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IDEAS ON LIBERTY

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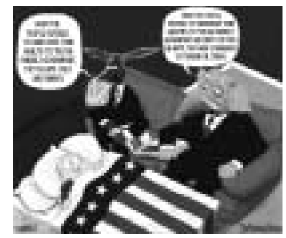
Features



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Perspective

Medical Consumers or Wards of the State?

Paul Krugman wants to know: "How did it become normal, or for that matter even acceptable, to refer to medical patients as 'consumers'?"

Let's concede for argument's sake there is something unattractive about viewing patients as consumers. Krugman writes, "Medical care, after all, is an area in which crucial decisions—life and death decisions—must be made. Yet making such decisions intelligently requires a vast amount of specialized knowledge."

All true, but not necessarily decisive in answering Krugman's question—because if we reject the patient-as-consumer model, we must then ask: What's the alternative?

I believe the answer is this: If the patient is not a consumer he or she will be a ward of the State or a government-empowered insurance company. If the choice is between consumer and ward of the State, consumer doesn't look so bad after all.

To see what ward status means, ponder Krugman's thoughts on the Independent Payment Advisory Board, Obamacare's Medicare cost-cutting apparatus:

"About that advisory board: We have to do something about health care costs, which means that *we have to find a way to start saying no*. In particular, given continuing medical innovation, *we can't maintain a system in which Medicare essentially pays for anything a doctor recommends*. . . .

"And the point is that *choices must be made*; one way or another, *government spending on health care must be limited*" (emphasis added).

Much of what Krugman says here is correct. Resources are finite. Choices must be made. No matter how medical care is paid for, spending will be limited—regardless of what demagogues imply. But under Krugman's patient-not-as-consumer model (which is largely in effect today), government *experts* make all the important decisions. Bureaucrats will have a global budget for medical spending, and it will be their job to stick to that budget. They will not be the patients' agents. Advocates of this scheme insist the quality of medical care will not be cut along with costs. They assure us they will prohibit only "unnecessary" and "wasteful" procedures. But how objective are those categories? And why should we trust unaccountable bureaucrats and "experts" to make the right decisions, as though there were one-size-fits-all answers in medicine?

The upshot is that anyone who has his or her medical bills paid by the taxpayers will ultimately be at the government's mercy. If you're not a consumer you're a ward of the State.

But won't private medical coverage also have restrictions? The difference is that if medical coverage were offered in a *freed* market—no privileges, no licenses, no protectionism—the environment would be competitive. When government is in charge competition disappears or is vastly constrained to the point where it hardly matters. In a competitive environment entrepreneurs seek to discover what services best satisfy their customers' requirements. Note well: This environment includes nonprofit solutions, such as mutual-aid societies, which through "lodge practice" managed to provide decent medical coverage to people of modest means in earlier times (tinyurl.com/cjca68).

Competition is a discovery process (Hayek). Government is the habitat of bureaucrats who pretend they know it *all* already.

Krugman cautions, "[B]ear in mind that we're not talking about limits on what health care you're allowed to buy with your own (or your insurance company's) money. We're talking only about what will be paid for with taxpayers' money." This is disingenuous. After being taxed all their lives, how many elderly people are in a position to forgo Medicare in favor of private insurance? Government creates dependence, then exploits that dependence to justify its power

⋆ ⋆ ⋆

Even if the flawed Consumer Price Index isn't quite showing it yet, there is talk of inflation in the air. What exactly is going on? One of our sharp economy watchers, Warren Gibson, doesn't like what he sees.

Advocates of government expansion have not found the Constitution a terribly formidable barrier. Could a better-written preamble have helped? James Payne thinks perhaps it would have.

Schools run by state and local governments are bad enough, but how about a single national school system run from Washington, D.C.? The best-kept secret these days is the Obama administration's moves toward a national curriculum. Neal McCluskey has the unpleasant details.

H. L. Mencken famously suggested that fear among the people is the government's best friend. James Bovard finds ample empirical evidence for Mencken's thesis.

Why are markets, despite their palpable benefits, morally tainted in so many people's eyes? F. A. Hayek thought it's because markets don't embody the nurturing morality of the family that we first learn as children. Dwight Lee endorses Hayek's explanation and points out that we wouldn't like the results if great societies were run like families.

After a natural disaster the high-profile first response leaves the impression that no alternative to a centrally planned recovery is available. Peter Boettke says that's a failure to look more closely.

Labor unions continue to be at the center of controversy. Despite appearances, Wendy McElroy writes, government-backed unions limit workers' ability to organize in their own interest.

Just because two things are called by the same name is no reason to assume they are actually the same. Take the case of private-sector and government *investment*. Adam Summers does just that.

Our columnists' inquiring minds have produced a smorgasbord of provocative fare: Thomas Szasz ponders the legal status of suicide. Stephen Davies looks at Japanese commercial virtues. John Stossel thinks police making arrests have no right to privacy. David Henderson says no particular person can say how much manufacturing Americans should engage in. And Gary Chartier, encountering a newspaper columnist's claim that opposing military intervention indicates indifference to suffering, responds, "It Just Ain't So!"

Books on the mistreatment of taxpayers, economics, and an infamous automobile catch the fancy of our reviewers.

—*Sheldon Richman*
srichman@fee.org

Anti-Interventionism Is Cold Indifference? It Just Ain't So!

BY GARY CHARTIER

Presidents frequently garner applause when they go to war. Violence as a knee-jerk response to a crisis—do anything, but do *something*!—is surprisingly popular. Pundits doubtless expect that they too will reap acclaim for urging action, whether or not it's well considered. Who wants to be thought of as a bump on a log, after all?

It's hard not to see something like that reasoning at work in Richard Cohen's March 28 *Washington Post* column urging support for military intervention in Libya (tinyurl.com/3jcq5gh).

For Cohen anti-interventionism is a reflection of "cold indifference." He seems oblivious to the dubious motives of empire-builders, to the propagandistic framing of the facts in the mainstream media, to the destruction for which NATO forces are responsible, to the questionable commitments of the rebels NATO is supporting, and to the resentment—with uncertain but perhaps deadly consequences—birthed in Libya and throughout the Middle East at the sight of more Western planes and troops killing and maiming Arabs. It is apparently possible to dismiss all of these concerns.

Contrary to the implicit message of Cohen's column, action doesn't always beat inaction. *Not doing something* can frequently make more sense than doing something—especially where war is concerned.

I'm not a pacifist—I certainly think it can be reasonable to use force to defend yourself or others from unjust attack. But I'm convinced there's good reason to be very skeptical about wars made by States.

Let's not kid ourselves: Politicians persistently initiate wars and carry them on for bad reasons: to secure glory and public acclaim, to steal resources, to benefit cronies, to demonstrate military might, to keep would-be allies from defecting. While wars are sold to the public as necessary to right wrongs, the motives ordinary people are offered through the government's preferred media outlets are rarely those that drive war leaders themselves.

> Politicians persistently initiate wars and carry them on for bad reasons. And the practical effects of warfare are rarely positive.

The practical effects of warfare, both domestically and abroad, are rarely positive. The victors extend their power, dominating and manipulating with greater impunity. The winners' violence breeds ill will and resentment, potentially encouraging more wars, guerilla struggles, and terrorism. And governments use their engagement in warfare to excuse domestic repression and higher taxes and to promote conformity and uncritical loyalty.

Wars are almost always funded using taxation, so that people who do not support violent action are nonetheless compelled against their wills to provide the money needed to make it possible. Even to those who don't oppose all taxation, it should be at least deeply troubling that people are forced to pay the costs of killing others and destroying their possessions.

And it's absolutely vital to remember, despite the propaganda offered by war apologists, that modern

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warfare is typically prosecuted using unjust means. Noncombatants are routinely maimed, killed, and dispossessed by all-too-indiscriminate techniques employed by modern military forces. Aerial bombardment has an especially dismal record of destroying noncombatants' lives and possessions, though it's hardly the only source of harm to noncombatants. Preventable harm to them is a predictable outcome of initiating war.

The American founders generally recognized that war was dreadful. They also recognized that presidents might be entirely too quick to ignore war's dreadfulness while seeking military glory. That's why they imposed rigid constitutional restraints on acts of war undertaken by the U.S. government. While the president is empowered to direct the operations of the armed forces once a war is under way, only Congress is empowered to commit those armed forces to war. And Congress's exclusive control over the government's purse means that it is responsible for overseeing the direction of a war with an eye to its justice and prudence even after it has been declared.

Preventable harm to noncombatants is a predictable outcome of initiating a war.

Cohen compares skeptics about war in Libya to governments that declined in the late 1930s to admit Jewish refugees from Europe as the awfulness of anti-Semitic violence in Nazi Germany became increasingly clear, accusing both of apathy. But the comparison is inapposite. The governments that refused entry to refugees clearly acted unjustly by obstructing would-be immigrants' freedom of movement. But while imposing restraints on movement across State borders can reasonably be criticized on multiple grounds, it is bizarre to suppose that people who oppose war can simply be dismissed as apathetic.

For Cohen, apparently, the notion that congressional approval is necessary to commit U.S. military forces to war is worthy of implicit mockery. (He treats the notion that "the United States had no business interfering in Libya—that it needed . . . permission from Congress" as simply a rationalization for indifference.) Perhaps he has secretly embraced Lysander Spooner's conviction that the Constitution is "of no authority," but nothing else he says suggests that he's a closet anarchist. In any event, his glancing dismissal of the Constitution's requirement that Congress declare war seems like the product not of critical questioning of the foundations of the American State, but rather of lack of concern with the features of warfare that make the congressional brake on presidential war-making so potentially important.

The mandate to intervene in Libya flows simply from the need to save lives, Cohen seems to suppose. He appears to uncritically accept the administration's framing of the situation in Libya—assuming against the evidence that Col. Muammar al-Qaddafi in fact intended to kill anyone and everyone in Benghazi, ignoring the lives likely to be lost as a direct result of NATO military action, attributing rather purer motives and long-term goals to the anti-Qaddafi rebels, and so expecting more respect for life on their part than I think the facts warrant.

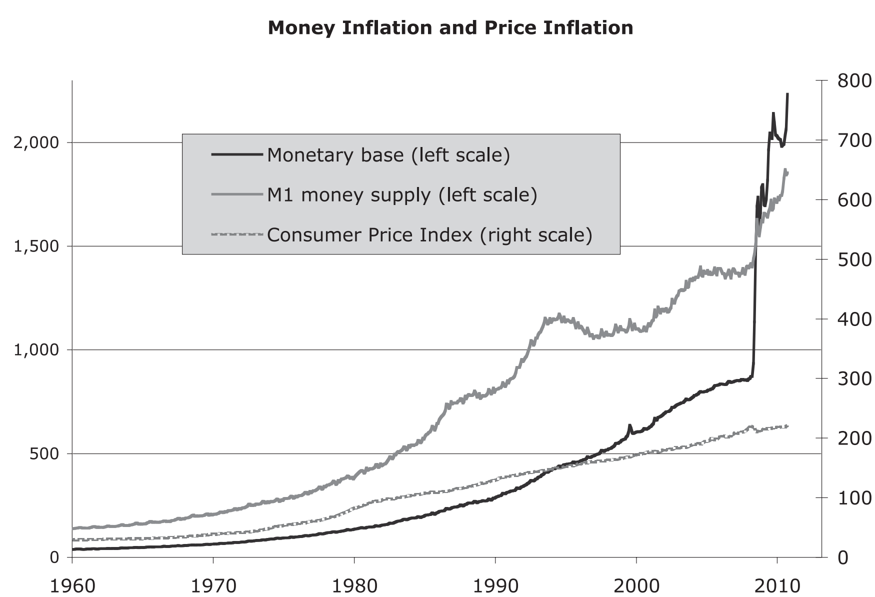
Cohen maintains that the message the Libya intervention should send to any dictator is this: "Your people are not yours to kill." He's right of course that they're not. But Libyans are not NATO's to kill either. And they don't belong to rebel commanders any more than they belong to Qaddafi. Similarly no other American belongs to Richard Cohen or John Boehner or Barack Obama, so no one can justly commit anyone else to fight in or pay for a war without her or his consent.

Perhaps—I offer no opinion here since I think alliances and implications are too unclear for anyone to speak with great confidence—a contemporary equivalent of the Abraham Lincoln Brigade ought to be on the ground in Libya opposing tyranny and violence. But, *contra* Cohen, there is always reason to oppose governments when they intervene militarily outside the borders they claim, and further reason to do so when they fail even to follow their own procedures (presuming, as is true in the United States, that those procedures are designed to impede the hasty and ill-considered rush to war). War is hell, and impassioned calls to "do something" don't change that fact. FEE

What's Up with Inflation?

BY WARREN C. GIBSON

Inflation as measured by the Consumer Price Index (CPI) has been almost nonexistent for several years, though it started creeping higher in the first half of 2011. Yet many prices have been rising at double-digit percentage rates. Are official figures trustworthy? And what of expectations? There is a great deal of buzz right now about inflation but also talk of renewed stagnation with the Fed's QE2 program having ended in June. Could renewed stagnation trigger enough deflation to counter inflation? Or might we get the worst of both worlds—stagflation—as in the 1970s?



We can't get anywhere with these questions until we agree on the meaning of inflation. At one time the word referred to an increase in the money supply. Over time it came to mean a general increase in prices, an unfortunate turn of events not just because we lost the nice metaphor of an inflating balloon, but also because the shift in meaning tended to obscure the relationship between the two phenomena. Some free-market authors hold out for the old definition, but I suggest this is wasted effort. In my classes I use the phrases "price inflation" and "money inflation" to keep the distinction alive without getting too sidetracked by semantics.

In 1970 Milton Friedman said, "[Price] inflation is always and everywhere a monetary phenomenon." This is not entirely true but understandable because he was writing at a time when the causal relationship had nearly been forgotten. We can have price inflation without money inflation when there is a supply shock. An overthrow of the Saudi government, for example, might well disrupt the flow of oil from that country. A surging oil price, because it is so important to our economy, would likely pull up the price level with it. In this situation the monetary authorities can help things by doing exactly nothing—letting higher energy prices do the work of encouraging marginal users to cut back. Supply shocks, as such one-time events are called, do not of themselves generate sustained price increases and are therefore not classified as inflation by some economists.

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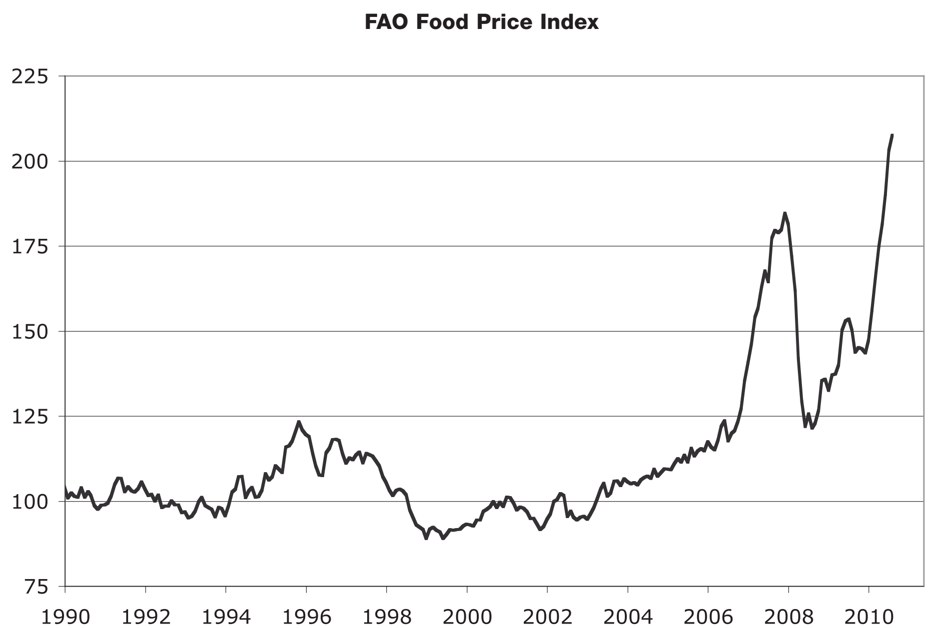
Price inflation of a mild sort can also happen as new and more efficient payment systems are devised. When we acquire debit cards and credit cards, we find it less necessary to hold a supply of money for our daily needs or emergencies. We may reduce not just our currency holdings but also our checking account balances. But money is always in someone's possession, so an aggregate decline in the demand to hold money results in faster spending, which generates price inflation. Those higher prices motivate people to increase their desired money holdings back to the previous level.

Expectations of future price inflation can also be a source of current price inflation. There is a great deal of inertia in inflation expectations. When there has been a long period of stability we tend to gloss over early signs of inflation, and it takes a long time for people to realize that price rises aren't just temporary. Likewise, when prices have been rising steadily, people are skeptical of deflationary (or disinflationary) developments. During an inflationary period expectations can run ahead of the money supply. Thus during the German hyperinflation of the 1920s people spent their money faster than the authorities could print it, and almost until the end the authorities denied that money printing was the root of price inflation, believing instead that money creation should be stepped up.



Recently Fed Chairman Ben Bernanke said he was not worried about price inflation because investors are currently paying a very low premium for inflation-protected Treasury securities, adding, "The state of inflation expectations greatly influences actual inflation." Gerald O'Driscoll, well known in free-market circles and a former Fed official, retorted that Bernanke "has the causation precisely backwards" (TheFreemanOnline, Feb. 28, tinyurl.com/473kgr7). In fact the causation runs both ways. Market participants try to figure out what the Fed will do, and the Fed tries to figure out how it can influence expectations, and on it goes, back and forth. But as in the stock market, expectations may turn out to be wrong, and in the long run only the fundamentals matter.

What of the converse of the Friedman proposition? If there is money inflation must there necessarily be price inflation? The first chart suggests not. Price inflation got ahead of money inflation in about 1980, as Fed Chairman Paul Volcker's tight money policy did not at first overcome expectations. But since 2008 the monetary base has exploded without any significant price inflation. Why?

The Federal Reserve controls the monetary base, consisting of publicly held currency plus commercial banks' reserve accounts at the Fed (this is also referred to as M1). The Fed increases the base when it purchases assets, typically government securities, using newly created money. Commercial banks then pyramid on top of the monetary base. A dollar of reserves can support up to about ten dollars in new loans—a multiplier effect. In the 1950s M1 was about 3.5 times the size of the monetary base. That multiplier declined sharply after 2000, until, as the first chart shows, the monetary base raced ahead of M1 money.

New money created by the Fed first goes to the bank accounts of the parties such as bond dealers from whom the Fed buys assets. Typically banks loan out most of that money because that's how they seek profits. Bankers normally consider reserves in excess of the level required by the Fed as idle assets, which are to be avoided. Total reserves were around $2 billion until the crisis of 2008, at which time they began to skyrocket. They now exceed $1,100 billion. What motivated this huge increase? First, banks seem not to find a lot of attractive lending opportunities at this time. Second, since 2008 the Fed has been paying interest on reserves, currently a very modest 0.25 percent per year.

About Those Reserves . . .

Now for the $64 trillion question: What if banks reverse course and start deploying some of those idle reserves? Suppose they find good loan opportunities and jumpstart the pyramiding process? If the M1 money multiplier were to rebound from 0.8 to 1.6, where it stood just three years ago, assuming no change in the monetary base, we would get about $2 trillion flooding into markets. What could the Fed do to head off the price inflation that would follow?

> The Fed could keep reserves in place at a keystroke. But we have to wonder if Bernanke and friends will apply the brakes at just the right time.

In the past the Fed might have opted to drain reserves by selling Treasury securities. This would depress the price of those securities and raise interest rates—not good for the economy and not good for the Treasury, which counts on selling large quantities of new securities at low interest rates. The Fed now has an alternative that could restrain price inflation by keeping reserves in place. It could raise the interest it pays on reserves. This would discourage banks from expanding their loan portfolios. This latter method can be applied at a keystroke, in contrast to sales of Treasury securities, which take time. Still, we have to wonder if Bernanke and friends will apply the brakes at just the right time. Given the dynamics of expectations and the uncertain prospects for supply shocks, it will be a difficult trick to say the least. Higher interest rates could wreak havoc on the federal budget. The President's budget proposal for FY 2012 sees net interest payments rising from about $200 billion for FY 2011 to $928 billion for 2021. As always, the budget is based on optimistic assumptions about tax revenue growth and spending restraint. But it is also optimistic about interest rates. Higher rates could drive interest expense much higher, and because so much outstanding federal debt is of short duration, the effect might happen quickly.

Price Inflation: Mixed Signals

What of current price inflation? Is it really as low as the CPI suggests? It depends where you look. House prices are way down, and housing is part of the CPI. Homeowners are assumed to charge themselves rent, but lucky for them that charge is down. This may be scant comfort to homeowners facing increases in the prices of things they buy for cash, many of which are up.

The stock market has nearly doubled since the low of early 2009. Commodity prices have been soaring. A recent 12-month period saw increases of 31 percent in crude oil, 79 percent in wheat, 166 percent in cotton, 98 percent in rubber, 44 percent in copper, and 94 percent in silver. But natural gas prices fell 23 percent, and olive oil (extra virgin, that is) is off 12 percent. Firms that process these raw materials into retail products typically hedge their positions with futures contracts, but as those contracts expire they will begin paying more for raw materials. Some of those increases are already finding their way into retail prices.

Crude-oil prices spiked to $140 per barrel in 2008, then collapsed. But in late May they again passed $100. A disruption in supplies of Middle East oil could send the price much higher, or a return to stability could send them lower. No one knows. All we know is that crude-oil price changes make their way very quickly into retail gasoline prices. Truckers and others who are sensitive to fuel prices are adding fuel surcharges to their rates. Other effects lag further behind. Should oil remain above $100 we can certainly expect more retail price increases.

Wholesale price increases on foodstuffs have already affected retail prices. The Food and Agricultural Organization's world Food Price Index has risen dramatically, as the second chart shows. This is becoming a crisis in poor countries, where food takes a large share of personal income. Prices are beginning to rise in the United States as well. Hershey, for example, announced a 10 percent increase across the board, citing increased raw material and transportation costs. The Agriculture Department is projecting a 5 percent price increase this year for a basket of common food items (basics, not chocolate).

What about other retail prices? Walmart CEO Bill Simon, who ought to know, recently said price inflation is "going to be serious." The news media are full of articles about inflation. The last big U.S. inflation was in the 1970s, but should it heat up we can expect the younger generation to catch on fast—and for expectations to begin to run with or ahead of price increases.

We would all do well to prepare ourselves, without going overboard, for inflation.

What's Ahead

Inflation hawks are inside the gates of the Fed. Kansas City Fed president Thomas Hoenig recently blamed the Fed's highly accommodative policy for rapidly increasing global food prices and called for an increase in the target Fed funds interest rate to 1 percent in a "fairly short period of time." Presidents of the Philadelphia, Richmond, and Dallas branches are also considered hawkish on inflation but are opposed by New York Fed president William C. Dudley and by Bernanke himself. Bernanke recently testified that food prices have risen in all currencies, not just the dollar, as if this exonerated the Fed. Markets, after all, are globally connected.

Could China export inflation to the United States? The Communist Party's new five-year plan is supposed to focus on the well-being of the common folk. This would mean a reduction in the forced savings that have boosted Chinese export industries and thus higher prices for Americans.

The U.S. presidential election is next year, and the political business cycle is with us as ever. The administration, aided and abetted by the Fed, will be doing all it can to reduce unemployment before the election while keeping the lid on price inflation. On the fiscal side there will be no significant budget cuts, which nearly always have negative short-term consequences but benefits that accrue only long after the election.

We would all do well to prepare ourselves, without going overboard, for inflation. Personally, I'm bullish on cat food. Why not stock up on durable goods? Savings accounts pay nothing, and you're going to consume the stuff anyway.

Stagflation, anyone? FEE

The Preamble They Should've Written

BY JAMES L. PAYNE

Did the Founding Fathers get it right? Is the Constitution they drafted a secure basis for limited government? Many conservatives suppose so and believe the drift to big government has simply been a case of not reading the directions on the package. Last January these conservatives ordered that the Constitution be read aloud at the opening session of the House of Representatives, apparently in the hope that the reverberation of its words off the marble walls would inspire lawmakers to return to the limited government of yesteryear.

I'm afraid it was an unrealistic hope. You can say many good things about the Founding Fathers, but these gentlemen fell short in one critical way: The Constitution they drafted contains no significant *intellectual* impediment to the endless growth of government; that is, it does not explain what's wrong with too much government. If anything, it goes in the opposite direction, inviting politicians to use the federal government to address everything. This invitation stands in the preamble, where after noting government's obvious jobs—"establish Justice" (a court system), "insure domestic Tranquility" (armed forces to put down riots), "provide for the common defence" (armed forces to take care of foreign invaders)—the drafters added that government's function was also "to promote the general Welfare."

This phraseology may not have had much importance in 1787, when communication about national issues was limited. In modern times, however, the mass media turn every human need into a national problem that can be said to affect the general welfare: unemployment, wages and working conditions, medical care, education, food production, science, natural disasters, and so on. Following the lead of the preamble, lawmakers feel justified in using government to address every one. The result is a big and ever-growing government.

What Else Is There?

What's the way to stop this drift? For the answer, we need to examine the logic that drives governmental growth. The modern argument for government involvement looks like this:

1. Problem X affects the general welfare;
2. Government is the *only* institution that can address national problems;
3. Therefore, government has to address X.

Notice how the argument depends on statement 2, that government is the only answer. If you accept that assumption, then you are pretty much bound to agree that government has to be involved. Not to agree makes you look cruel and insensitive, unwilling to fix the nation's problems. And it doesn't matter how badly government has performed in the past. Those urging more government concede that government is wasteful, often inept, and corrupted by special interests. But that doesn't affect their position. "We've got to do something," they say. "After all, what else is there?"

Well there is something else, but we often overlook it because it's not big, imposing, and centralized like government. It's the millions of independent thinkers and doers who each day strive to make the world around them a better place, working individually, and joining together with friends and neighbors, in groups,

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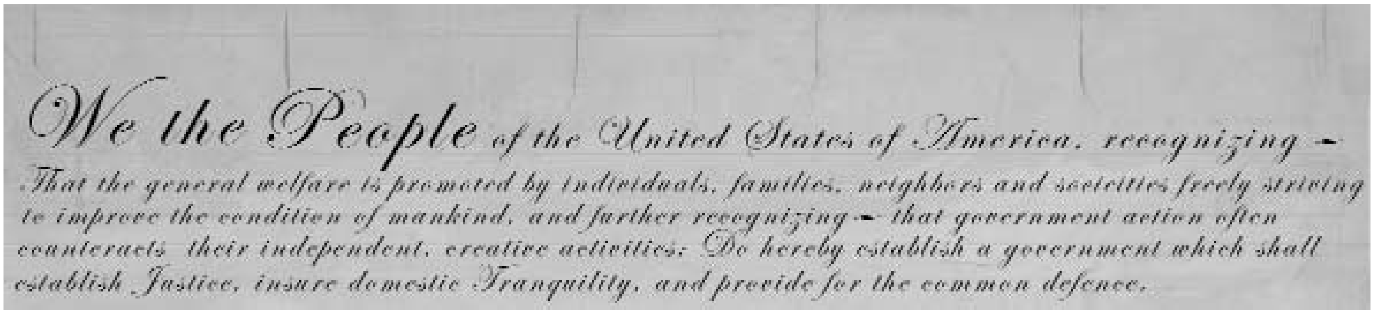

We the People of the United States of America, recognizing — That the general welfare is promoted by individuals, families, neighbors and societies freely striving to improve the condition of mankind, and further recognizing — that government action often counteracts their independent, creative activities: Do hereby establish a government which shall establish Justice, insure domestic Tranquility, and provide for the common defence.

churches, associations, and businesses. We can call this problem-solving system the private sector, or civil society, or the voluntary sector.

Although we often don't stop to realize it, this collection of independent actors is working to address just about every national problem you can think of. Take disaster relief. On this subject standard political logic has taken us to a big-government solution. Hurricanes and earthquakes certainly affect the general welfare; therefore, we say, government must step in. So we end up with the Federal Emergency Management Agency. Many agree that this massive bureaucracy is inept and wasteful, but if you suggest closing it down people say, "We have to have it. When disaster strikes, we can't just sit by and do nothing." That's the fallacy of assuming only government can solve problems.

When disaster strikes, the fact is that millions of individuals react in constructive ways. The people immediately affected do much to take care of themselves and their families. Neighbors pitch in to help neighbors. Businesses sell—or donate—needed supplies. Churches send aid and volunteers. Voluntary groups in other regions take up collections and send supplies. Businesses rebuild. Philanthropists support reconstruction projects. This vast multitude of helping hands *is* a disaster-relief system. The same is true for other problems: education, working conditions, medical care, and so on. The private sector can and does address all of these issues.

Its biggest enemy, the entity standing in the way of this vital, intricate system of private, voluntary action is . . . government! It undermines the private sector in three ways:

1. *Resources.* Government's taxation drains wealth from the private sector. Every dollar government puts into its programs comes, directly or indirectly, from individuals, businesses, and groups that would have used their resources to do what the government agencies try to do.

2. *Regulations*. Government's rules and regulations are, like taxation, a burden on the private sector. Every minute someone spends filling out a government form is a minute he cannot use to help a neighbor.

3. *Motivation*. Private action is prompted by the belief that *we* make a difference. When people assume government is supposed to solve problems, it weakens their motivation to help themselves, and it weakens their inclination to reach out and solve problems in their communities.

In conclusion, if the Founding Fathers had wanted to block the drift toward big government, they should have written a preamble that extolled the virtue of the private sector, perhaps like this:

We the people of the United States of America, recognizing—

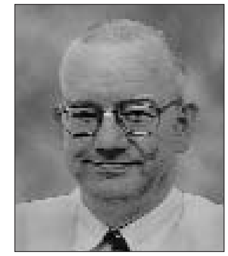
That the general welfare is promoted by individuals, families, neighbors, and societies freely striving to improve the condition of mankind,

And further recognizing—

That government action often counteracts their independent, creative activities;

Do hereby establish a government which shall establish Justice, insure domestic Tranquility, and provide for the common defence. FEE

The Virtues of Commerce: Lessons from Japan



BY STEPHEN DAVIES

One of the great questions of historical inquiry, which I have addressed in these pages and elsewhere, is exactly how the modern world came to be so different from what went before. Since about 1750 there has been a 16-fold increase in real wealth per capita on a global scale, something completely unprecedented that has transformed the lives of everyone on the planet much for the better.

In her latest work, *Bourgeois Dignity: Why Economics Can't Explain the Modern World*, Deirdre McCloskey argues that the critical factor was a change in how productive activities such as trade were regarded. Instead of being seen as menial, morally disreputable, and lacking in honor, they came to be regarded as respectable, dignified, and above all virtuous. This gave trade, merchants, and manufacturers (those who worked with their hands) the crucial respect formerly given only to aristocrats, priests, and even peasants. I think McCloskey gives too much weight to this explanation, but the phenomenon she identifies was undoubtedly real and important.

Kaitokudo thinkers, contrary to much Confucian thought, argued that profit was virtuous itself and its pursuit was moral.

McCloskey identifies the Dutch Republic as the place where the cultural shift started in the early seventeenth century. In the European case this is undoubtedly true. However it was not unique. Another later but independent shift was even more self-conscious and deliberate. It happened in one of the most fascinating of premodern societies, Tokugawa Japan. (McCloskey discusses the striking similarities between Europe and Japan at this time).

From 1467 to roughly 1570 Japan went through what became known as the Sengoku, or "warring states," period of its history. The central authority was weak to nonexistent and warfare was almost constant. Between 1568 and 1603 there was the Momoyama, or unification, period in which Japan was unified by several astute leaders. The last of these, Tokugawa Ieyasu, defeated his rivals at the Battle of Sekigahara in 1600 and established the Tokugawa Shogunate, which would rule Japan until 1868. Tokugawa Japan was simultaneously deeply conservative and yet dynamic. The Tokugawa Shoguns, particularly after the 1630s, banned almost all contact with the outside world (the losing side at Sekigahara had generally favored greater links). Internally they sought to encourage and enforce a strict conservatism. One aspect of this was a firm insistence on traditional social hierarchies of esteem and status: emperor, shogun, daimyo, samurai, peasant, artisan, merchant. In general the countryside was seen as morally superior to the city. Another aspect was a revival of interest in Confucianism, particularly by the samurai, with development of an elaborate moral code and philosophy known as *bushido*—the way of the warrior.

The other side of Tokugawa Japan, however, was rapid economic development. Population grew swiftly after the 1690s, and this went along with dramatic urbanization: By the late eighteenth century the capital Edo (now Tokyo) and other centers such as Osaka and Kyoto were among the largest cities on the planet. There was also a great growth of internal trade and manufacture, as well as some trade with the outside world via a small colony of Dutch merchants on an artificial island in Nagasaki harbor. This also went along with interesting cultural developments. The merchant class in Japan did not simply concern themselves with

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business and physical pleasure, accepting their lowly status, as is often supposed. Instead they also explored Confucian and other ideas. In doing so they developed their own philosophy and culture, that of *chonindo*—the way of the townsfolk.

The essence of *chonindo* was developed and articulated by a series of thinkers from the later seventeenth century onward in the mercantile centers of Japan and particularly in Osaka. (Osaka had been the center of the Toyotomi clan, the rivals of the Tokugawa and the losing side at Sekigahara).

The crucial event in many ways was the founding of the Kaitokudo academy in Osaka in 1726 by Miyake Sekian and Nakai Shuan. This was a private educational institution, funded by the great merchant and trading houses of Osaka, for the exploration of Confucian ideals and in particular the establishment of the connection between productive work, trade, and virtue. The founders and teachers of the Kaitokudo argued that hard work, skill, craftsmanship, and physical labor were virtuous and forms of human excellence. More dramatically, given the traditional hostility towards it in much Confucian thought, they argued that profit was itself virtuous and that its pursuit was not only compatible with a moral life but moral in itself. The deeper argument was that there was no contradiction between the traditional virtues of restraint, loyalty, honor, and magnanimity and the life of labor and commerce. Instead all these virtues were both necessary for success in that kind of life and embodied in the successful living of such a life. What was wrong was dishonest and predatory behavior in any way of life.

The "floating world" depicted in woodblock prints was part of a belief that the physical world was good.
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Another aspect of the urban life of Tokugawa Japan that had a close relationship to all this was the notion of the "floating world" as represented in the artistic genre of Ukiyo-E, the well-known woodblock prints of urban life. In its physical sense the "floating world" referred to the pleasure and entertainment sectors of the new cities of Japan. As such it is often thought of as a cult of hedonism and something opposed to both *bushido* and *chonindo*. Sometimes this was true but more often there was a connection between the ideals of the floating world and those of *chonindo*. The common element was the belief, also found in Enlightenment Europe, that this physical world was good, not cursed, and that physical pleasure and well-being were admirable and worth seeking rather than barriers to virtue. The connection with *chonindo* was through the idea that in fact greater comfort and physical pleasures encouraged virtue (while discouraging predatory or vindictive behavior) and were the outcome of following the virtues of the merchant or townsman.

We may think that today the arguments of people like Adam Smith in Europe or the teachers of the Kaitokudo in Japan are unimportant because they are so obviously true and uncontroversial. Nothing could be further from the truth. Rather they are now as unfashionable and deprecated as when those Japanese merchants got together and set up their academy in Osaka almost 200 years ago. Because they faced such a hostile culture they were in many ways more explicit and systematic in their arguments than their European counterparts were. (Arguably they also had a more congenial intellectual tradition to work with in many ways). Today too many of the arguments for a free economy and society are made on the basis of efficiency. Such arguments may be true but they butter no parsnips when faced with a moral rejection of the idea of profit and commerce. The argument that a free economy is a moral economy is one that needs to be made and won more than ever.

We should read people like Ito Jinsai, Nishikawa Joken, Miyake Sekian, Nakai Shuan, Tominaga Nakamoto, Goi Ranju, Nakai Chikuzan, Nakai Riken, Kusama Naokata, and Yamagata Banto as much as we do Adam Smith, David Hume, Lord Kames, and Milton Friedman.

Coming Soon: The Federal Department of Standardized Minds

BY NEAL MCCLUSKEY

The story of federal intervention in education is one of abject failure. Coming in large supply only since President Lyndon Johnson's "Great Society," Washington's educational undertakings first resulted in billions of misspent dollars, then billions of misspent dollars coupled with increasingly rigid "accountability" rules. The result of both phases has been squandered funds and academic stagnation. But rather than accepting the lesson that centralized control of education is doomed to failure, inside-the-Beltway educationists are doubling down, pushing for a single national curriculum.

The proximate impetus for the current national standards push is the failure of the No Child Left Behind Act (NCLB). The law—a bipartisan 2002 reauthorization of the Elementary and Secondary Education Act—is intended to be all things to all federal politicians, a "no excuses" hammer against academic failure that also protects state and local school control. So the law demands that all states have standards and tests in mathematics, reading, and science; test all students on a regular basis in those subjects; and have all students make "adequate yearly progress" (AYP) toward 100 percent math and reading "proficiency" by 2014. However, it leaves it to states to write their own standards and tests and define "proficiency" for themselves.

> Inside-the-Beltway educationists are doubling down on decades of failure by pushing for a single national curriculum.

The incentives for states are obvious: Set the lowest "proficiency" bars possible so they're easy to vault and in so doing, stay out of trouble under the law, which institutes a cascade of punishments for schools or districts that fail to make AYP. It's a structure that makes little logical sense but gives federal politicians the ability to simultaneously claim to be unforgiving on educational futility while also being staunch defenders of state and local control.

That these perverse incentives have been prevailing has been borne out in comparisons of state standards with those of the National Assessment of Educational Progress (NAEP), a federal testing regime that, in contrast to state testing under NCLB, is unlikely to be gamed because how a state or district performs on NAEP carries no rewards or punishments. Federal comparisons have shown that states had either set very low proficiency levels before NCLB or lowered them in response to the law. Indeed almost all states have set their proficiency marks equivalent to "basic" or below on NAEP tests.

This standards bottom-scraping, coupled with significant variation between states in their standards and proficiency measures, has energized the current national standards drive, which has been spearheaded by the National Governors Association (NGA), the Council of Chief State School Officers (CCSSO), and the right-leaning Thomas B. Fordham Institute. A major rationale for imposing national standards, as enunciated in the 2006 Fordham report *To Dream the Impossible Dream: Four Approaches to National*

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Standards and Tests for America's Schools, is to "end the 'Race to the Bottom'" set off by NCLB. If states have to use the same standards, advocates reason, they won't be able to hide their poor performances behind differing proficiency definitions.

The result so far has been the creation of so-called "Common Core" standards, grade-by-grade benchmarks in mathematics and English Language Arts (ELA) created by the NGA and CCSSO, which were released in June 2010. States have already been coerced into adopting them by the Obama administration's "Race to the Top" competition, a $4 billion, stimulus-funded beauty contest in which the federal government selected winners based on what it considered the prettiest state promises to initiate preferred reforms including adoption of the Common Core standards. In addition Washington has awarded $330 million to two consortia of states developing tests to accompany the standards.

This is likely just the beginning of federal shoving and bribing. President Obama proposed connecting national "college- and career-ready" standards to much bigger pots of federal education money in his 2010 "blueprint" for reauthorizing NCLB. If this were to become law states would almost certainly be required to adopt national standards lest they lose far more than just a shot at part of $4 billion, including perhaps their entire share of the formula-apportioned $14.5 billion delivered under the law's first title.

> Based on past attempts at creating a federal standard, current advocates learned they must look innocent and come in quietly through the back door.

Despite the potentially huge transformational impact the national standards movement could have—most notably, Washington taking de facto control of the curricula of every government school in the nation—the drive has received scant media attention. Why?

The answer lies in a previous effort to set uniform curriculum standards for the entire country, one from which standards advocates learned valuable political lessons.

In the 1990s President George H.W. Bush and President Bill Clinton each attempted to create and implement "voluntary" national standards and tests. Unlike the current initiative, the federal government openly commissioned and funded the creation of the would-be standards. The standards in some cases were highly detailed, and the effort was much ballyhooed by both presidents.

When the proposed national standards were eventually released they were quickly destroyed by vehement high-profile opposition from across the political spectrum. This was especially true for the U.S. history standards, the first released, which were widely seen as hopelessly politically correct. The high degree of detail in the standards and their transparent federal origins were their undoing.

Sneaking In

From that experience, it seems, current advocates learned that national standards must look innocent and come in quietly through the back door. They have maneuvered carefully to adopt that strategy, keeping their efforts low-key and repeating ad nauseum that the movement is "state-led" and "voluntary." In addition they have so far avoided the extremely contentious subject of history and prescribed almost no specific reading selections in the ELA standards. They have also assiduously avoided offering any specific content so people will have little that's concrete to object to.

Specific content, however, is almost certainly coming. For one thing the tests being funded by Washington will have to assess something, and because under a reauthorized NCLB, performance on them is likely to drive rewards and punishments for schools, districts, and states, they will ultimately dictate what the real standards are. Unfortunately, what those tests will contain will probably not be cemented until 2014, when they are supposed to be completed. By then, if the standardizers get their way with a reauthorized NCLB, all states will already be locked into national standards and testing.

In addition to having the tests on the horizon, some standards advocates are putting together more detailed curriculum guidelines that they would like to see accompany the standards and, quite possibly, be pushed via the federal treasury. In March the Albert Shanker Institute—an arm of the American Federation of Teachers (AFT)—released a manifesto calling for the creation of curriculum guides that signatories recommended be coupled with, among other things, "increasing federal investments in implementation support." Unfortunately in education "federal investments" are often synonymous with federal extortion using taxpayer money.

It's not as if national standards have driven achievement, although that's what their champions would have us believe. As such proponents as AFT President Randi Weingarten are fond of pointing out, most countries that beat us on international exams have national standards. Therefore, they argue, national standards must produce better outcomes.

There is actually no correlation between having national standards and performance on standardized exams.

No Link to Performance

The thing is, there is actually no correlation between having national standards and performance on exams like the Trends in International Math and Science Study (TIMSS). Why not? Because almost all countries that participate in the tests have national standards, meaning that both the top and bottom ranks are dominated by educationally centralized nations. So while the eight countries that outperformed the United States on the 2007 eighth-grade TIMSS mathematics exam had national standards, so did 33 of the 39 countries that placed beneath us, as well as 11 of the 12 lowest performers. Meanwhile, whenever Canada—which has no national-level education authority—participates in international exams, it finishes near the top.

So the one piece of evidence that supporters cite to show that national standards are necessary to academic success is bunkum. Their problem might be, as I explain in *Behind the Curtain: Assessing the Case for National Curriculum Standards* (2010), that there is very little research of greater rigor to draw on. Indeed what research there is has been conducted largely by one man—Cornell University economist John H. Bishop—and he has focused not just on national standards but national standards coupled with high stakes for students, such as grade-promotion and graduation decisions. Even that shows at best no meaningful positive effect on achievement, with any benefits disappearing when such variables as national culture are accounted for.

Of course even were national standards shown to have strong positive impacts on academic achievement, before the federal government could twist state arms to adopt them, it would be necessary to show that doing so is legal. At least it *should* be necessary.

The gateway question for the legality of federal action is whether or not the steps being contemplated are constitutional. In almost all things education—save striking down discriminatory provision of schooling by state or local governments and exercising control over education in the District of Columbia—the answer will always be, "No, it is not constitutional." Education and schooling are nowhere to be found in the specific enumerated powers given to the federal government in Article I, Section 8, and as both James Madison and Alexander Hamilton made clear in the Federalist papers, the "general welfare," "necessary and proper," and taxation clauses do nothing to change what that means: Washington cannot govern education.

The Constitution Doesn't Matter

Unfortunately, the Constitution ceased to be adhered to decades ago, as evidenced not just by federal education involvement but countless other things Washington does. Yet keeping federal hands out of curricula isn't just required by the Constitution—it is also enshrined in federal law. Neither the Department of Education Organization Act of 1979 nor the No Child Left Behind Act gives the federal government authority, as NCLB puts it, "to mandate, direct, or control a State, local educational agency, or school's specific instructional content, academic achievement standards and assessments, curriculum, or program of instruction."

In light of all this the national standards crusade clearly has crippling empirical and legal shortcomings. Those practical matters aside, though, the ultimate problem is that moving to even greater centralization of education is lurching education policy further in exactly the wrong direction. We know from experience both inside and outside of education that individual freedom is the key to sustained, dynamic success, both because it spurs competition, innovation, and efficiency and because government power tends to be taken over by narrow special interests who use it for their own advancement instead of the "public good."

The superiority of freedom in education is well established.

This latter reality is borne out brilliantly in education, with teachers' unions having accumulated massive political power—the National Education Association almost single-handedly forced creation of the U.S. Department of Education—and having consistently used that power to enact laws and contracts that give them strangleholds over taxpayer money and government school employees. Administrators' and school boards' associations are also big political players.

Meanwhile, though not easy to see because most states and nations have embraced the same government-monopoly schooling model, the superiority of freedom in education is well established. Research from the United States and around the world—where there is often significantly greater educational freedom than in the United States, though nothing close to ideal—reveals that the more freedom there is in education, the better the outcomes.

Of course, the most compelling evidence of the superiority of freedom comes from outside the government-intensive realm of education. It is the lightning-fast evolving and improving computer industry. It is the incredible scaling up of in-demand products ranging from Starbucks coffee to iPads. It is the American versus the Soviet economy. And it is the huge productivity improvements we see in almost every market-based industry but do not see in American elementary and secondary education.

What we clearly need in education, but have had less and less of as the decades have passed, is freedom. Unfortunately, the most powerful drive in education today—the national standards movement—is taking us in exactly the wrong direction. FEE

Fear-Mongering and Servitude

BY JAMES BOVARD

In his 1776 essay, "Thoughts on Government," John Adams observed, "Fear is the foundation of most governments; but it is so sordid and brutal a passion, and renders men in whose breasts it predominates so stupid and miserable, that Americans will not be likely to approve of any political institution which is founded on it." The Founding Fathers hoped the American people would possess the virtues and strength to perpetuate liberty. Unfortunately politicians over the past century have used trick after trick to send Americans scurrying to politicians to protect them.

President Woodrow Wilson pulled America into World War I based on bogus idealism and real fear-mongering. Evocations of fighting for universal freedom were quickly followed by bans on sauerkraut, beer, and teaching German in government schools. H. L. Mencken observed in 1918: "The whole aim of practical politics is to keep the populace alarmed and hence, clamorous to be led to safety—by menacing it with an endless series of hobgoblins, all of them imaginary." In Mencken's time he was often considered cynical. Subsequent developments have proven Mencken to be a prophet.

The Democratic Party relied heavily on the fear card in the 1920 presidential race. On the eve of the November vote that year Democratic presidential candidate James Cox declared: "Every traitor in America will vote tomorrow for Warren G. Harding!" Cox's warning sought to stir memories of the "red raids" conducted in 1919 and 1920 by Attorney General A. Mitchell Palmer, during which thousands of anarchists, communists, and suspect foreigners were summarily jailed and in many cases deported. The American people rejected Cox and embraced Warren Harding's promise of a "return to normalcy."

President Franklin Roosevelt put "freedom from fear" atop the American political agenda in his 1941 State of the Union address. But FDR's political legacy—especially Social Security—has institutionalized fear-mongering in presidential and congressional races. Democrats perennially portray Republicans as planning to yank life support from struggling seniors.

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For almost 50 years American politicians have used television ads to spur dread, most famously in the 1964 "Daisy" ad for Lyndon Johnson's campaign. The ad showed a young girl, in the words of Jim Rutenberg in the *New York Times*, "picking the petals off a daisy before the screen was overwhelmed by a nuclear explosion and then a mushroom cloud and Mr. Johnson declared, 'These are the stakes.'" The ad did not specifically claim that Barry Goldwater, the Republican nominee, would annihilate the human race, but the subtle hint wafted through. Though this ad only aired once, it instantly became a legend.

Whipping up fear was the flipside of President Bill Clinton's "feeling your pain" political style. Clinton fanned people's fear of guns, militias, and life without medical insurance. At the same time, the Clinton administration stretched the power of government on all fronts—from concocting new prerogatives to confiscate private property to championing FBI agents' right to shoot innocent Americans to bankrolling the militarization of local police forces. Clinton was the Nanny State champion incarnate, teaching Americans to look to government for relief from every peril of daily life—from unpasteurized cider to leaky basements. As long as the President seemed to care about average Americans, his abuses were largely forgotten. (The 1996 Republican presidential candidate, Sen. Bob Dole, also promised to provide voters with "freedom from fear" via untying "the hands of the police.")

Fear and Bush

The 2004 race was the most fear-mongering presidential campaign in modern American history. In his acceptance speech at the Republican National Convention, George W. Bush referred to terror or terrorism 16 times. Bush reelection campaign television ads showed firemen carrying a flag-draped corpse from the rubble at Ground Zero in New York and a pack of wolves coming to attack home viewers as an announcer warned that "weakness attracts those who are waiting to do America harm." (One commentator suggested that the ad's message was that voters would be eaten by wolves if John Kerry won.) Just before Election Day a senior GOP strategist told the *New York Daily News* that "anything that makes people nervous about their personal safety helps Bush." People who saw terrorism as the biggest issue in the 2004 election voted for Bush by a 6 to 1 margin. Moises Naim, editor of *Foreign Policy*, observed that the Bush campaign was "using the fear factor almost exclusively. This is a highly researched decision with all the tools of public opinion management. It's nothing but a reflection that it works."

Bogus terror alerts might have made the difference in the 2004 election. Robb Willer of the Sociology and Small Groups Laboratory at Cornell University examined the relationship between 26 government-issued terror warnings reported in the *Washington Post* and Bush's approval ratings. "Each terror warning from the previous week corresponded to a 2.75 point increase in the percentage of Americans expressing approval for President Bush," Willer concluded. Bush beat Kerry by 2.4 percentage points in the popular vote. Former Homeland Security chief Tom Ridge later admitted that many of the 2004 alerts were unjustified. The Cornell study also found a "halo effect": Americans' approval of Bush's handling of the economy also rose immediately after the announcement of new terror warnings, Willer reported. Apparently the more terrorists were allegedly poised to attack America, the better job Bush was doing.

> Bogus terror alerts might have made the difference in the 2004 election.

Voters in 2004 could choose whether they would be killed by terrorists if they voted for Kerry or whether they would be left destitute and tossed out in the street if they voted for Bush. Boston University professor Tobe Berkovitz commented to the *Washington Post*: "It's not surprising that both campaigns are looking for the leverage point: scaring the hell out of the American public about what would happen if the other guy wins." But the more an election is about fear, the more the winner will presume to be entitled to all the power he claims to need to combat the threat.

In his 2005 State of the Union address Bush declared: "We will pass along to our children all the freedoms we enjoy. And chief among them is freedom from fear." The Founding Fathers would have derided the notion of politicians giving citizens "freedom from fear." And they would have denounced the notion that this new-fangled freedom is superior to the freedoms the U.S. government had pledged to respect for more than 200 years.

After promising freedom from fear a politician can always invoke polls showing widespread fears to justify seizing new power. The natural result of making freedom from fear the highest freedom is that any policy that reduces fear can be portrayed as pro-freedom. Bush claimed that to keep Americans safe he had to suspend habeas corpus and detain any suspected terrorist in perpetuity based solely on his unproven assertions. Bush authorized the CIA to use waterboarding and other methods of torture on detainees. He ordered the National Security Agency to launch a massive illegal wiretapping program that eavesdropped on thousands of Americans' phone calls and emails without warrants. Yet Bush remained a great champion of freedom—at least in the eyes of his supporters.

The political mass production of insecurity is a dominant trait of our age. The easiest way for rulers to destroy the leashes the Constitution imposed on them is to make voters think they must choose: "We can obey the Constitution or we can prevent you from all being killed. What is it going to be?"

Rising fear can also undermine the freedom of speech that is a bulwark against government abuse. To the extent people desperately cling to faith in the leader to save them from all perils, they develop an intolerance to anyone who points out government follies or falsehoods. The Bush 2004 reelection campaign did all it could to fan such intolerance. Stumping around the nation for Bush, former New York City police commissioner Bernie Kerik told audiences in the final months of the campaign: "Political criticism is our enemy's best friend." As criticism is suppressed government becomes more incorrigible. Eventually the mistakes that could have been corrected cheaply early on become catastrophic national failures.

Fear and Obama

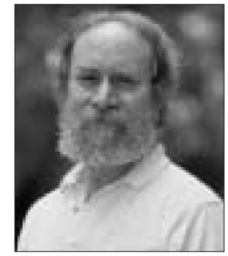
President Obama has picked up the fear-mongering relay baton with his attempts to frighten Americans about health care, global warming, economic collapse, and government shutdowns. Obama has also invoked the fear card to sanctify bombing bad guys anywhere and everywhere.

Government fear-mongering creates a downward politico-psychological spiral. The more fearful people become the more gullible they will be. British philosopher John Stuart Mill warned in 1842: "Persons of timid character are the more predisposed to believe any statement, the more it is calculated to alarm them." It is almost irrelevant whether 10 or 20 or 30 percent of the citizenry can see through government's fraudulent warnings. In a democracy as long as enough people can be frightened, all people can be ruled.

> Obama has also invoked the fear card to sanctify bombing bad guys anywhere and everywhere.

In the same way that some battered wives cling to their abusive husbands, the more debacles the government causes the more some voters cling to rulers. The craving for a protector drops an iron curtain around the mind, preventing a person from accepting evidence that would shred his political security blanket. In the days after the 9/11 attacks polls showed a doubling in the number of people who trusted government to "do the right thing." The media fanned this blind faith—as if trust in government was the high road to public safety. The Bush administration exploited the trust to unleash itself at home and abroad, and the nation is still paying the costs of its post-9/11 infatuation with government.

Bogus fears can produce real servitude. The Founding Fathers expected the American people to bravely stand up for their rights if their rulers trampled the law. Citizens cannot cower on cue without forfeiting any possibility of keeping government on a leash. If this nation is to have a rebirth of liberty, it must begin with a rebirth of courage. FEE



Budget-Cutting Resistance

BY SHELDON RICHMAN

So here's the problem: While polls show that people want the government's budget deficit and the national debt reduced, they don't want the biggest spending items cut.

In the April 17 ABC News-*Washington Post* poll, 59 percent said that the deficit should be reduced through a combination of *unspecified* spending cuts and tax increases. But 69 percent opposed cutting Medicaid, 78 percent opposed cutting Medicare, and 56 percent opposed cutting the military. Fifty-three percent said they would oppose a plan to reduce the debt significantly by "raising taxes on all Americans by a small percentage and making small reductions in Medicare and Social Security benefits." Fifty-four percent said Medicare "should remain as it is today."

In other words, cut spending but stay away from where the money is. Medicare, Medicaid (plus the State Children's Health Insurance Program), and the military represent nearly *40 percent* of the budget. Social Security is about 20 percent more. (Interest on the debt is 4.6 percent.)

> There's far more sympathy for raising taxes than cutting spending—not a good sign for libertarians.

In the poll 72 percent supported raising taxes on people making more than $250,000—54 percent "strongly." There's far more sympathy for raising taxes than cutting spending—not a good sign for libertarians.

A McClatchy-Marist poll had similar results. It found that a clear majority, 64 percent, thinks the country is "going in the wrong direction." Of those who identified themselves as conservatives, 78 percent agreed. Moreover, 57 percent of all respondents said reducing the deficit is the priority, with 68 percent of conservatives agreeing. No other objective came close.

I point this out because in the same poll, when asked if Medicare and Medicaid should be cut, *80 percent* said no, with 68 percent of conservatives agreeing. How about reducing military spending? Fifty-four percent overall said no, including 72 percent of conservatives. ("Liberals" and moderates approved, 60 and 54 percent, respectively.)

Sixty-nine percent said they were against raising the debt ceiling, right after saying that they would not cut the biggest items in the budget.

I note for the record that of the conservative respondents, 48 percent said they support or "strongly" support the Tea Party, while 44 percent said they do not.

So what does all this mean? It seems to mean that despite the prominence of the Tea Party and despite the fact that the word *libertarian* is spoken in the news media more than ever before, the prospects for a major reduction in the size of government in the immediate future are dim—this at a time when there is also near-panic about the debt and the deficit. If big cuts aren't going to happen now, then when?

Sources of Resistance

The political system does not reward budget cutters. There is too much to gain politically by purchasing votes through promises of largess, while hiding or deferring the costs, if they can't be pushed onto to some unpopular group. I don't think this means Americans are a bunch of self-conscious freeloaders. Rather they likely (and erroneously) see any benefits they collect as a return on their forced tax "investment." Social Security and Medicare have certainly been misrepresented as such. Why wouldn't people be upset at the thought of reduced benefits? Even Medicaid, the medical program for low-income people, affects the middle class. Medicare, the medical program for all retirees, does not cover nursing-home care, but Medicaid

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does—if a person meets the means test. It's an open secret that if a nursing-home resident has too much money to qualify for Medicaid, the staff will advise the family on what to do to become eligible. This usually involves a lot of gift-giving and other activities to reduce the resident's assets to the acceptable level.

The upshot is that even middle-class younger people may well oppose cuts in Medicaid if it means they will have to pay directly for nursing-home care for an elderly parent or perhaps have him or her live in their homes. This is part of a more general consideration. Most people already on Social Security and Medicare would understandably oppose cuts in those programs. Less obvious is that their grown children are likely to take the same position, and not just because they expect to be beneficiaries someday. If those programs were to end, or even be cut substantially, the children would have to help pay their parents' living expenses out of their own pockets. Yes, they pay today through taxes, but there are differences: First they don't pay 100 percent, since other taxpayers also kick in, and second there's a bureaucracy between them and their parents. I suspect most people would rather support their parents *through the government* rather than directly, and most retired people would probably prefer that too. Face-to-face dependence of aging parents on grown children who are trying to raise their own families can be a source of tension if not outright conflict.

Government interventions are not isolated phenomena; they are part of a system, with one part often intended to ameliorate the effects of some other part.

Intervention Begets Intervention

Government interventions are not isolated phenomena; rather they are part of a political-economic-social-cultural *system*, with one part often intended to ameliorate the effects of some other part. (Remember Ludwig von Mises's "critique of interventionism.") Thus we should not discuss any particular part in a vacuum—not if we want to say something constructive.

For example, it is an eminently libertarian prescription to call for the abolition of Medicare on grounds that transferring wealth by force is immoral. But left at that, the argument will persuade no one and might even discredit the speaker. Why? Because it fails to acknowledge that many current beneficiaries would be left in dire straits if the program suddenly ended. Nor would it suffice to say that once the program was gone, "the free market" would handle things satisfactorily. What free market? American medicine consists of a government-insurance-doctor-hospital protectionist cartel that suppresses competition and innovation in the provision of services through licensing and myriad other interventions. High prices and callous bureaucracies are the rule for many people, and that didn't begin with Obamacare. Surely libertarians don't wish to be understood as proposing—in the name of human freedom—that a vulnerable portion of the population be subjected to that gauntlet.

None of this means that these programs are legitimate or should not be abolished. They require force (taxes) and induce dependence on the political class. What I'm suggesting is that libertarians need to bear these considerations in mind when making their case against such government intervention. They need to be cognizant of the wider issues and combine their critique of Medicare with a critique of the entire government-medical-insurance complex.

If we are to expand the sphere of freedom while shrinking the sphere of force, we first need to be understood. We won't be understood if we are oblivious to people's concerns and to how they currently see the government's role, however fallaciously, in addressing those concerns. FEE

The Economics of Caring and Sharing

BY DWIGHT R. LEE

If we were to apply the unmodified, uncurbed rules of the micro-cosmos (i.e., of the small band or troop, or say our families) to the macro-cosmos (our wider civilization), as our instincts and sentimental yearnings often make us wish to do, *we would destroy it*. Yet if we were always to apply rules of the extended order to our more intimate groupings, *we would crush them*.

—F. A. Hayek,
The Fatal Conceit: The Errors of Socialism

The widespread belief that markets are immoral is a major reason they are so poorly understood and so rarely appreciated. This belief is not easily overcome. The fundamental problem is that our instinctive sense of morality, which I shall call *magnanimous morality* (the morality of caring and sharing), makes it easy to see markets as morally flawed. Furthermore, the explanation economists give for what they see as the major advantage of markets reinforces the instinctive tendency to see them as immoral. Unless economists recognize the source of this hostility and acknowledge it is based on a praiseworthy morality—but one not fundamental to the success of markets—there can be little progress overcoming the view that markets are immoral. This would be a shame since there is a strong moral case to be made for markets.

Markets are based on a morality, which I shall call *market morality*, that helps to direct our actions into a global pattern of mutual assistance which *appears* to result from magnanimous morality but in fact could never be achieved by that morality. Because market morality lacks instinctive appeal, there is widespread support for attempts to create a more moral economic order by substituting magnanimous morality for market morality. Such attempts unavoidably erode the benefits from both moralities and lower the overall morality of the economy.

I wish to emphasize the difference between magnanimous and market moralities, showing that each supplements the other in contributing to a moral social order—but only if they are confined to their proper spheres of human action.

The Magnanimous Morality of Caring and Sharing

We instinctively think of morality as personally caring for and sharing with others. It can be defined briefly as satisfying three conditions: 1) helping others intentionally; 2) doing so at a personal sacrifice; and 3) providing the help to identifiable individuals or groups. Behavior of this sort is clearly beneficial to the well-being of small groups in which the members are in close personal contact and knowledgeable of the circumstances and concerns of one another. We spent most of our evolutionary history in small hunter/gatherer tribes fitting this description, so a strong affinity for magnanimous morality has been hardwired into our emotional makeup. Its presence or absence has predictable effects on how we view behavior and social arrangements.

The enduring popularity of Charles Dickens's *A Christmas Carol*, published in 1843, illustrates the emotional appeal of intentionally caring for and sharing with identifiable people at personal sacrifice. Ebenezer Scrooge is introduced as "a squeezing, wrenching, grasping, scraping, clutching, covetous, old sinner" with

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no regard for the welfare of this employee, Bob Cratchit, his own family, or anyone else. But after Scrooge's encounter with the ghost of his former partner and the three ghosts of Christmas he experiences a moral transformation. He finds true happiness in paying for the medical care needed by Tiny Tim, the Cratchits' crippled son, raising Bob's salary, and more generally using his wealth for the benefit of others.

The appeal of magnanimous morality is fully warranted and understandable. The relationships we have with family and friends are rooted in it, providing us with our greatest happiness and most satisfying and meaningful moments. It should be emphasized that magnanimous morality is not inconsistent with the proper functioning of a market economy. Success in market transactions depends on being sensitive to the concerns of others. And this sensitivity seems to extend beyond strictly market transactions. Based on experimental evidence from a number of countries with wide differences in the degree of integration into global markets, Herb Gintis concludes, "[S]ocieties that use markets extensively develop a culture of cooperation, fairness and respect for the individual" (quoted in Matt Ridley's *The Rational Optimist*).

It should also be admitted, however, that the proper functioning of a market economy does not depend primarily on magnanimous morality. Indeed, the morality on which markets primarily depend is easily seen as rejecting magnanimous morality, and the way most economists make the case for markets encourages this view and the instinctive hostility that so many have for markets.

The Morality of the Market

Market morality is rather modest, with little if any emotional appeal; in fact, it scarcely seems to deserve the name "morality," instead being commonly seen as a justification for behavior widely held to be immoral. This morality can be defined as following the general rules and norms of market exchanges, such as respecting property rights, honoring contractual obligations, and not harming others by violating their legitimate rights and expectations through force or fraud. Market morality can be achieved, according to Adam Smith in *The Theory of Moral Sentiments*, "by sitting still and doing nothing." And while markets reward kindness and caring for those with whom we have personal exchanges, the vast majority of the exchanges we benefit from are impersonal; we neither know nor meaningfully care for those on the other side of the exchange.

Since these impersonal exchanges create enormous benefits from outcomes that emerge without conscious direction, people seldom give much thought to those benefits or the market morality on which they depend. Of course people do think about markets occasionally, but when they do it is seldom with appreciation for the benefits they are receiving. More often than not people think about markets when they are being inconvenienced by the market discipline—the requirements "imposed" on us, for example, in return for income—that makes their benefits possible. Few of us connect such discipline to the far greater benefits we receive as a consequence, particularly when we see others who appear to be reaping great rewards from the very discipline that is apparently making us so much worse off. Under these circumstances it is easy to conclude that we are imposed on unnecessarily by the greed of others. How easy it is to also believe there is something immoral with an economic system that not only tolerates greed but also rewards it.

The vast majority of the exchanges we benefit from are impersonal; we neither know nor meaningfully care for those on the other side of the exchange.

When economists make the case for what they see as the most impressive feature of markets, they typically do so with the aid of Adam Smith in a way that reinforces the view that markets at best lack morality. Smith understood and appreciated magnanimous morality, as any reader of *The Theory of Moral Sentiments*, his first book, knows. But this would not be known to someone who knew only Smith's "invisible hand" argument for markets in *The Wealth of Nations*. The advantage of markets, according to Smith, is that by pursuing their own interests in the marketplace, people *unintentionally* do more to *promote the public interest* (the interest of no one in particular) than if it had been their *intention* to do so. This argument ignores every requirement for magnanimous morality, and the way economists phrase the argument makes it easy for people to conclude erroneously that the argument for the market rules out the more personal caring and sharing in which our personal relationships are rooted.

I am not proposing that economists discard the invisible-hand explanation of the market. But to make the case for the morality of markets, economists should recognize the tendency for people to dismiss the benefits of the market for its apparent moral failing and counter that tendency by pointing out the inability of magnanimous morality to achieve the desirable economic outcomes expected of it.

The argument for the market is often phrased in a way that allows people to conclude it rules out the morality in which our personal relationships are rooted.

Demanding More Than Magnanimous Morality Can Deliver

The belief that markets are immoral causes many either to fail to notice or to dismiss the benefits they realize from them. For example, while most people claim to value conservation and clearly benefit from the conservation that smoothes the availability of goods and resources over time, the nearly unanimous criticism of speculators, whose profit-seeking behavior makes this conservation possible, suggests that most people are unaware that this is a benefit of markets.

Even those aware that they are receiving a benefit from market activity commonly feel it is contaminated by the process providing it. This was illustrated after Hurricane Fran knocked out power in Raleigh, North Carolina, in September 1996. According to Michael Munger (tinyurl.com/2phmug), four men from Goldsboro, North Carolina (an hour from Raleigh), rented two freezer trucks and drove to Raleigh with a thousand bags of ice, which they bought for $1.70 each. Customers quickly queued up to pay $8 a bag, with each limited to five bags. Some complained about the price, but no one refused to pay. With the line still long, the local police arrived in force, arrested the four men for price gouging, and confiscated their trucks and all the remaining ice—which was not distributed to those in line. Surprisingly, at least to economists, the frustrated shoppers applauded the police for arresting those whose activities would have made them better off; would the customers have been happier had the sellers not bothered at all? The applause strongly suggests that those in the line felt that the benefit for which they had lined up was contaminated by the profit motive.

Or consider the idea of getting consumers in developed countries to pay extra for "fair trade" coffee, bananas, tea, and chocolate to reduce the poverty of poor farmers in developing countries. Assuming the premiums paid for "fair trade" products go to the intended recipients and forgetting Gene Callahan's economic analysis suggesting these recipients may be harmed even if they do ("Is Fair Trade a Fair Deal?," *Freeman*, March 2008, tinyurl.com/kma5pp), it is clear that "fair trade" advocates are sincere in their belief that this approach will reduce poverty and hope that it will catch on with consumers. Yet many are conflicted by what has been described as a paradox in the "fair trade" movement resulting from the widespread hostility toward markets that pervades it. As described by Sarah Lyon and Mark Moberg in *Fair Trade and Social Justice*, "In seeking social justice . . . fair trade . . . pursues a market-based solution to the very problems developing from free markets." When large corporations such as Starbucks, Nestlé, Walmart and McDonald's signed on to sell "Fair Trade" products, which would clearly increase sales and supposedly the incomes of poor farmers, many in the movement objected. Representative of these objections are those voiced by Pedro Haslam and Nicholas Hoskyns (in their contribution to *The Fair Trade Revolution*), who see these corporations motivated by "marketing success rather than ideology." "[F]air trade certified farmers who sell to them [big corporations]. . . ," they continue, "are still locked into the traditional supply chain dominated by the largest companies. This is not the vision of sustainability and community many of us started out with, where local family-owned businesses sell the products of small farmers and personal relations are maintained throughout the supply chain."

These statements reflect hostility for economies based on "marketing success" and impersonal exchanges between large companies and the suppliers they depend on. The statements, and numerous others from "fair trade" enthusiasts, express a yearning for economies based on personal dealings between consumers in developed countries and those in poor countries who supply them with products anonymously. In this they are like many others who are emotionally attracted to the idea of economies based more on the magnanimous morality of caring and sharing and less on the market morality of pursuing self-interest through impersonal market exchange.

While it is hard to imagine a life of meaning and joy without mutual caring and sharing, we shouldn't demand more of magnanimous morality than it can deliver. Calls for a more moral marketplace—sometimes referred to as capitalism with a human face—are invariably motivated by the hope of substituting the instinctive morality of the small group for the morality of impersonal markets. When such a substitution goes beyond feel-good rhetoric and is actually attempted, the result is less morality and prosperity as political power replaces voluntary exchange.

The primary advantage of markets is that they provide each of us with the information and motivation to share with literally millions of people, *without* caring for them.

Good economists see nothing wrong with caring and sharing. But they also see the opportunity to supplement that morality by extending our ability to help far more people than we can personally care about. The primary advantage of markets is that they provide each of us with the information and motivation to share with literally millions of people, *without* caring for them.

Of course some will say, "Yes, people are helping each other, but they are doing so for the wrong reason by considering only what's in it for them." Such people may never be convinced that self-interest is a legitimate motivation. But one would like to ask them if, when enjoying a good cup of coffee, reading a thrilling mystery on their e-reader, or boarding an airplane to visit a sick friend, they are troubled by the thought that all the many people who made those things possible were motivated primarily by a desire to improve their own conditions and the conditions of the families they love. I doubt they are, and for their sake I hope they aren't.

The healthiest and certainly the most compassionate way to think about markets is by recognizing that they allow us to provide better for the few we genuinely do care about by doing more to serve and share with the multitude of those we don't. This suggests that a strong moral case can be made for the market by explaining why the noble desires inspired by magnanimous morality are more fully realized when the urge to substitute that morality for market morality is resisted. FEE

The Militarization of Compassion

BY PETER J. BOETTKE

John Stuart Mill wrote in his *Principles of Political Economy* that "what has so often excited wonder" in observers is "the great rapidity with which countries recover from a state of devastation; the disappearance, in a short time, of all traces of the mischiefs done by earthquakes, floods, hurricanes, and the ravages of war. An enemy lays waste a country by fire and sword, and destroys or carries away nearly all the moveable wealth existing in it: all the inhabitants are ruined, and yet in a few years after, everything is much as it was before."

In the immediate aftermath of disasters, extensive direction is needed. Thereafter, people need to be free to respond voluntarily.
Larry Zou [flickr]

Mill explained the conditions necessary for this rapid recovery: 1) free mobility of capital and labor, and 2) the survival of some portion of the population and stock of human capital.

If these conditions are met, then economic and social recovery do indeed take place very quickly.

Militarization versus Decentralization

This is perhaps a jarring statement in the wake of the tragic human suffering we are witnessing in Japan (or saw last year in Haiti). Of course in the immediate aftermath of a natural disaster, rescue efforts and humanitarian assistance at the basic level require extensive direction. But we must not ignore decentralized coordinating processes. In the aftermath of 9/11 and Hurricane Katrina, for example, various decentralized efforts to provide assistance were vital to the survival of thousands. Though we focus, especially in the 9/11 case, on the government first-responders, in both instances nongovernment people often responded on the spot at critical moments. There is no doubt that police and firemen in New York City and the Coast Guard in New Orleans played significant roles during the first moments after the disastrous events. But after that initial period, government activism more often than not was counterproductive.

Shortly after Hurricane Katrina I initiated a research project at the Mercatus Center to analyze the effectiveness of the voluntary response to the crisis through the market and civil society. Families and communities were strengthened and rebuilt through the cultivation of commerce. To the extent that commerce was impeded, families were weakened and communities remained in ruins. This conclusion runs counter to common intuitions that demand a command-and-control approach in the wake of a crisis.

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The language of disaster and recovery efforts is one of centralization—a military effort is presumed to be required to tackle the urgent problem. But the militarization of compassion is not very effective in achieving improvement. As my colleague Chris Coyne (author of *After War* and a forthcoming book on humanitarian aid) suggests in his paper "Delusions of Grandeur," imagine you asked the firemen responding to a raging fire at a corporate building to also coordinate the provision of medical supplies and treatment, oversee the reconstruction of the building, and then rebuild the company's supply chain after the fire was extinguished and the building rebuilt. This is precisely what happens through the creeping militarization of humanitarian efforts.

The militarization of compassion does not help strengthen families, rebuild communities, or cultivate commerce. Instead, it centralizes efforts and ignores the local knowledge that resides in individuals and that is embedded in communities. Our intuition pushes toward command and control, but the science of economics pushes back against this intuition and favors the decentralized, on-the-ground information possessed by individuals—who are capable of embracing the challenges of the "cares of thinking and all the troubles of living" (as Tocqueville argued was required of a society of free and responsible individuals). The militarization of compassion may help those far away to feel they are doing their best to address the crisis, but once we get beyond the initial search-and-rescue phase and on to the second, rebuilding phase, the result is usually planned chaos.

Government Roadblocks

What emerged from our studies of the rebuilding after Hurricane Katrina was the vital role that both civil society and commercial life, as opposed to government direction, played in successful efforts to bounce back from the disaster. Whenever government attempted to guide individuals in their decisions rather than allow them to base those decisions on their local knowledge and to follow their private motivations, roadblocks to recovery arose. Mill's observation about the amazing rapidity of recovery was confirmed in those areas where the free movement of labor and capital was permitted, and frustration was produced by restrictions on the freedom to choose.

What we have learned from the study of disasters and recovery is that efforts to provide immediate humanitarian aid will always have elements of chaos. The chaos is alleviated not through the militarization of compassion, but rather through the market mechanism that takes over the allocation of resources and signals the required adjustments through relative prices and the feedback of profit and loss.

The Shame of Medicine: Is Suicide Legal?

BY THOMAS SZASZ

What do we mean when we say an act is legal? We mean that we are free to think and speak about it, and plan and perform it, without penalty by agents of the State. Legal acts—for example, cooking and walking—are matters of indifference to the law. Suicide is not. Accordingly, suicide is illegal or potentially illegal.

Today most people in the West regard killing oneself as an abhorrent temptation and avoid thinking about it. When they do think about suicide, they view such thinking as prima facie "abnormal" and readily accept the concept of "suicidal ideation," a common medical term for thoughts about suicide.

> Assisting legal acts is legal. However, assisted suicide is a criminal offense except under strict conditions. Then it is a medical service.

We do not talk about "sex ideation" or "eating ideation" or "vacation ideation." Why do we need and make up the special term "suicidal ideation"? To enable us to categorize it as a "psychiatric symptom," a hidden manifestation of "serious mental illness" and "dangerousness to self and others," a violation of the mental health laws, punished by incarceration in a mental health facility, and augmented by coerced psychiatric drugging. Failed suicide is also illegal, punished by similar psychiatric sanctions. The psychiatrist is regarded as an expert in "evaluating" and "detecting" this symptom and conducting himself accordingly as a coercive agent of the State. Although the psychiatrist who functions thus is an adversary of the nominal patient, law, medicine, and the public define and regard him as a "caring doctor," an ally of his involuntary "patient."

Merriam-Webster defines "ideation" as a noun: the capacity for or the act of forming or entertaining ideas <suicidal ideation>." This conceptualization is both the cause and the consequence of the psychiatric view of suicide as psychopathological. Thinking about sex, eating, or vacation is "reflection," "longing," "planning," "pondering," or simply "thinking"—not "ideation." The psychiatric premise that thinking about suicide is a symptom of the disease "clinical depression" is justificatory rhetoric: Thinking about suicide is simply thinking. It is also, as Nietzsche famously observed, a tool of self-preservation: "The thought of suicide is a powerful solace: by means of it one gets through many a bad night." The difference between the psychiatric and Nietzschean concepts of thinking about suicide illustrates the problem: For psychiatry it is a disease to be forcibly prevented and treated; for Nietzsche it is a remedy to be appreciated and understood.

The unlawfulness of suicide is further affirmed by the illegality of assisting the act. Assisting legal acts is legal. Assisted cooking, for example, is a common practice, performed and provided by family, friends, restaurants, schools, and other institutions. However, assisted suicide is a criminal offense unless the assistance is provided by a licensed physician in a jurisdiction in which specific legislation explicitly permits it: Then it is a medical service. The truth is that the only thing that makes physician-assisted suicide a medical service is that the means used for it is a prescription for a barbiturate, a document the law treats as if it were a prescription for insulin for a diabetic. Suppose doctors assisted suicide by shooting, stabbing, or strangling us at our request. Would we still call it "physician-assisted suicide"? Would we still classify and condone it as a medical treatment?

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Socrates, let us recall, died of assisted suicide: He killed himself by ingesting a lethal dose of a substance the Greeks called *pharmakon*—a word that means both medicine and poison—procured for him by others. Socrates did not need medical help to kill himself. Why do we act as if we do? Because we like to die peacefully with the help of a drug that puts us to sleep forever; and because, at the same time, we wage wars on drugs especially useful for this purpose and suborn physicians to bootleg them. In the absence of prescription laws—and, more generally, of drug laws—there would be no need for, and no special problem of, physician-assisted suicide.

Although the air we breathe is polluted with anti-suicide propaganda, no amount of psychiatric smoke can obscure our knowledge that at bottom suicide is a solution. Authoritatively repressed, this truism reemerges as humor: "I was depressed last night so I called Lifeline. . . . Got a freakin' call center in Pakistan. I told them I was suicidal. . . . They got all excited and asked if I could drive a truck."

The dilemmas and depravities of double agency are intrinsic to psychiatry and will not go away.

Suicide and the Identity of the Psychiatrist

Contemporary discourse about suicide seems to be about understanding the individual who says he intends to kill himself or to whom such intention is attributed by others. In fact the true subject of such discourse is the professional identity of the psychiatrist as bona fide physician, contingent on his presumed medical competence and legal duty to "save lives," especially the lives of persons who do not want to live.

As a phenomenon, suicide is ancient. As medical problem it is recent. The medicalization of homicide—both auto- and heterohomicide—is an aspect of the birth and growth of pharmacracy and the Therapeutic State. Medical historians William F. Bynum and Michael Neve observe: "By early Victorian times, suicide had been more or less completely medicalized." What do these writers mean when they use the term "medicalization?" They mean that melanoma is a medical problem by nature, whereas masturbation is a medical problem by culture. One is a disease *intrinsically*, the other is a disease by *imputation*. That is why we do not talk about the medicalization of bodily diseases, such as infections and malignancies, but do talk about the medicalization of mental diseases, such as dangerousness and depression.

Understanding a person and coercing him are mutually antagonistic and incompatible functions and roles—and we all know this. I have long objected to the social expectation that the psychiatrist be both his patient's ally and adversary, and the psychiatrist's willingness to play both roles. The dilemmas and depravities of double agency are intrinsic to psychiatry and will not go away. Honest psychiatrists cannot help but confront it. Hapless patients are doomed to be injured by it.

That medicalization forms an integral part of the modern zeitgeist is obvious. Some 50 years ago I coined the term "Therapeutic State" and suggested that coercive psychiatric suicide prevention is one of its defining emblems. Opposing this revered ritual is a thankless task but a worthy goal.

"The time is out of joint—O cursed spite, / That ever I was born to set it right!," soliloquizes Hamlet (act 1, scene 5, 188–190). For the lover of liberty and responsibility, the time always seems out of joint. Setting it right will always be a thankless task.

If suicide be deemed a problem, it is a moral and political problem, not a disease in need of diagnosis, prevention, punishment, or treatment. Managing suicide as if it were a medical problem will succeed only in debasing medicine and corrupting the law. Pretending to be the pride of medicine, psychiatry is its shame. FEE

The Modern Union versus Workers' Rights

BY WENDY MCELROY

The raging controversy in Wisconsin over eliminating collective bargaining "rights" for government employees cast a bright and harsh light on public-sector unions. Some commentators have distinguished public-sector unions from private-sector unions, but the vested interests of the two are much the same. Both are expressions of what might be called "the modern union," which came to dominate the American labor movement through New Deal legislation in the 1930s. Differences between the two forms of union should be acknowledged, however.

There is no question that the tax funding of public-sector unions creates important distinctions from those in the private sector. For one thing, private-sector unions negotiate in the context of limited money; if they demand too much the company cannot compete against rivals and union members could find themselves unemployed. By contrast public-sector unions have no similarly clear limit on available money and government has no competitor. Thus public-sector unions are among the loudest voices for increased taxation and big government to sustain their wages and benefits.

> The tax funding of public-sector unions creates important distinctions from the private sector.

Reducing those wages and benefits has become a popular cause largely because private-sector workers (even within unions) make considerably less than the government employees whom they are heavily taxed to support. In December 2009 the U.S. Bureau of Labor Statistics reported that government employees at the state and local levels earned an average of $39.60 an hour (including benefits), while private workers earned $27.42—over 30 percent less. Moreover, according to the Bureau of Labor Statistics, private workers have a 20 percent chance of losing their jobs in any given year; public workers have a 6 percent chance.

Reducing the power of either form of union is far less popular than reducing public-sector costs for at least two reasons. First, *all* modern unions benefit from legal privileges such as collective bargaining and the government certification that bestows a virtual bargaining monopoly on specific unions. Second, such prerogatives are widely viewed as workers' rights to be cherished in the same manner as constitutional rights. That's why Jesse Jackson compares Wisconsin's massive pro-union demonstrations to Martin Luther King's 1965 march in Selma for the voting rights of blacks.

Is it accurate to equate collective bargaining with workers' rights? Is it accurate to view public- and private-sector unions as distinct rather than fundamentally similar? The answers lie in history.

It is important to define unions precisely. In a free-market context a union is nothing more than a collective agency through which workers protect common interests and secure common advantages through negotiation or other forms of persuasion, such as boycotts or peaceful strikes. Individual workers assign their right to negotiate to the collective agency in much the same manner as they might assign power of attorney; no one

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is forced to join or to pay dues. Thus the union is a collective expression of the individual right to free association and to contract one's own labor. Employers remain free to decline negotiation and hire replacement workers.

Many conservatives and libertarians would consider the foregoing definition of unions to be unrealistic. In his article "The Myth of the Voluntary Union," economist Thomas DiLorenzo argues that those who believe unions can be voluntary fall into "an easy trap . . . detached from any reality and history." He insists that "violence against competitors has always been an *inherent* feature of unionism, even apart from the 'violence' of State-imposed legislative privileges that unions enjoy" (emphasis added). DiLorenzo refers specifically to the legal power of collective bargaining and to a history of brutal strikes as proof of unionism's inherent violence. Yet it is not clear that violence is inherent in unions.

Political Evolution

Could unions exist without legal privileges in a society in which employment relationships were not mandated, in which there were no restrictions on self-employment or home industry? Are free-market unions possible?

> Legal privileges and violent strikes have been defining aspects of the *modern* union.

The current paradigm of a modern union is rooted in the presidency of Franklin Delano Roosevelt. It was created through New Deal legislation, especially the Wagner Act, which established the legal right of workers within an industry or company to unionize if a majority of them voted in favor of doing so. The result has been far from an expression of the free market. For example a modern union receives government certification in order to engage in collective bargaining. In other words, the government authorizes it as the sole representative of a set of workers and legally requires the employer to give the monopoly union a seat at the negotiating table. This monopoly shuts out other groups or dissenters from negotiating their own contracts on their own terms. In many cases individuals can choose not to join a specific union but nevertheless they remain bound by union contracts and are required to pay union "fees." The modern union thus represents a forced transfer of authority from individual workers to a collective.

Government schools, which are operated by what is arguably America's strongest union, teach that the New Deal transferred power from business to labor. And without question the modern form of union gained political clout. But the political transfer was far more complex than it is portrayed to be.

Wagner and Big Business

In his essay "Labor Struggle: A Free Market Model" (c4ss.org/content/4163), Kevin A. Carson argues that the Wagner Act was designed to centralize, bureaucratize, and tame the unions to the advantage of big business, which was already no stranger to privilege and subsidy. That is why some of the most vigorous advocates for modern unionism were leaders of industry, such as Gerard Swope, president of General Electric. By specifying who could negotiate terms and how strikes could occur, Wagner removed some of the most powerful tactics from the labor movement. Carson comments, "The primary purpose of Wagner, in making the conventional strike the normal method of settling labor disputes, was to create stability and predictability in the workplace *in between* strikes, and thereby secure management's control of production" (emphasis in original).

Certification created labor monopolies that eliminated the need for business to negotiate contracts with multiple groups or individuals within the same company. Business also benefited from the unions' acting as enforcement agents, policing their own memberships' compliance with contracts. They prevented wildcat strikes and punished boycotts, work slowdowns, and other labor tactics that had proven both popular and effective in the past.

Leaders of modern unionism were aware of the benefits they offered to big business. In *Ethics and American Unionism* (1958), Sam Dolgoff wrote of John Lewis, president of the United Mine Workers of America (UMWA) from 1920 to 1960, "In 1937, Lewis assured the employers that 'a CIO contract is adequate to protect against sit-downs, lie-downs, or any other kind of strike'. . . . [T]he corporations accepted . . . 'industrial unionism' because as a matter of policy, the mass-production industries prefer to bargain with a strong international union *able to dominate its locals and keep them from disrupting production*" (emphasis added).

Wagner and Grassroots Federations

Dolgoff outlined the impact of the Wagner Act on grassroots labor federations such as the UMWA. The National Federation of Mine Laborers had been the parent union of the UMWA, and by its constitution, "the Federation consisted of Lodges (Locals) and districts which vigilantly defended their independence from the domination of the National Office. Their insistence on autonomy and unity through federation (free agreement) was in keeping with the finest libertarian traditions of the American Labor Movement. . . . When Lewis became President in 1919 he did away with the federalist structure of the union, rooted out autonomy and self-determination of locals, centralized and took complete control of the union." The Wagner Act completed the centralization.

> The modern union is an arrangement between big labor, big business, and big government.

Thus both Carson and Dolgoff argue convincingly that the modern union was an arrangement of shared advantage between big labor, big business, and big government. The relationship between business and unions was not necessarily cordial but it was often convenient.

Among those disadvantaged by the arrangement were smaller employers, the self-employed or non-unionized workers, and the broader grassroots labor movement itself.

Nineteenth-century America was the heyday of the grassroots labor movement. Fueled by a massive influx of immigrant workers and the rapid development of industry, a system of vigorous and varied labor organizations arose to address the specific needs of working people, which went far beyond a decent wage: Labor organizations often functioned as social and cultural support systems as well.

The most prominent nineteenth-century labor federation was the Knights of Labor. Established in 1869, membership reached 28,000 in 1880 and peaked at nearly 700,000 members in 1886. The primary demand of the Knights was an eight-hour day, but it also campaigned on such issues as ending convict and child labor. The Knights emphasized projects designed to empower its membership both economically and socially and to provide security for families. Through local chapters the Knights established worker-owned producer cooperatives; it launched public education campaigns to raise awareness of and sympathy for labor issues; and it organized social support networks to insure against the injury or ill health of members. Indeed many organizations or unions began as "benevolent associations" intended to care for the families of deceased or incapacitated members.

In "Revolutionary Tendencies in American Labor—Part 1," Dolgoff explained that the labor movement "created a network of corporative institutions of all kinds: schools, summer camps for children and adults, homes for the aged, health and cultural centers, insurance plans, technical education, housing, credit associations, et cetera. All these and many other essential services were provided by the people themselves, long before the government monopolized social services wasting untold billions on a top-heavy bureaucratic parasitical apparatus; long before the labor movement was corrupted by 'business' unionism."

Although the Knights of Labor used pressure tactics such as boycotts and the endorsement of friendly politicians, they did not generally emphasize strikes. Terence V. Powderly, who presided over the Knights during its ascendancy (1879–1893), openly opposed strikes, which he believed caused violence and increased conflict; he favored peaceful negotiation instead. Some local leaders within the Knights disagreed and flexed their autonomy by pursuing local strikes. Indeed, the internal conflict over strikes contributed to the Knights' decline.

Labor organizations within the nineteenth-century libertarian movement adopted much the same approach as Powderly—namely the use of mutual support, persuasion, and education as tools of labor reform. Perhaps the most prominent of these organizations was the New England Labor Reform League (NELRL), established in Boston in 1869. Its membership boasted individualists Josiah Warren, William B. Greene, and Benjamin Tucker. Ezra Heywood's *The Word* served as the NELRL's publication. The foundational "Declaration of Sentiments" declared the League's goals to be "Free contracts, free money, free markets, free transit, and free land—by discussion, petition, remonstrance, and the ballot, to establish these articles of faith as a common need, and a common right, we avail ourselves of the advantages of associate effort."

One example of NELRL activity illustrates the broad manner in which the League defined labor activity. Along with his wife Angela, Heywood founded the Co-Operative Publishing Company from which pamphlets issued, including ones on birth control. The NELRL believed that women workers were victims of the poverty created by unplanned children; thus, birth control fell within the realm of labor reform. "Lady Agents" were sent out to tour the factories and other working-class haunts of New England. Once they had found an audience, the Lady Agents spoke on subjects that merged labor reform with family planning, all the while offering the Co-Operative pamphlets for sale.

With effective networks and diverse strategies, a broad grassroots labor movement grew in power; its threat to entrenched interests also grew.

With effective networks and diverse strategies, a broad grassroots labor movement grew in power; its threat to entrenched interests also grew. The threat came into glaring focus in 1877 and 1894 with two strikes that involved violence on both sides. The Great Railroad Strike of 1877 began in West Virginia over a cut in wages; lasting 45 days, it was finally put down by federal troops who went from city to city to quash sympathy strikes by industrial workers. The Pullman Strike of 1894 began in Pullman, Illinois, again over a cut in wages. Spreading nationwide, it also attracted wildcat sympathy strikes and ultimately involved about 250,000 workers in 27 states. Eventually President Grover Cleveland sent U.S. marshals and some 12,000 troops to break the strikes.

By the turn of the twentieth century the labor movement—notably, the Industrial Workers of the World (IWW, or Wobblies)—had also become a political threat to the status quo. Organized in 1905, the Wobblies, had strong leaders but emphasized rank-and-file organization. Unlike the Knights of Labor, however, the IWW enthusiastically embraced strikes; indeed, it initially opposed the signing of all labor contracts specifically because they blunted the power to strike.

With a large immigrant membership and explicitly socialist principles, the IWW became a potent voice against America's entry into World War I, which it viewed as a conflict in which the workers of one nation were fighting the workers of another for the profit of capitalists. Thus the IWW became a prime target of the Department of Justice. In September 1917, 48 IWW meeting halls were raided and 165 leaders were arrested under the new Espionage Act. The next year 101 of them went on trial. All were convicted and received prison sentences of up to 20 years. Government repression effectively destroyed the IWW.

Government and big business had learned a lesson: An uncontrolled labor movement was unpredictable, politically dangerous, and bad for commerce. This was particularly true in the early 1930s, when Roosevelt swept into power in the wake of the Great Depression.

In 1929 the stock market collapsed and people panicked, causing runs on banks and massive bank failures. Unemployment rose as high as 25 percent while the personal income of those still employed declined. Large cities were hard hit, especially those dependent on heavy industries. Rural areas were devastated as crop prices tumbled and a severe drought turned farmland into dust. Hundreds of thousands of people were driven from their homes in search of any work whatsoever. Still other people left because of bank foreclosures.

A massive and migrant army of unemployed is a formula for labor revolt. Thus Roosevelt offered a New Deal to American workers; it was a series of interlocking economic programs implemented between 1933 and 1936. Through them the federal government's regulation of all aspects of commerce increased dramatically; its purpose was to create stability, especially in the area of labor.

This is the context into which the modern union, or big labor, was born—a governmental response to labor upheaval and a big-business desire for regulatory stability. The business elite may not have liked every aspect of New Deal labor policies, but it had long favored Roosevelt's general approach to labor relations.

> The modern union was born from a governmental response to labor upheaval and a big-business desire for regulatory stability.

The clout of a voluntary union comes from the individual members who assign their rights of contract over to a representative of the collective. In modern unions the opposite happens. Some members may join freely but they cannot later negotiate for themselves if they disagree with the union. Other members may be required to join as a condition of working in a specific industry or at a unionized company. Thus the modern union is the opposite of a grassroots organization; it strips individual workers of the rights of free non-association and of contract. The modern union—whether of the public or private sector—is the antithesis of workers' rights. FEE

Private Investment and Public "Investment"

BY ADAM B. SUMMERS

Politicians are fond of telling the public that we must "invest" in this program or that—be it education; health care; make-work infrastructure projects like the infamous "Bridge to Nowhere"; $50 million for an indoor rainforest in Iowa; $3.4 million for a tunnel to allow turtles to cross under a highway in Florida; $1.8 million for swine odor and manure management research; or millions of dollars for various research studies on the mating habits of cactus bugs, Japanese quail, woodchucks, and South African ground squirrels. All of these are actual appropriations, I'm sorry to say. "Investing" in some grand political design or program sounds so much better than saying, "I want to tax you so that politicians and bureaucrats in Washington, D.C. [or your state capital or city hall], can spend your money on whatever we think is best for you (or our campaign contributors)."

In his State of the Union address earlier this year, President Obama spoke of the need for the federal government to help boost the economy by making "investments" in a wide variety of areas, including construction jobs, high-speed rail, education, biomedical research, "clean energy" technology, and even high-speed wireless Internet access. But this "investment" is just a code word for more spending on pet programs. This will only lead to more economic stagnation, not economic recovery, because the wealth-consuming nature of public investment is fundamentally different from the wealth-creating nature of private investment. Taxpayers ignore this difference at their peril.

President Obama's form of investment promises to "create countless new jobs for our people," but he does not stop to ask from where the money to pay for all these new jobs will come. It must be taken from others "of our people," either today, through tax increases, or tomorrow, through borrowing (which will harm the economy in the future and delay the ultimate recovery). Of course, taking money from taxpayers to fund these new jobs means there is less money left in the private sector to invest in new jobs and business growth.

> The crucial difference between the public sector and the private sector is that the public sector cannot create wealth.

The crucial difference between the public sector and the private sector is that the public sector cannot create wealth; it can only shift resources from one group of people to another (after skimming some off the top to placate special-interest campaign donors and support bureaucratic inefficiency, of course). In the private sector, job growth—and economic growth generally—occurs when firms create something that consumers value. In the public sector, government growth occurs whenever government can appropriate more money from the people, and these funds are directed to whatever politicians desire.

The government's "investment" in green energy startup Solyndra Inc. is a case in point. Last May, President Obama visited the Fremont, California-based solar panel maker in a highly publicized photo-op to hail it

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as the kind of business in which he thinks the country should invest. And that's just what the government did. In September 2009 the administration announced that it was awarding Solyndra $535 million in taxpayer-funded loans to finance the construction of a new solar-equipment factory. The following June, just one month after the President's visit, the company cancelled its initial public offering, and its CEO quit the following month. In November 2010 the company announced it was abandoning its plans to expand its Fremont facility (and the planned hiring of a thousand workers) and would even have to close another factory in the East Bay, eliminating nearly 200 additional workers. That's some investment.

Throwing Good Money after Bad

This episode did not prevent Obama from visiting another green-energy company two days after delivering his State of the Union address to tout the benefits that surely would come from investing in such technology. During his trip to renewable-energy firm Orion Energy Systems in Manitowoc, Wisconsin, Obama lamented that the United States was falling behind the investment of even more centrally planned economies: "China's making these investments and they have already captured a big chunk of the solar market, partly because we fell down on the job. We weren't moving as fast as we should have. Those are jobs that could be created right here that are getting shipped overseas." While China has made great strides toward a more open economy in the past couple decades, the communist country is hardly a model for economic policy. China's growth is due to its economic liberalization, not the arbitrary decisions of the ruling elite, yet these command-and-control elements of economic planning that remain in China seem to be Obama's model of the ideal. This does not bode well for economic liberty and growth here in the United States.

Government has never been particularly good at picking economic winners. Consider, for example, the government "investments" in Amtrak, which has never turned a profit since it began service in 1971 and has lost about $35 billion in its 40 years of operation—or the U.S. Postal Service, which lost a record $8.5 billion last year alone and has projected an additional $6.4 billion loss this year.

The reason for this failure of government investment is not simply poor leadership (although this is certainly endemic and does not help matters) but rather an inability to determine value in the public sector. There is no market price system in government, so there is no measure of profit and loss. As Mises noted in *Human Action*, "There is no such thing as prices outside the market. Prices cannot be constructed synthetically, as it were." In *Bureaucracy* he added, "Bureaucratic management is management of affairs which cannot be checked by economic calculation."

> The reason for the failure of government investment is an inability to determine value in the public sector.

Value

In a free market prices are determined by supply and demand, by changing consumer preferences, differing knowledge and evaluations of market information, and the risk-taking of entrepreneurs. A greater desire for a good or service will be reflected in consumers' willingness to pay more for it and bid up the price.

In the political sphere "value"—such as how much to spend on a particular government program—is determined by the force and influence politicians, bureaucrats, and special interests can exert to extract money from taxpayers and divide up as these elites please. There is rarely even any semblance of competition for the provision of these services and thus little incentive to maximize productivity and service quality or minimize costs. Since there are no price signals to reveal people's preferences for one thing or another, there is no good mechanism to determine if programs are useful or satisfying constituent demands.

In the absence of a true market price mechanism how do you tell if an investment is profitable? And where is the incentive to avoid unprofitable investments? If a government program is deemed successful, there are calls to provide more funding. If it is a failure, we are told we must double down on the spending in order to turn it into a successful program.

Private investment means putting your own money at risk in anticipation of realizing a gain later; public "investment" means taking and spending someone else's money to support your idea of how you think they should live, or to satisfy the special interests that help get you reelected. Private investment requires putting off spending today so that you may (hopefully) earn more in the future; public "investment" is all about spending today.

Unfortunately, the federal government has not learned the lessons history has tried to teach us about subsidizing business and illusory job growth. This ignorance is especially on display when politicians react to the onset of a recession. The prescription made famous by economist John Maynard Keynes is to "stimulate" the economy through government spending and job creation (otherwise known as "make-work"). Never mind that this means fighting a problem of too much debt by incurring even more debt. As *Freeman* columnist Robert Higgs, senior fellow in political economy at the Independent Institute and author of *Crisis and Leviathan*, has said, "Every drunk understands this way of fighting depressions."

In the 1990s—and beyond, as it turned out—Japan responded to a financial crisis with the Keynesian remedy. The country still has not recovered.

Lost Decade

In the 1990s—and beyond, as it turned out—Japan faced a financial crisis as asset bubbles in the real estate and stock markets, stoked by the central bank's expansionist monetary policy of the late 1980s, burst and prices came crashing down. The ensuing government response and policy errors paralyzed the economy and ultimately led to a series of economic recessions. Japan followed the Keynesian remedy—with disastrous results—and the country still has not recovered to this day. During the 1990s, Japan passed ten fiscal stimulus packages, focused largely on public works. When one construction plan did not work (meaning it did not return the economy to rapid growth), another was tried. Altogether the Japanese government spent about $6.3 trillion on construction-related projects between 1991 and 2008. Those plans did not revive the economy, but they did saddle the nation with a mountain of debt that postponed any recovery at all for many years, leading the period to be dubbed Japan's "Lost Decade."

The construction jobs for the government's infrastructure projects were not sustainable and did not lead to systemic economic growth. Public debt skyrocketed, unemployment actually doubled, and the economy remained stagnant. (Does any of this sound familiar?) As Gavan McCormack, Pacific and Asian history professor at the Australian National University, noted in his book *The Emptiness of Japanese Affluence*, "The construction state is in some respects akin to the military-industrial complex in Cold War America (or the Soviet Union), sucking in the country's wealth, consuming it inefficiently, growing like a cancer and bequeathing both fiscal crisis and environmental devastation."

The Great Depression

Even during the Great Depression, often held up as a great example of government creating jobs to help get the nation out of an economic recession, President Roosevelt's massive spending program, which actually had its roots in the Hoover administration, did not stimulate the economy. Despite all that spending and all those jobs programs, unemployment remained extremely high. Prior to the stock market crash in 1929, the unemployment rate stood at a little over 3 percent. By 1933, in the midst of massive spending and public-works projects, it had risen to 25 percent. Even after years of New Deal programs unemployment remained around 15 percent or higher through 1940. It was not until World War II that unemployment dropped back to the low single digits (and then only because millions were drafted into military service).

This led Henry Morgenthau, treasury secretary under Roosevelt, to make a startling admission in 1939:

We have tried spending money. We are spending more than we have ever spent before and it does not work. And I have just one interest, and if I am wrong . . . somebody else can have my job. I want to see this country prosperous. I want to see people get a job. I want to see people get enough to eat. We have never made good on our promises. . . . I say after eight years of this administration we have just as much unemployment as when we started. . . . And an enormous debt to boot! (Morgenthau Diary, Roosevelt Presidential Library)

The fact is that economic recessions—and even more serious depressions—need not be so severe or so long-lived. It is government policies that prevent the natural pressures and incentives of the market from purging bad investments and other economic decisions and returning to a path of stable growth. As Murray Rothbard wrote in the introduction to the third edition of his book, *America's Great Depression*,

> Before the massive government interventions of the 1930s, all recessions were short-lived. The severe depression of 1921 was over so rapidly, for example, that Secretary of Commerce [Herbert] Hoover, despite his interventionist inclinations, was not able to convince President Harding to intervene rapidly enough; by the time Harding was persuaded to intervene, the depression was already over, and prosperity had arrived. When the stock market crash arrived in October, 1929, Herbert Hoover, now the president, intervened so rapidly and so massively that the market-adjustment process was paralyzed, and the Hoover-Roosevelt New Deal policies managed to bring about a permanent and massive depression, from which we were only rescued by the advent of World War II. Laissez-faire—a strict policy of non-intervention by the government—is the only course that can assure a rapid recovery in any depression crisis.

After more than two and a half years and trillions of dollars of bailouts, stimulus packages, and Federal Reserve interventions, the American economy remains sluggish.

After more than two and a half years and trillions of dollars worth of bank and auto industry bailouts, stimulus packages, and Federal Reserve interventions, the American economy remains sluggish and unemployment is still about 9 percent. According to Federal Reserve Chairman Ben Bernanke, it could take another four or five years for the labor market to "normalize fully." Unless the government's interventionist policies are abandoned and reversed, it appears that the United States is headed for its own Lost Decade.

The United States' $14 trillion federal debt and annual deficits of over $1 trillion are reducing productivity and hindering economic growth. It is time we learned the repeated lessons of the past that government spending, particularly when used to try to stimulate an economy, is simply a bad investment. FEE

Watch the Watchmen

BY JOHN STOSSEL

I believe in the right to privacy.

Yet I can think of someone who deserves very little privacy—a policeman making an arrest. Unfortunately it's a crime in some states to make a video of a policeman doing just that. People recording police have been threatened, detained, or arrested. Some were jailed overnight.

That's wrong. Police work for the public, they're paid with tax money, and most importantly, they have tremendous power. They've got the legal right to pull guns, detain us, lock us up and, in some cases, shoot us. The potential for abuse is great. So it's a good thing that modern video cameras are now so commonplace. Any abuse of police power in a public place is likely to be recorded. Why should that be a crime in some states?

I asked Radley Balko, an editor at *Reason* magazine who keeps an eye on issues like this: What's happened to the people who were arrested for videotaping cops at work?

"In most of these cases, the people aren't actually prosecuted," Balko said. "The charges tend to get dropped before these cases get to trial—I think because the people prosecuting these cases and the people who make the laws don't want the laws to actually get challenged. But it's a night in jail."

On what charge?

"In states that have these two-party consent laws, they rely on the old wiretapping laws. The claim is that police officers have a right to privacy while they're on the job in public exercising some pretty powerful responsibilities that we give them. I think that claim is ridiculous."

He says some authorities now claim that people who record the police while being arrested are "interfering with arrest or . . . refusing to obey a lawful order, if they tell you to turn the camera off and you don't."

How does it interfere with the arrest?

"It's a ridiculous argument. But here's the thing: You may not go to jail for these charges. But they're going to take your camera, going to arrest you, you're going to be handcuffed, put in the back of a squad car. And nothing is going to happen to the police officers who illegally arrest you—usually."

Occasionally a cop caught abusing his power is arrested or fired. But that's rare.

In Maryland, motorcyclist Tony Graber got in trouble for recording a cop who pulled him over for speeding. Graber didn't know it was a cop. He was just a guy in plain clothes with a gun. The cop eventually identified himself.

"Graber didn't get arrested until he posted that video on YouTube," Balko explained. "Once he posted it . . . the state police raided his home—came into his home early in the morning, guns drawn—confiscated a bunch of computer equipment, held him and his parents at gunpoint, arrested him. He spent several nights in jail. He had felony charges hanging over his head until the case finally got to court."

Fortunately, a state judge threw out the charges and wrote a strong opinion:

"Those of us who are public officials and are entrusted with the power of the state should not expect our actions to be shielded from public observation."

He ended by asking, "Who watches the watchmen?"—a question Plato raised in *The Republic*. Good for the judge. But Balko points out that no one punished the authorities who abused their power.

"The prosecutor who charged him, the cops who raided him and arrested him—they were all wrong about the law and did real harm to him, and none of them are going to suffer any consequences." FEE

John Stossel hosts Stossel *on Fox Business and is the author of* Myths, Lies, and Downright Stupidity: Get Out the Shovel—Why Everything You Know is Wrong. *Copyright 2011 by JFS Productions, Inc. Distributed by Creators Syndicate, Inc.*

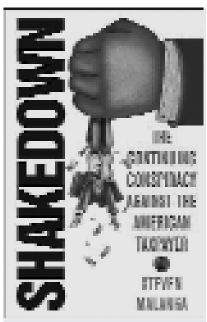
Book Reviews

Shakedown: The Continuing Conspiracy against the American Taxpayer

by Steven Malanga

Ivan R. Dee • 2010 • 176 pages • $22.50

Reviewed by George Leef



Politics has one feature that sets it apart from all sorts of voluntary action: It employs coercion. Politicians can raid the wallets of taxpayers, forcing them to part with money they would rather spend, donate, or invest according to their own desires. Much of the money thus confiscated is then spent to succor special-interest groups that will in turn support their political friends.

Once I happened to criticize high tax rates to a friend, a "liberal" with decidedly egalitarian beliefs. His reply was that he didn't mind high taxes because, he said, "The public receives needed government services in return." That is the sentiment politicians and interest group leaders know how to exploit. All they have to do is to cloak their programs in rhetoric about "the public good" and most opposition to their schemes will evaporate.

In his latest book Manhattan Institute scholar Steven Malanga explores the venal game of separating people from their money through conspiracies between politicians and special-interest groups. Taxpayers are systematically robbed by those conspiracies—Malanga uses precisely the right word—to fund a plethora of high-cost, low-benefit (sometimes no-benefit) government boondoggles like public education, urban renewal, safety from terrorists, mass transit, and alternative energy. Naturally the people and organizations that receive the cash invest some of it in propaganda (excuse me, "public relations") and political campaigns to ensure that their money never stops flowing.

This plague is far worse in some states than others. Malanga devotes entire chapters to the fiscal wreckage done to California and New Jersey by public-sector unions. California has a prodigious budget deficit that is sure to increase due to the high salaries and lavish retirement benefits promised to government employees. Prison guards, for example, earn six-figure salaries owing to the political support their union gave to former governor Gray Davis and key legislators. The union's endorsement enabled them to posture as "tough on crime" when they really meant to be tough on taxpayers.

Teachers' unions are virtuoso performers in the shakedown. They tirelessly promote the notion that more spending on education is a panacea that cures poverty, inequality, economic woes, environmental degradation, and so on. Anyone who dissents will be pilloried as "anti-education" in heavily funded attack ads. In New Jersey the government until recently was essentially a vassal of the New Jersey Education Association, squeezing more and more out of taxpayers. That rising tax burdens have long-term adverse economic effects apparently never occurs to the union leaders. Or perhaps they simply don't care. In any event New Jersey underscores just how steep a price we pay for having turned education, which should be a matter of choice and contract, into a coercive near-monopoly by government.

The most expensive shakedown ever has been our housing debacle, to which Malanga devotes an illuminating chapter. He begins with the forgotten history of governmental meddling in the housing market, which goes back to that early advocate of government economic intervention, Herbert Hoover. As Warren Harding's secretary of commerce in 1922 Hoover launched the Own Your Own Home campaign, the beginning of a long series of futile, costly federal programs to encourage Americans to buy rather than rent their housing. Just as with education, housing is none of the government's business, but the notion that rising ownership percentages show progress has become an article of faith with many politicians. From Hoover through Barack Obama, taxpayers have had to pick up the costs of mortgage defaults—mortgages that would never have been written but for the idiotic political mania. The huge tab for the lending binge by the two government mortgage giants, Fannie Mae and Freddie Mac, falls not on the politicians and advocacy groups that inflated the housing bubble, but on the suffering taxpayers.

What makes these and many other shakedowns possible (and arguably inevitable) is what Malanga calls "the culture of entitlement." Rapidly eroding are the old virtues of thrift and self-reliance. They have been replaced by feelings that everyone is entitled to whatever he wants and the purpose of government is to ensure that it is provided. Thus there is nothing morally wrong in pushing the government to give you whatever you want. If others aren't happy, they can play the political game, too. As long as the process of expropriation takes place under the cover of "democracy," no one can complain.

Well, people should complain, and *Shakedown* will undoubtedly provide the fuel for the building rebellion against the conspiracy Malanga has ably exposed.

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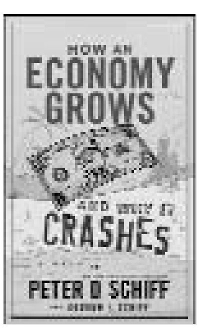
How an Economy Grows and Why It Crashes

by Peter D. Schiff and Andrew J. Schiff
John Wiley & Sons • 2010 • 256 pages • $19.95

Reviewed by Robert Batemarco



Ignorance of economics is rampant. The average person believes the secret to prosperity is consumption and was often led to that fallacy by professional economists who should know better. Economic education in the universities has been as much a part of the problem as the solution, with millions of students taught Keynesian beliefs about government "stimulus" spending. We need an antidote.

How an Economy Grows and Why It Crashes is Peter Schiff's most recent effort in that regard. Bypassing the academic crowd and avoiding an eye-glazing academic approach, Schiff and his brother Andrew have tried to grab readers' attention with an amalgam of allegorical storytelling and current events. They aim to promote real economic comprehension.

The book's introduction starts with a lucid explication of the key elements of Keynesian economics—showing how John Maynard Keynes, by making "something simple seem hopelessly complex," paved the way for acceptance of "some very stupid ideas about what makes economies grow." In chapter 1 the authors shift into allegorical mode, weaving a tale about a Crusoe-type economy based on fishing. Here they introduce the reader to the rudiments of capital theory. The story progresses logically from there. The use of capital leads to both greater wealth and income inequality. Then comes a cogent discussion of the counterproductive effects of forced income redistribution.

Next they turn to the role of saving—how it serves as the source of credit and a cushion permitting people to get through emergencies and how, *contra* Keynes, it is the true key to economic growth. In addition the authors correct the common misinterpretation of deflation—not as the disaster depicted by Ben Bernanke and his ilk, but as a key channel through which prosperity spreads. They proceed to describe the benefits of free trade, dissecting the canard that it is a job-killer and pointing out that "it is not the aim of an economy to simply provide jobs, but to create jobs that maximize labor productivity."

Notable in their discussion of government is an endorsement of restricting voting to those who pay taxes, an idea going back at least to John Stuart Mill. They argue that retreat from this stipulation accelerates a nation's downward trajectory into an inflationary welfare state. The Schiffs elucidate the unaccounted-for implications of the many popular policies dragging economies down this path. Included among those are the replacement of a commodity standard with fiat money, subsidization of loans to politically favored sectors of the economy, and so-called "stimulus" spending—all central elements of Keynesian monetary and fiscal policy.

They finish their allegory with the inevitable upshot of those policies (given the lack of political will to incur the short-term pain that would stave it off): the decision of our international creditors to cease enabling our profligate ways by redeeming our dollars, unleashing massive price increases, and pushing our standard of living off a cliff.

It's well argued, but I wonder if the book is written at the right level for its intended audience. It is clearly not aimed at academics, which is too bad because many of them could use it the most. Rather it is aimed at noneconomists. Yet for the totally uninitiated I fear that it may throw too much at them too fast, without sufficient explanation. One can only hope they will be interested enough to seek the requisite explanations from other sources rather than throwing up their hands in frustration.

Also, I found the pervasive fish metaphor tiresome—not to mention that fish are too perishable to ever be used as a monetary commodity. (On p. 159 the Schiff brothers do mention the advantages of precious metals as money.) While I realize this is an allegory in which some literary license is permitted, the cost of this aspect of the story in reader confusion and lack of credibility may be high.

On the other hand I do like the way each allegorical chapter is followed by a takeaway that uses the principles presented to shed light on real-world events. Knowing that the authors of this book wrote it to share the economic insights that enabled them to predict the onset of our current recession, I hope my misgivings are unfounded because the lessons are ones all of us need to master. FEE

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How the Economy Works

by Roger E. A. Farmer
Oxford University Press • 2010 • 208 pages • $22.95

Reviewed by Donald Boudreaux

This book is slim. It's also well written, which is always a surprise when the author is an academic economist. But don't let the concision and breezy style fool you. UCLA economics professor Roger Farmer offers a big idea that he's convinced will reduce both the frequency and size of economic booms and busts.

Unfortunately Farmer's idea is as bad as it is big—and it's *very* big. Central to his idea is his notion that investor "confidence" is an economic "fundamental"—along with factors such as tax rates, supplies of magnesium, and the prospect of war in the Middle East. If confidence is too high people try to live beyond their means, causing prices to rise. If confidence is too low people spend too little, causing aggregate demand and employment to fall. Being a fundamental, confidence can be at any level, regardless of the state of other fundamentals. So the economy needs some means of managing confidence lest it get stuck at a level that is economically destructive—and Farmer wants central banks to do this.

More specifically, Farmer believes investor confidence is most powerfully affected by equity prices: The higher equity prices are (as reflected in the price of a stock index) the higher confidence is. So a central bank can manage investor confidence by targeting the price of an all-inclusive index of the shares of the nation's corporations. The immediate goal of active buying and selling by the central bank would be stabilizing average equity prices. By keeping investor confidence from sinking to dangerous lows or soaring to dangerous highs, the central bank would ensure stability.

Sounds simple, but Farmer accepts too much conventional wisdom about macroeconomic history in general and the Great Depression in particular to trust his analysis and prescription.

For example, he asserts that U.S. "banks were often subject to panics" because they "made illiquid loans [and therefore] typically had much less cash on hand than they needed to meet their liabilities in the form of deposits." Farmer seems unaware that restrictions on branch banking in the United States prevented banks from adequately diversifying their portfolios, making them more subject to runs. So one historical illustration Farmer offers for why a loss of confidence can spread like a contagious disease is poorly grounded.

Farmer also ignores two other important streams of research that cast doubts on his analysis. The first is Robert Higgs's work on "regime uncertainty." Higgs marshals a great deal of evidence that during the 1930s Franklin Roosevelt and his New Dealers scared away private investors by creating economy-wide uncertainty. The length of the Great Depression was indeed the result of a loss of confidence, but it had nothing to do with animal spirits or market imperfections that prevent job seekers from matching up smoothly with employers; it had everything to do with unprecedented enterprise- and investment-killing government intrusions into the economy.

The second line of research I'll describe broadly as "market-process macroeconomics." This research includes the Austrian theory of the business cycle and the monetary-disequilibrium theory favored by my former teacher Leland Yeager, as well as what EconLog blogger Arnold Kling calls the "recalculation" theory. Although these three accounts of economy-wide fluctuations differ, they all look beyond conventional aggregates (such as aggregate demand) and focus instead on the incentives and constraints that confront individuals, households, and firms.

Had Farmer absorbed the lessons of this scholarship, he might have been less eager to propose such a radical expansion of central-bank power.

This brief review affords too little space even to list the many problems infecting Farmer's proposal—a sampling must suffice. Why should the central bank focus on the value of corporate equity rather than, say, on the value of other assets, such as real estate? Also, given widespread daily reporting of stock indexes, such as the Dow Jones Industrials, it's likely central banks would be pressured by politicians to manipulate such indexes for electoral purposes—even when those purposes run counter to the well-being of the economy.

Most importantly, if government enacts destructive legislation that changes *real* fundamentals in ways that drastically reduce the value of corporate equities, even a depoliticized central bank is unlikely to allow the target value of its stock index to fall by enough to reflect this unwise change in tax or regulatory policy.

While I hope Farmer's proposal goes no further than the pages of his book, I nevertheless recommend it to readers seeking a clear overview of the development of mainstream macroeconomic thinking during the past century. In that, Farmer excels. As for policy, he fails—big time.

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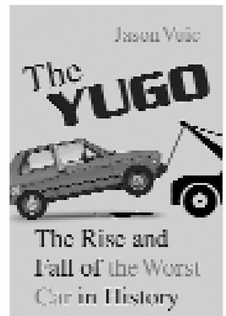
The Yugo: The Rise and Fall of the Worst Car in History

by Jason Vuic
Hill and Wang • 2011 • 272 pages • $26.00 hardcover; $14.00 paperback

Reviewed by William L. Anderson



In my M.B.A. economics class I emphasize the Austrian view of entrepreneurship, noting that successful entrepreneurs are rewarded for moving resources from lower-valued to higher-valued uses in a free market. Alas I also spend time explaining "political entrepreneurship": exploiting connections with "the right people" to profit by moving resources from uses consumers would value highly to uses with a lower value.

The Yugo: The Rise and Fall of the Worst Car in History, by Jason Vuic, an assistant professor of history at Bridgewater College in Virginia, deftly describes yet another episode in the history of the fiascos that occur when governments enable political entrepreneurs.

What can one say about the Yugo? It started out as one of the hottest items in U.S. automotive history, only to become the butt of jokes such as:
Q: How do you double the value of a Yugo?
A: Fill it up with gas.

Interestingly, the very reason the Yugo even became an item was a U.S. government move to keep small Japanese cars out of the United States. The Japanese automakers responded to this protectionism by making mid-sized luxury cars, which created a void for a small, inexpensive vehicle. The Yugo would (at least temporarily) fill that void thanks to the foresight of entrepreneur Malcolm Bricklin.

Austrian economists such as Israel Kirzner point out that entrepreneurs first see an opportunity and then they act. Bricklin, who is described as a "habitual entrepreneur," decided that American consumers wanted small cars, and he knew just the company to build them—Zastava, a State-owned firm in Yugoslavia.

Bricklin is always looking for business opportunities, but he likes shortcuts. These invariably land him in trouble and ultimately bankruptcy. Despite having already pushed several failed ventures, Bricklin kept going, proving the wisdom of P.T. Barnum's declaration that "There's a sucker born every minute."

So how is it that the guy who had conned investors in a scheme to fund Handyman America stores (which went bankrupt in 1965) and managed nearly to kill the one good company he founded (Subaru America—and, yes, I drive a Subaru) could find people willing to fund the Yugo venture? Enter the politics of the Cold War.

As Vuic notes, Yugoslavia, a communist/socialist country with "non-aligned" status, was a "buffer" between East and West. The U.S. government aggressively cultivated its relationship with that country, which in normal political times might have gone almost unnoticed. With the Cold War still in full bloom in the mid-1980s, and with Americans wanting cheap transportation, a marriage between the U.S. market and a company making inferior cars (Zastava used an old Fiat plant it had purchased) was consummated. All it took were the efforts of the failed entrepreneur Bricklin and Washington fixers like Lawrence Eagleburger, a former official in Ronald Reagan's State Department, then working for Kissinger Associates.

U.S. operations opened in 1985, and the car was a huge success. Yugo mania was in full swing, as people crowded the lucky dealerships and waited for months for delivery of their spanking new Yugos.

But trouble soon began. The Yugo, for all of Bricklin's hype, still was true to its socialist, eastern European roots. While it wasn't as terrible as a Wartburg or a Trabant, no one was trying to market those glorified East German lawnmowers in the United States as a "smart" choice. Once people began to drive Yugos they came to realize that communist quality control meant that the workers had proper political attitudes, not that they could build a decent car. Demand plunged as drivers learned about the car's pathetic quality. In less than a decade Yugo America was bankrupt, as was Bricklin once again. Eventually the Yugo enjoyed a second career—as pop art.

Even though Vuic is not an economist, his well-written and entertaining book sheds a great deal of light on the larger issues of State planning, economic calculation, and every other argument that Austrians have been making against socialism and crony capitalism for the past 90 years. The next time you hear someone talking about the wonderful future for some proposed government-business partnership, remember the Yugo. FEE

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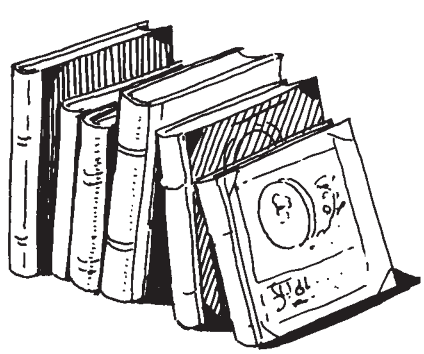

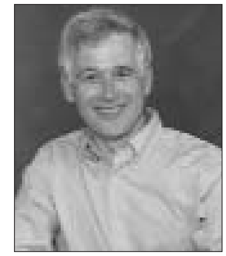

The Right Amount of Manufacturing

BY DAVID R. HENDERSON

Mark Perry, an economics professor at the University of Michigan, recently pointed out that in 2009 the U.S. economy had the world's largest manufacturing sector. (The most recent data show that China's sector edged out the United States because of our slow economic recovery.) Every year since 2004 U.S. manufacturing output, in constant 2005 dollars, has exceeded $2 trillion. Perry notes that this is double the U.S. manufacturing output of the early 1970s. If U.S. manufacturing alone were an economy, notes Perry, it would be the sixth-largest economy in the world.

But is the sector too small? In an article titled "Yes, American Manufacturing Really Is in Trouble" (*Huffington Post*, February 11), free-trade critic Ian Fletcher says it is.

> If U.S. manufacturing alone were an economy, it would be the sixth-largest economy in the world.

To judge whether a sector of the economy is too small, we need criteria. Fletcher writes: "Unfortunately, the only rational standard for how much America should produce is *how much Americans wish to consume*. Because the only way to consume is either to produce what you wish to consume, or produce something else you can exchange for it" (italics in original).

But if that were the *only* way, Fletcher should be content—yet he's not. Why not? Because, as he well recognizes, it's not the only way, and that's why he wrote his article. He notes two ways that we consume what we get from foreigners besides selling them goods and services: 1) by selling them assets (these assets are produced, but that's not what he means) or 2) by borrowing. He objects to both.

He writes: "And this is where American manufacturing is clearly falling short, because America is running a huge trade deficit in manufactured goods, and we don't produce enough of anything else (raw materials, services) to cover the gap. So instead we borrow and sell off existing assets to pay for imports."

Fletcher's ideal is becoming clear: The "right" amount of manufacturing is achieved when the amount the United States spends on other countries' manufactured goods (and I think he means to include raw materials and services) just equals the amount foreigners spend on our manufactured goods, services, and raw materials. In short, Fletcher's ideal is a zero trade balance.

He's *almost* right that if we have a trade deficit, which we do, we will have to borrow from foreigners or sell assets. Why almost? Because Fletcher leaves out two other possibilities. First is that foreigners will want to invest directly in the United States. Second is that they will want to hang on to some dollars: The U.S. dollar is still the closest thing there is to a world currency.

It's true that the increases in foreign direct investment in the United States and in dollars held are substantially smaller now than the sale of assets and the increase in borrowing. So let's grant that most of the trade deficit will be paid for with borrowing and asset sales. What's wrong with that? In a later article, "The Biggest Bubble of All Has Yet to Pop" (*Huffington Post*, February 17), Fletcher explains: Americans will own fewer assets. That does seem like a problem, doesn't it? Let's dig further.

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If the capital stock is growing quickly enough, even if foreigners own more of it, Americans might own more too. It's true that private investment has declined, something likely due to President Obama and Congress making investors unsure about health care and other regulations in the future. Between 2008 and 2009 the value of the U.S. capital stock fell by about 2 percent. By the end of 2009 foreigners owned about $21.1 trillion of the $48.5 trillion U.S. capital stock–over 40 percent. Sounds scary, right? But it overlooks that Americans own $18.4 trillion of the rest of the world's capital stock. So the U.S. "net international investment position" was negative $2.7 trillion, or less than 6 percent of the U.S. capital stock. Interestingly, even though "our" ownership of "their" capital is less than theirs of ours, in 2009 "we" made $121 billion more on them than they made on us. That suggests the U.S. government's data underestimate the value of U.S. investments abroad or overestimate the value of foreign investments here, or both.

Bonds and the Trade Deficit

One of the main U.S. assets that foreigners invest in is Treasury bonds. If the federal government reduced its budget deficit, now running at more than $1 trillion annually, there would be fewer bonds for foreigners to buy. That wouldn't necessarily cause our trade deficit to fall because if foreigners see private U.S. assets—corporate bonds, for example—as good substitutes for U.S. government bonds, they might simply shift to buying more. Still, private assets are unlikely to be a perfect substitute for government debt, and so reducing the budget deficit would probably reduce the trade deficit somewhat.

It's also true that if we Americans increased the percentage of our income that we save, we would buy some of those bonds and buy fewer foreign goods and services, again reducing the trade deficit.

Fletcher recognizes these facts. In his February 17 article he writes: "It is indeed true that if we take our low savings rate as a given and ask whether we would be better off with foreign-financed investment or no investment at all, then foreign-financed investment is better."

But Fletcher doesn't want to take this low rate of saving as given. He wants a higher rate. Fine. There are two ways to accomplish this. The first is to reduce the budget deficits of the U.S. federal, state, and local governments. In 2009 they totaled a whopping $1.272 trillion, which exceeded net private saving (personal and corporate) of $945 billion. The result: a negative saving rate for the economy as a whole. Have the government spend less, and the net saving rate would probably increase. It's still not clear, though, that we would manufacture more.

The "right" amount of manufacturing is the amount that would be achieved if the government did nothing to distort people's choices.

The second way to increase saving and thus reduce the role of foreign investment is for us individually to spend less and save more. Fletcher seems to like this idea, asserting that "domestically-financed investment is obviously better because then Americans, rather than foreigners, will own the investments and receive the returns they generate." But how can he know whether it's better for you to buy an iPhone or to put more money in your IRA? He doesn't. Neither do I. I'm more humble than Fletcher: I want you to be able to choose. Do I trust your choice? Not necessarily. But I think you have the right to make even bad choices.

So what is my criterion for the "right" size of the manufacturing sector? Simple. The right amount of manufacturing is the amount that would be achieved if the government did nothing to distort people's choices. Let's focus on getting rid of government distortions and not attack the symptoms, if they are indeed symptoms, of those distortions. FEE