profit-and-loss system that reveals the ultimate worth of an invention. It's unlikely that the average consumer will see any real benefit from the vast majority of publicly funded research — and that's one reason to be suspicious of the incessant calls from the scientific community for more subsidies. Still, is more research really a bad thing? Don't public organizations get it right sometimes?

The Internet is usually held up as a classic case of government research that greatly benefited humanity, proving that public organizations can produce path-breaking innovations just as market innovators do. But economists point out that the Internet wasn't actually very useful until the market brought it to consumers. GPS navigation was another government science project that's now a part of everyday life only because it was eventually commercialized. And so it goes with all manner of inventions and innovations: Until entrepreneurs find ways to bring them into our daily lives, even the best ideas languish in obscurity.

Yes, public science sometimes turns out to be valuable to consumers — even a stopped clock is right twice a day. But science outside the sphere of entrepreneurial calculation lacks any direction in its search for lasting value, whereas inside the nexus of calculation, profit and loss push ceaselessly toward consumer satisfaction. Without the threat of loss, there is little reason for researchers to produce results with serious practical value. Entrepreneurs, on the

other hand, don't just have an incentive to spread useful science throughout society; in many ways, their livelihoods depend on it.

Government interference in the market, however, puts hard limits on what science can do for humanity. Take medical research as an example. If the regulatory cost of drug development is so high that some valuable research becomes impossible (it is), or if intellectual property laws prevent drugs from going to market at realistic prices (they do), then science as such can do little to help anyone.

IF THE REGULATORY cost of drug development is so high that some valuable research becomes impossible (it is), or if intellectual property laws prevent drugs from going to market at realistic prices (they do), then science as such can do little to help anyone.

But entrepreneurial competition can increase the quality and quantity of drugs, lower the price, and ensure they get to the consumers who need them most urgently.

In other words, if we are going to be serious about scientific progress, we have to realize it goes hand in hand with *entrepreneurial progress*. When barriers to entry are eliminated and individual sovereignty rules the market, entrepreneurs

can increase welfare using whatever scientific means are at hand. What's more, their success in turn encourages the production of more and better research.

Our task is to do what we can to help entrepreneurs work with the top minds of science for the benefit of all. A good start would be to eliminate regulatory requirements that drive up the cost of research and development, along with the intellectual property laws that prevent competition in ideas. Once the barriers between research and enterprise have been broken down, we can use markets to get the best of both worlds. **FEE**

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Wages and the Free Market

Innovation is the lifeblood of a healthy economy

SANDY IKEDA



If you have a superficial understanding of modern economics, the following argument sounds plausible: *In the free market, employers have an incentive to lower costs by driving wages down, which is bad for workers. Since driving down wages is what efficiency*

requires, it follows that efficiency is bad for workers.

The argument dates back at least to Karl Marx. It's wrong but it continues to have appeal because, like many of Marx's arguments, it contains a half-truth: Given the choice between paying a worker \$12 or \$11 an hour, other things equal, an employer would usually rather pay \$11. I think it's a useful exercise to think through why it's wrong.

Problem No. 1

One of the things the argument doesn't address is why or even whether a person would accept \$11 an hour to work. We need to ask what a worker would be giving up by accepting \$11. If something else is more valuable to her than \$11 an hour, then she won't accept that wage. What could that something else be?

Well, it could be that her leisure is worth more to her than \$11. Or perhaps another employer is willing to pay her more than \$11. Let's focus on the latter.

Just as there is competition among sellers of a product—say, cellphones—to underbid one another and among buyers to outbid one another, there is competition in the labor market among workers (on the supply side) to underbid one another to be hired and among

employers (on the demand side) to outbid one another to hire workers. And, as in the cellphone market, in the labor market sometimes it's a buyer's (hirer's) market and sometimes it's a seller's (worker's) market. So the question is whether there are forces in a free market that would persistently create a hirer's market in labor.

Here's where the argument against free markets sometimes gets more sophisticated.

But isn't efficiency still bad for workers?

That argument says that if efficiency enables firms to use less labor and other production inputs, workers let

go by one firm because of increased efficiency must try to find employment elsewhere. But if all firms in the economy are becoming more efficient and letting workers go, where are those other jobs going to be? So because efficiency is always increasing the supply of

IF ALL FIRMS IN the economy are becoming more efficient and letting workers go, where are they going to find jobs?

labor, wages will just keep falling.

Let's address this argument in two parts.

First, note that the competition in the cellphone market that is making firms more efficient is also making them lower the price of their cellphones ever closer to the lower costs of production. That means people who buy cellphones—including cellphone workers—don't have to spend as much of their incomes to buy cellphones. It's the same for the other things they want to buy. In other words, it's important to distinguish wages denominated in terms of money (nominal wages) from the goods and services those wages will actually buy (real wages). Other things equal, lower prices for consumer goods will increase real wages.

Second, note that the argument assumes that the demand for labor is not rising. But if the demand for labor is rising while the supply is also rising, nominal wages won't be affected as strongly. In fact, if the demand for labor rises faster than the supply, real wages will actually rise even if the average prices of consumer goods stay the same. And if average consumer goods prices are actually falling, so that you can buy more with a dollar than before, then real wages would rise even faster.

**EFFICIENCY IS
actually the wrong measure of a
dynamic market's success.**

Why would the demand for labor rise?

There are different reasons that the demand for labor would rise, but for now I'll focus on gains in productivity. By *productivity* I mean how much the output of a business will increase when you add another worker to it. Say I'm currently hiring 20 people in my carwash who can together wash 400 cars a day. If by hiring one more person I can increase that output by 20 cars to 420 cars a day, and if I can charge \$10 per wash, then that worker would bring in an additional \$200 a day (20 x \$10). While I might gladly pay that person nothing for working in my carwash, competition from other potential employers for her labor could push me to pay her as much as \$200 a day, which is the revenue her labor brings to my business.

Now, I might invest in some new capital equipment at a cost of \$1,000 a day, but only if the dollar increase in my workers' productivity were greater than the cost. Suppose the new equipment increases the output of my original 20 workers from 400 to 600 cars a day, an increase of 200 cars. Let's say I lower my price to \$8 to bring in more cars. So at \$8 per wash, my revenues would rise by \$1,600 a day (200 x \$8). That increase would certainly justify my investment in new capital. But I've also increased the *average* productivity of my workers by 50 percent, from 20 to 30 cars a day.

It's certainly possible that instead of 200 more I might only be able to sell 140 more carwashes a day, even after

lowering my price to \$8. In that case, it's still worthwhile to invest in new capital, although I might indeed have to lay off two people. But note that I'm buying more equipment for my carwash. That increased production in the capital market means more money available for hiring those people I laid off, along with others who may have been laid off owing to efficiency gains elsewhere.

Overall, if the productivity and thus the average real wage of people in the rest of the economy is also increasing, via

investment in capital, then workers in other markets, such as cellphones, can now afford more carwashes than before because nominal prices for carwashes (and cellphones, houses, education, and so on) are falling.

What the data show

The historical trend in per-capita real income since the year 1800 has been unambiguous. Per-capita real income around the world has been rising at an accelerating rate, which coincides with the spread of and respect for free-market ideas and practices. Deirdre McCloskey refers to this phenomenon as the "hockey stick" of economic growth.

Imagine a hockey stick lying on its side. For millennia, per-capita real income had been low and stagnant, about \$1 to \$3 a day for the vast majority of people everywhere. That's the long handle of the stick. Suddenly, around the year 1800, there was an unprecedented increase in growth—up to a factor of 50 in some parts of the world—with no decrease, "except in places with the misfortune of tyrants on the model of Robert Mugabe in Zimbabwe, or entirely uncontrolled robbers or pirates as in Somalia."

Now, some economists have argued that "conventional methods of analysis" show that real wages in developed countries such as the United States have been stagnant or falling since the 1970s, even as productivity has increased. The process is known as "decoupling."

But economists Donald Boudreaux and Liya Palagashvili counter that “conventional methods” tend to exclude substantial fringe benefits and use inconsistent methods of accounting for inflation, both of which understate the growth of real wages. They also point out that conventional studies overlook the deadening effects of government policies and regulations on economic development.

So we’ve seen that lower prices of cellphones and carwashes will tend to increase sales of those products and increase real wages, and that rising demand for capital equipment can productively employ more people in those markets. So the question remains: What happens to those who are laid off and still can’t find jobs?

Before going further, let me explain why efficiency is actually the wrong measure of a dynamic market’s success.

Innovation is the opposite of efficiency

Like efficiency, successful innovation lets us do more with less work. It’s innovation that’s responsible for the huge increases in the average per capita real wage (how long you have to work to buy stuff). For example, economist Steve Horwitz reports that in 1920, it took 37 minutes of work to buy a half-gallon of milk. By 1997, it took a mere seven minutes. In other words, workers used to have to work five times longer to buy the same thing. And that’s not accounting for quality.

Beyond that, however, innovation mainly lets us do things that weren’t even possible or imaginable before. Take, for example, computing power. In 1920, before the computer age, completing one million instructions per second was not even possible. By 1980, it would have taken a computer over 41 weeks to complete a million instructions, whereas by 1997, the time had fallen to a mere 9 minutes. (I’m sure the time has dropped by even more today.)

The key to such astounding improvements is not efficiency. It’s not trying to do the same thing cheaper.

Rather, innovation through entrepreneurial competition and discovery of unknown opportunities is the key. Innovation is, in a sense, the very opposite of efficiency.

Innovation is doing something that no one has ever done. Sometimes it’s a small thing like placing what you sell in a different spot on the showroom floor; other times it’s a big thing like Facebook. Efficiency by itself would lead to stagnation. I’m sure the typical farmer in ninth-

century Provence was very efficient, given the agricultural knowledge of the time (likely passed down for many generations).

Innovation has its own set of challenges

The nice properties of innovation—stronger, faster, tastier, safer, healthier, more comfortable, more diverse, more interesting—come only when innovation is successful. Getting there is messy.

Innovation messes things up because the only way new, successful products or processes ever emerge from dynamic competition is through trial and error—with lots and lots of errors. And making an error is costly: You spend too much on the wrong thing and too little on the right thing. The result looks like waste.

If efficiency were our only standard—making something at the lowest cost—then most attempts to innovate would, in fact, be wasteful. But no one ever makes an error on purpose (and if anyone tried to, then it wouldn’t be an error). We make errors when we try to do something new and better but don’t have perfect knowledge of the world, especially of the future. If we knew exactly how to make what people would want when they wanted it, the result would again be perfectly efficient. But that’s not the real world, where our knowledge is always incomplete and imperfect. In that context, judging the market on the basis of efficiency is wrongheaded.

When people succeed in changing the world in a way that other people like and are willing to pay for, the process

INNOVATION IS,
in a sense, the very opposite of
efficiency.

of creation offsets the process of destruction, sometimes by a lot, sometimes by a little.

Innovation and employment

Innovation can cause great shifts in production, and therefore employment, over time. Cars and mechanics displace horses and buggy whips; cell phones and apps displace landlines and hardcover encyclopedias (although horses, buggy whips, and landlines have not yet completely disappeared). The period when the economy's capital structure of production—the way capital goods throughout the economy fit together—adjusts to changes in demand is a time of profit and loss, of hiring and firing. It's a period of great inefficiency. And in a dynamic market, we're always living through some such period of adjustment and inefficiency, which is partly why some people fear the competitive process.

On the flip side, innovation creates more opportunities than efficiency alone possibly could. Innovation's destruction of the old, less satisfying way of doing things affects not just labor, but all resource owners, producers, and consumers. Still, in an entrepreneurial-competitive process, innovation is the main driver of the demand for labor. The innovating businesses that spring up at the vanguard and in the wake of innovation bring more people into the labor market and attract people already employed with higher wages.

And if we look at what happens to people who lose their jobs due purely to efficiency, innovation offers the greatest hope for them to find employment. In fact, when the buggy whip industry became so efficient that it could let go of many of its workers, it had reached a

point where innovation could come along and displace it anyway.

Henry Hazlitt, the great libertarian journalist and author of the still widely read *Economics in One Lesson*, pointed out that while an innovation benefits the vast majority of people over time, in the short term those businesses that can't compete will fail, and their employees will suffer to one degree or another. In such cases, he said,

THE HISTORICAL trend in per-capita real income since the year 1800 has been unambiguous. Per-capita real income around the world has been rising at an accelerating rate, which coincides with the spread of and respect for free-market ideas and practices.

It is altogether proper—it is, in fact, essential to a full understanding of the problem—that the plight of these groups be recognized, that they be dealt with sympathetically, and that we try to see whether some of the gains from this specialized progress cannot be used to help the victims find a productive role elsewhere.

I'm sure Hazlitt meant not government redistribution, but real compassion: voluntary efforts via individual donations, large-scale charities, business clubs, and community organizations that peacefully draw on the vast wealth generated by innovation.

Our knowledge is never perfect, and no real-life economy works so smoothly that no one is ever disadvantaged because of innovation. That's the hard truth of what the great economist Joseph Schumpeter called "creative destruction." But as we've seen, the track record of innovation in reducing poverty, lifting population, and increasing life expectancy, comfort, and well-being has been astonishingly good. **FEE**

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Regulation of Lodging by the Market Process

HOWARD BAETJER JR.

Does the lodging industry need government regulation? I don't think so, and I'm more convinced than before after listening to a fascinating EconTalk conversation between host Russ Roberts and Nathan Blecharczyk, a founder of the lodging service Airbnb.

Blecharczyk explains that every Airbnb customer rates every property in which she stays for cleanliness, value, and the accuracy of its description on the website, and every property owner rates every customer who stays with him. Roberts then responds as follows (the emphasis is mine):

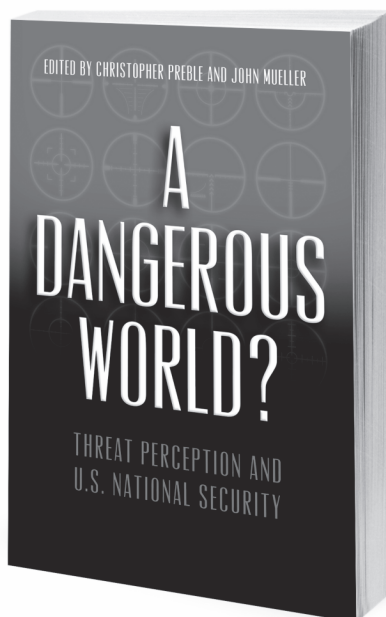
To a large extent, your trust system and the reviews that you generate on both sides of the transaction *are the regulators*. Right? So, the guest that came before

me is the person who inspected the property for me. So in some sense the technology and the way it brings people together is *a substitute for regulation*.

I think Roberts is almost exactly correct here. The regulator of housing quality in today's world is best understood not as a person or agency but as a process. First, the customers rate the properties; then, Airbnb posts the customers' ratings; and then, both Airbnb's prospective customers and other property owners react to that information. Property owners who would like to rent their properties via Airbnb are effectively forced to meet the standards upheld by the other properties offered, in order to win customers. That process of judgment, communication, and reaction is not "a substitute for regulation," as Roberts says; it is a substitute for government

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—STEVEN PINKER, *Harvard University*



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regulation. It is a superior kind of regulation, provided by the market process.

Here are some of the ways in which it is superior:

- Instead of being inspected every year or so, each property is inspected every time it is rented.
- Instead of getting a cursory look-over by a government employee just doing his job, the property gets a thorough examination by someone with her own comfort and money involved.
- Instead of being enforced by authorities' restrictions on the choices of renters and property owners, standards of quality are enforced by those choices.
- Instead of being subject to "capture" by the regulated insiders of the industry—hotels and motels eager to use regulation to suffocate these new competitors—this regulatory process is itself regulated (kept fair) by outsiders' freedom to participate in the industry.
- Instead of staying on the books for years after they stop making sense—if they ever did—the standards generated by this regulatory process are constantly being reevaluated, and they're cast off as soon as they don't make sense.

Airbnb's collection and publication of customer ratings constitute a process that every other hotel, motel, and lodging house is free to imitate. This freedom eliminates the rationale for government regulation of lodging services.

That rationale is based on "market failure" due to imperfect information. In the standard story, we need government regulation because lodging is not a repeat-purchase item, so the

market fails to give consumers information on which to judge its quality before using it. Hence consumers might be taken advantage of, so they need government to regulate quality. Maybe that argument had some merit in days past—I'm doubtful—but it surely has no merit now. The quality of Airbnb offerings is as closely regulated as I can imagine it being.

Now that real-time customer ratings over the Internet are easy, governments should stop regulating hotels. The market process does that better than governments can. **FEE**

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Introduction to Dermatographia

Jeannine Hall Gailey

Trace your name along my skin, it will stay there,
a red imprint called "skin writing."

A too-tight hug, an accidental scratch on a blackberry bramble,
even rough towels can cause welts and hives.

The princess with her pea, the girl in the bubble,
watch my encounters with the world, how hard I work

to not come in contact with anything
that will leave a mark. No too-tight straps, no hot showers.

If only I could float like Glinda in her soapy sphere,
gliding past obstacles unscathed.

Can you read the message my heart has etched
on my skin, this petal-thin map?

Jeannine Hall Gailey (jeannine.gailey@live.com) is the author of four books of poetry: Becoming the Villainess, She Returns to the Floating World, Unexplained Fevers, and The Robot Scientist's Daughter (forthcoming, 2015).

The Sharing Economy: Choice, Responsibility, and Hustle

Why I love services like Uber, Lyft, and Airbnb, and you should, too

CHUCK GRIMMETT

“I have to work to get my customers; I can’t rely on a dispatcher. I connect with you and we work it out. I have to work harder now, but if I do I get paid more. It is good.”

Rafael picked me up this morning from Grand Central and took me to La Guardia Airport so I could catch a flight. When I got matched with his car in the Uber app, he immediately called me. “Traffic is really backed up over there right now. If you can walk down to between Third and Lex, I can get you on your way much faster,” he suggested. When I got in his car three minutes later, he said, “The radio said a truck broke down on the Queensboro Bridge and traffic is stopped. We can go up to 96th and go over the Triborough. Is that okay?”

My experience with Rafael is the reason I love services like Uber, Lyft, and Airbnb: hustle. When you remove barriers, whether using technology or through deregulation, individuals can deal directly with each other. This interaction gives us more choice, freedom, and responsibility in serving one another.

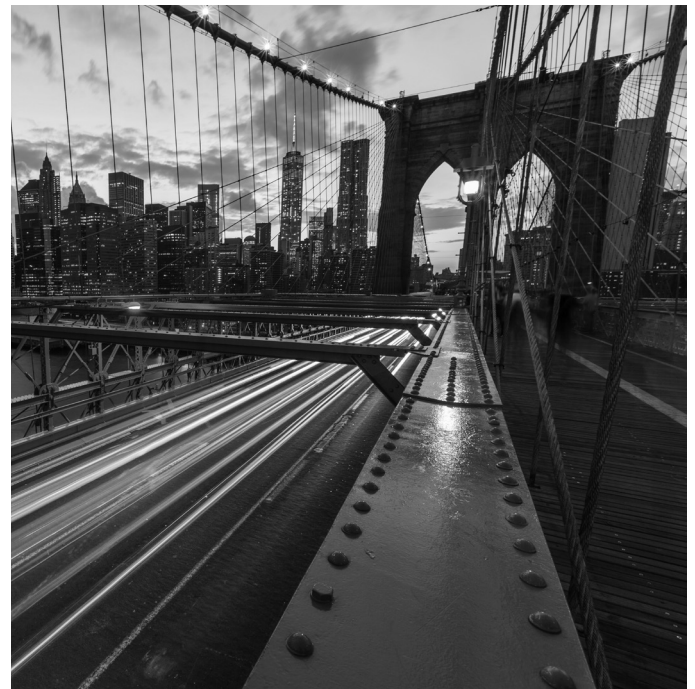
Rafael’s service the rest of the trip was great, too. He had today’s *New York Post* on the seat for me to read, and we had a great conversation after I flipped through it. Come to find out, like me, Rafael loves to cook. His favorite is a Dominican dish called mangu, and he explained to me how to make his family’s version. I can’t wait to try it out when I get back home.

It’s not only the customers who benefit from this individual interaction. Rafael switched to driving with Uber three months ago after driving a yellow cab for a few years. He said he loves Uber. He makes more, sets his own schedule, and has better customers. “The technology allows us to connect directly with you. See how much faster

that was than connecting through a dispatch and trying to coordinate? That’s great.”

I’ve used Uber in five cities — New York, Miami, Atlanta, Detroit, and Washington, D.C. — and have heard stories similar to Rafael’s time and again. The more we get the State and entrenched cartels out of the way, the more we will have choice and responsibility. This increased choice and responsibility will give us all the chance to thrive and will bring out the best in all of us. As Rafael says, “That’s great.” **FEE**

Chuck Grimmett is a project manager at eResources. Previously, he was FEE’s director of web media. Get in touch with him on Twitter: @cagrimmett.



William Perugini/Shutterstock.com

Ayn Rand, the Movies, and the Idea of America

An introduction to Ayn Rand's "Textbook of Americanism"

LAURIE RICE

Ayn Rand's monograph "Textbook of Americanism," newly published at FEE.org, is virtually unknown. Written during a decisive turning point in history, Rand delivered it personally to FEE's founder Leonard Read in 1946. The monograph represents Rand's desire to draw stark lines between an emerging postwar collectivism and the individualism she believed built America. She joined others in pointing out that collectivism had wrought the horrors the world had just endured.

"Textbook of Americanism" also represents her worldview as it came to be shaped by her childhood experiences with communism, her early love of film as a means of artistic expression, and her perceptions about the future of freedom.

As a young student in Russia at the dawn of the Bolshevik takeover, at a small theater for silent films, Rand caught her first glimpse of the New York skyline. The silhouette burned in her mind, a symbol of creative passion and unbounded achievement, outlining the edges of her growing philosophy of individualism.

Beneath the epic geometry of the skyline, communist propagandists prattled on. Rand's biographer Anne Heller explains:

Soviet government censors always added absurd subtitles to the films ... turning an ordinary

American family dinner scene into a portrait of greed, for example, by labeling it "A capitalist eating well on profits wrung from his starving workers."

The image of New York fused two of the major themes in Rand's life: the art of cinema and the concept of America.

Within a few years of her foray into American silent movies, she would enroll at the State Technicum for Screen Arts in Leningrad in 1924. The school offered free tuition

to students sympathetic to Bolshevik ideology, in hopes of grooming future communist propagandists. But Rand wanted to write screenplays *attacking* communism.

Realizing that such writing would lead to imprisonment or death — in purges like one that had

swept her university just a few years before — she decided to emigrate. In 1926, she sailed from the Soviet Union and landed at the foot of her beloved New York skyline, with government permission to visit relatives.

Her excuse was that her cousin owned a theater in Chicago. The conditions of her permission were that she would work at the U.S. theater for six months, then return to Russia to work on communist propaganda films. Within two years after she had left Russia, the opportunity for emigration had closed. She had made it out just in time — and perhaps saved her life.

IN THE MIDST OF
the political chaos, upheaval, and
conceptual fog of the historical
moment, Rand sought to explain
the fundamental ideas of
individualism and freedom.

Once in the United States, she immediately broke the terms of her visa, left Chicago, and traveled to Hollywood. There she worked as a movie extra, a junior screenwriter, and then a wardrobe department manager, while writing plays and notes for novels in her own time. She met her husband on the set of a film called *The King of Kings*; their marriage gained her U.S. citizenship.

By the time Rand wrote “Textbook of Americanism” in 1946, 20 years after she arrived in New York, the world had entered into a decade of massive tectonic shifts throughout the political landscape. During the New Deal, Congress had passed the Social Security Act and set the first U.S. minimum wage, among many other measures that had regimented economic life.

The wartime economy had inflicted New Deal recovery measures on a country still reeling from the Depression. Adolf Hitler had risen to power in Germany and created a horrific spectacle of genocide against the Jewish people. Governments had waged a war of massive carnage across Europe. The United States had suffered an attack at Pearl Harbor and then later dropped atomic bombs — weapons of previously unknown destruction — on both Nagasaki and Hiroshima in Japan.

In response to the chaos of World War II, government leaders had come together to form the United Nations, sparking both hopes of a lasting world peace and fears of an oppressive global government. The stage was set for crises in Berlin, the political upheaval in Greece with a communist victory, and the upcoming Cold War. The lines of nation-states had been crossed, broken, and redrawn all over the world.

THE TENSIONS surrounding “Textbook of Americanism” are fascinating. It is written about the United States precisely at a time when the idea of the nation-state was crumbling.

It’s best to understand the mindset of Rand, other intellectuals, and much of the world population after World War II as post-traumatic. Of course, people who had experienced combat directly, such as soldiers, suffered

the most severe effects. But people everywhere were struggling, sometimes dramatically, to re-establish safety and boundaries, to identify meaning in the chaotic events, and to find a course that would prevent such horrors from ever happening again.

It was during this eerie twilight of war that Rand joined the Motion

Picture Alliance for the Preservation of American Ideals. This organization consisted of a number of prominent conservative figures in Hollywood, including Ronald Reagan, Walt Disney, Gary Cooper, Ginger Rogers, Clark Gable, and John Wayne.

The alliance’s immediate purpose was to assemble well-known people as witnesses to a congressional investigation of the motion picture industry. The alliance’s longer-term mission was to organize the motion picture industry’s pro-freedom figures to defend their field against the ideas of communism. Movies in Hollywood at the time frequently portrayed Russia and communism sympathetically, or spread implicit communist messages within other stories.

“Textbook of Americanism” was written toward this bigger goal, with Rand calling for the values of individualism and freedom to be portrayed in her beloved movie industry. The essay appeared in a publication for the Motion Picture Alliance called *The Vigil*.

“Textbook of Americanism” is organized in question-and-answer format, from the most basic issues to the

more complex. Rand wrote both, with questions as prompts to explain her own perceptions of what it means to be American. The essay features 12 questions; Rand planned to elaborate further, but the full project was never finished.

True to her philosophical roots, Rand used “Textbook of Americanism” to explain in the simplest terms possible what made America unique and great. She opens with an explanation of two starkly contrasting ideas.

What Is the Basic Issue in the World Today?

The basic issue in the world today is between two principles: Individualism and Collectivism. Individualism holds that man has inalienable rights which cannot be taken away from him by any other man, nor by any number, group or collective of other men. Therefore, each man exists by his own right and for his own sake, not for the sake of the group.

Collectivism holds that man has no rights; that his work, his body and his personality belong to the group; that the group can do with him as it pleases, in any manner it pleases, for the sake of whatever it decides to be its own welfare. Therefore, each man exists only by the permission of the group and for the sake of the group.

These two principles are the roots of two opposite social systems. The basic issue of the world today is between these two systems.

From this foundation, Rand builds her case for limiting the power of the collective, for the difference between arbitrary law and moral law, and for the meaning of rights. She summarizes the proper role of government — the smallest conceivable and essential functions — and the

moral imperative not to initiate force. She clarifies that individualism and collectivism are exclusive terms, that any “mix” is a breach against individualism. Finally, she issues a warning: Compromising individual rights will lead to society’s destruction.

The tensions surrounding “Textbook of Americanism” are fascinating. It is written about the United States precisely at a time when the idea of the nation-state was crumbling from its own destructive methods, giving way to modern globalization. The essay calls for radical freedom during a dark American paranoia



about speech, when communists were put on trial for their beliefs. It is Rand appealing in good faith to the movie industry she loved, at a time when Hollywood was deeply entrenched with the cronysts and communists she hated. It is Rand's passionate advocacy of ideology while many intellectuals were blaming all systematic ideology for the genocide of the Jewish people. And it enjoins and participates in a propaganda war not long before the dawn of an Internet age that would democratize media and increasingly eliminate the power of propaganda.

But in the midst of the political chaos, upheaval, and

conceptual fog of the historical moment, Rand sought to explain the fundamental ideas of individualism and freedom.

Just as she had been inspired by the jagged silhouette of New York City looming in the backdrop of her favorite movies, Rand sought to provide a glimpse of the most essential issue of her time in the clearest possible outline.

["Textbook of Americanism" is available for reading at FEE.org.] **FEE**

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