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IDEAS ON LIBERTY

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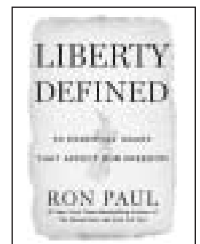

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Perspective

Do Ends Justify Means?

I—and most other people, I assume—grew up being taught that the end doesn't justify the means. This is an injunction not to rationalize one's own behavior while using other people as mere means to one's ends.

Most people apply that principle day to day. If we want at an item on a supermarket shelf and someone is standing in the way, few of us would think to shove that person aside. A utilitarian (or any other sort of consequentialist) might say that greater good, happiness, or utility would be achieved by waiting rather than by shoving. But since interpersonal comparisons of subjective utility are impossible—not only is there no unit of measurement, in principle there's nothing to measure—that claim has no content.

"[T]his lack of commensurability eliminates all possibility of reference for the expression 'greater good' as the consequentialist uses this expression," natural-law philosopher Germain Grisez writes.

So why wouldn't we shove the person aside? We abstain because we have a sense that it would be an injustice and that injustice is to be avoided. We don't calculate that committing the injustice would *in this case* be contrary to our own self-interest (what would you think of someone who actually did that?), nor do we even determine that shoving the person aside would ill-serve that person's interests. Rather, we know that the act would be wrong because it is wrong to use another person as a mere means.

So why is that principle absent from most discussions of government policy? Why are political measures routinely defended on the sole basis that they will bring about some good consequence that supposedly outweighs any costs (from the perspective of those who propose them)? A tariff is justified by the help it is thought to give to a struggling domestic industry. A mandate that employers or insurance companies (nominally) pay for women's contraception is justified in terms of women's health or of reducing the number of abortions. Obliteration bombing is justified as a way to shorten a war.

In all these cases and more, those who proffer the government policy seem to think that all they need do is identify a consequence as the "greater good" and the discussion is over. The end justifies the means.

But there are always costs to—and therefore victims of—any government action. "Coercive intervention . . . signifies *per se* that the individual or individuals coerced would not have done what they are now doing were it not for the intervention," Murray Rothbard wrote in *Power and Market*. All those who are forced to bear the costs are treated by the government and the special-interest groups it empowers as *mere means* to other people's ends—that is, they are treated as less than human. The proponents of such measures never tell us why the benefits they aim for are more important than the benefits other people must do without. But of course they couldn't tell us. The benefits are incommensurable.

Furthermore, apart from the material loss, the victims' progressive loss of freedom is real, both in the immediate instance as well as with respect to the precedent set for future government action. Intervention begets intervention as policymakers try to clean up the mess their previous actions created.

As Grisez puts it, "The economic advantages and disadvantages of a proposed public project can be quantified. But people also want freedom of speech and of religion, equal protection of the laws, privacy, and other goods which block certain choices, yet which cannot be costed out. . . . [Cost-benefit] analysis cannot tell one whether the objectives one seeks are objectives one ought to seek, or whether nonquantifiable factors should be ignored."

Means and ends of course are intimately related. The end determines the array of relevant means. But that is not the end of the story. In selecting from that array considerations apart from the end are highly pertinent—such as the injunction never to use others as mere means. To ignore those considerations is to mock human dignity and countenance the slave principle.

* * *

President Obama calls for a new round of government job-training programs. However, the failure of previous programs is painfully clear. James Bovard examines the record.

Buy a hybrid and save money while saving the planet! Oh really? Kathryn Shelton and Richard McKenzie take a closer look.

"Right to work" is back in the news with Indiana's enactment of a law forbidding employers from signing union-shop contracts. Shouldn't free-market advocates oppose laws that forbid contracts? Gary Chartier says yes.

Lots of odd proposals have come from the writings of John Maynard Keynes. Perhaps the oddest of all, writes Richard Fulmer, is that the way out of poverty is to consume more.

Critics of the market call it amoral. Yet a properly functioning market requires a moral foundation. What kind? David Rose focuses on that question.

Everyone is looking for a way to create jobs. Piece of cake, writes Steven Horwitz. The hard task is to create value.

Proposals are on the table to regulate money market funds, where many people invest their savings. What are they and what does the government have in store for them? Warren Gibson has the scoop.

Getting people to adopt the economic way of thinking is no easy matter. Daniel Klein says equations and syllogisms won't do it. What will? Allegory.

How many times have you heard someone complain that more money is spent on Super Bowl ads than on education? Sandy Ikeda has heard it one time too many.

The value of moving resources from one place to another is easy to see. How about from one point in time to another? Isaac Morehouse says it is done every day, and we should be happy about it.

Here are the fruits of our columnists' labor: Lawrence Reed speaks to the statists of all parties. Robert Higgs ponders who has the burden of proof. John Stossel asks if government can make you happy. And Tyler Watts, hearing for the umpteenth time that antitrust law preserves competition, rebuts, "It Just Ain't So!"

Books reviewed in this issue zero in on Ron Paul's philosophy, the *Lochner* case, protectionism, and the dollar.

—Sheldon Richman
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An Open Letter to Statists Everywhere

BY LAWRENCE W. REED

Dear Statist Friends:

I know, I know. You're already objecting to my letter. You don't like the label "statist." You don't think of yourselves as worshipping government; rather, you think of yourselves as simply wanting to help people, with government being your preferred means to achieve what is usually a very worthy end. "Statist," you say, is a loaded term—a pejorative that suggests more than you're willing to publicly admit.

Well, let's wait and see how the term stacks up after you've read my whole letter and answered its questions. If you have any doubt about whether this missive is directed at you, let me clarify to whom I am writing. If you're among those many people who spend most of their time and energy advocating a litany of proposals for expanded government action, and little or no time recommending offsetting reductions in State power, then this letter has indeed found its mark.

You clever guys are always coming up with new schemes for government to do this or that, to address this issue or solve that problem, or fill some need somewhere. You get us limited-government people bogged down in the minutiae of how your proposed programs are likely to work (or not work), and while we're doing the technical homework you seldom do, you demonize us as heartless number crunchers who don't care about people.

Sometimes we all get so caught up in the particulars that we ignore the big picture. I propose that we step back for a moment. Put aside your endless list of things for government to do and focus on the whole package. I need some thoughtful answers to some questions that maybe, just maybe, you've never thought much about because you've been too wrapped up in the program du jour.

At the start of the 1900s government at all levels in America claimed about 5 percent of personal income. A hundred years later it takes more than 40 percent—up by a factor of eight. So my first questions to you are these: Why is this not enough? How much do you want? Fifty percent? Seventy percent? Do you want all of it? To what extent do you believe a person is entitled to what he (or she) has earned?

I want specifics. Like millions of Americans planning for their retirements or their children's college educations, I need to know. I've already sacrificed a lot of plans to pay your bills, but if you're aiming for more, I'm going to have to significantly curtail my charitable giving, my discretionary spending, my saving for a rainy day, my future vacations, and perhaps some other worthwhile things.

> Why is it that if I disagree with your means, you almost always assume I oppose your ends?

I know what you're thinking: "There you go again, you selfish character. We're concerned about all the people's needs and you're only interested in your own bank account." But who is really focused on dollars and cents here, you or I?

Why is it that if I disagree with your means, you almost always assume I oppose your ends? I want people to eat well, live long and healthy lives, get the prescription drugs and health care they need, etc., etc., just like you. But I happen to think there are more creative and voluntary ways to get the job done than robbing Peter to pay Paul through the force of government. Why don't you show some confidence in your fellow citizens and assume that they can solve problems without you?

We're not ignorant and helpless, in spite of your many poorly performing government schools and our

---

Lawrence Reed (lreed@fee.org) is the president of FEE. This article first appeared in the December 2000 Freeman.

having to scrape by with a little more than half of what we earn. In fact, give us credit for managing to do some pretty amazing things even after you take your 40 percent cut—things like feeding and clothing and housing more people at higher levels than any socialized society has ever even dreamed of.

What Have You Learned?

This raises a whole series of related questions about how you see the nature of government and what you've learned, if anything, from our collective experiences with it. I see the ideal government as America's founders did—in the words attributed to Washington, a "dangerous servant" employing legalized force for the purpose of preserving individual liberties. As such, it is charged with deterring violence and fraud and keeping itself small, limited, and efficient. How can you profess allegiance to peace and nonviolence and at the same time call for so much forcible redistribution?

> How can you profess allegiance to peace and nonviolence and at the same time call for so much forcible redistribution?

Don't invoke democracy unless you're prepared to explain why might—in the form of superior numbers—makes right. Of course, I want the governed to have a big say in whatever government we have, but unlike you I have no illusions about any act being a legitimate function of government if its political supporters are blessed by 50 percent plus one of those who bother to show up at the polls. Give me something deeper than that, or I'll round up a majority posse to come and rightfully claim whatever we want of yours.

Why is it that you statists never seem to learn anything about government? You see almost any shortcoming in the marketplace as a reason for government to get bigger, but you rarely see any shortcoming in government as a reason for it to get smaller. In fact I wonder at times if you are honestly capable of identifying shortcomings of government at all! Do we really have to give you an encyclopedia of broken promises, failed programs, and wasted billions to get your attention? Do we have to recite all the workers' paradises that never materialized, the flashy programs that fizzled, the problems government was supposed to solve but only managed into expensive perpetuity?

Where, by the way, do you think wealth comes from in the first place? I know you're fond of collecting it and laundering it through bureaucracies—"feeding the sparrows through the horses," as my grandfather once put it—but tell me honestly how you think it initially comes into being. Come on, now. You can say it: private initiative.

I've asked a lot of questions here, I know. But you have to understand that you're asking an awful lot more in blood, sweat, tears, and treasure from the rest of us every time you pile on more government without lightening any of the previous load. If anything I've asked prompts you to rethink your premises and place some new restraints on the reach of the State, then maybe the statist label doesn't apply to you. In that case, you can look forward to devoting more of your energies to actually solving problems instead of just talking about them, and liberating people instead of enslaving them.

Sincerely,
Lawrence W. Reed

Mergers Harm Competition? It Just Ain't So!

BY TYLER WATTS

The New York Yankees have appeared in over one-third of all World Series since 1903. Does the presence of such a dominant player mean that professional baseball is not competitive? Many pundits would have to say yes, if they applied to sports the same logic they apply to business. For instance, the *Washington Post's* Steven Pearlstein complained recently about the state of competition in the prescription drug industry ("End of the 'Anything Goes' Era of Antitrust?" tinyurl.com/855s356). Pearlstein laments the "$29 billion merger between Express Scripts and Medco, two of the biggest pharmacy benefit managers—the companies that handle the prescription drug portion of your health insurance." Pearlstein wants the Federal Trade Commission to block this merger to maintain competition and protect consumers in this market.

Pearlstein paints an eerie picture of insurance industry consolidation, but he doesn't provide much evidence of the troubles he suspects this merger will bring. He alludes to "inferior and less-convenient service for customers" as a looming consequence of mergers but never bothers to explain exactly why we should expect such results. One gets the impression that Pearlstein is merely opposed to bigness in business, regardless of its causes or consequences.

If folks like Pearlstein are so concerned about anticompetitive behavior, they should steady their gaze on the halls of Congress. Significant barriers to market-based competition routinely arise from political shenanigans, not the market process itself. Since Adam Smith, savvy economists have recognized that businessmen tend to seek shelter from the stresses and insecurity of vigorous competition in the market by turning to the political process. In acts of what we might call political competition, entrepreneurs who aren't willing to risk the uncertainty of a wide-open market will frequently use the law to ensure themselves a favorable outcome. Recent experience is rife with examples: subsidies, bailouts, tariffs, and labyrinthine new regulations, the true purpose of which, despite the populist labeling, is to prop up well-connected enterprises that could not stand on their own in the harsh arena of market competition. Blocking mergers is a poor substitute for abolishing those interventions.

Significant barriers to market-based competition routinely arise from political shenanigans, not the market process itself.

Even though Pearlstein has every right to be offended by mergers, he has no warrant to label them as anticompetitive. Pearlstein's presumptions about the proper size and number of companies in this industry reveal a deeply flawed and incomplete understanding of competition. Competition in a free market is a process, not a result, and the occurrence of mergers within an industry indicates that competition is alive and well. In other words, mergers *are* competitive, as is every business decision of every entrepreneur in the world, whether Pearlstein approves or not. Competitive entrepreneurial activity, in all its forms, is the driving force of the market economy. Entrepreneurs can only be "anticompetitive" by step-

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ping outside of the market economy and entering the coercive realm of politics—as they often do.

Pundits like Pearlstein apparently rely on an outmoded and unrealistic "perfect competition" model, in which a competitive market is defined strictly in terms of a large number of sellers, each with relatively small market share. In this view, a small number of dominant companies in any industry is *ipso facto* evidence of inefficient, noncompetitive conditions.

In genuinely free markets, however, competition is not a numbers game. As the Austrian school economist Israel Kirzner explains in his book *Competition and Entrepreneurship*, competition is a rivalrous process in which *any* number of current enterprises (under pressure from potential competitors) attempt to outdo each other in providing the greatest value of goods and services at the lowest cost. In the Austrian view the *actions* of entrepreneurs, in the absence of legal barriers to entry, make markets competitive as they constantly seek to create or discover new and better products and methods of production. An effective competitor—one who is good at generating valuable innovations—will naturally gain market share.

In genuinely free markets, competition is not a numbers game.

Such a competitor might dominate the market, in the sense that other competitors can't match the value it offers customers. In some cases a dominant enterprise might gain a substantial market share by buying up its competitors or simply outpacing them. Such results might outwardly look like monopoly—one dominant producer—but this doesn't change the fact that this dominance is the *result* of competition, not evidence that it is lacking. Pearlsteinian logic focuses on the outward appearance, all the while ignoring the crucial process of action and reaction where true competition takes place.

This brings us to the claim that Pearlstein can't prove: the assertion that "thuggish and unfair" competition, in the form of the Express Scripts-Medco merger, is somehow bad for customers. Pearlstein admits that the merger will "generate operating efficiencies," but he remains convinced that none of the cost savings will be passed on to consumers. But it's not consumers who are up in arms about the merger; as Pearlstein admits, the loudest complaints are coming from the small pharmacies, who can't match the scale-economy efficiencies or negotiating clout the larger company will possess.

Economic history is full of examples like this, where supremely competitive dominant enterprises draw harsh critiques of "unfair competition" from smaller rivals. An apt case study is that of Standard Oil. As Burton Folsom documents in *The Myth of the Robber Barons*, John D. Rockefeller's company rose to dominance in the kerosene market in the late 1800s, for a time controlling 90 percent of U.S. refining capacity and two-thirds of world sales. And while Rockefeller was famous for buying up his competitors, the results were nothing but positive for consumers. His awesome efficiencies relentlessly drove prices down while maintaining impeccable quality and customer service. Many other firms fit a similar mold.

It is easy to focus on numbers and become alarmed when a market share threshold is crossed. But it is foolish. We should rather focus on the competitive conditions in a market: Can entrepreneurs who have the capital, the knowledge, and the vision to offer a better product at a better price freely step into markets where they see opportunities? This is the defining criterion of competition in a free economy, and it is only violated when some entrepreneurs can use political tools to prevent or protect themselves from the competitive actions of their rivals.

Competition is a crucial and desirable element of a free-market economy, but we must bear in mind that competition is a continuing process and its results are unpredictable. Therefore when assessing competition we must focus on whether a system allows for competitive actions. This means, primarily, an environment that is open to the entry of any potential entrepreneur and in which the law gives no special favors nor special hindrances to specific groups of people. With competition the devil is in these institutional details. FEE

The Folly of Federal Training

BY JAMES BOVARD

In his State of the Union address President Obama proposed an array of new federal job training programs. This was one of the more popular facets of his speech, and the usual media cheerleaders swooned. However, Uncle Sam has a long and dismal training record, and new federal programs would be almost guaranteed to repeat past follies.

Franklin D. Roosevelt, with his Works Progress Administration (WPA), fathered modern government training and employment programs. When Roosevelt announced this relief program, the largest of the New Deal, he declared, "All work should be useful in the sense of affording permanent improvement in living conditions or of creating future new wealth." FDR's standards for WPA have been mocking government employment programs ever since. WPA, commonly known as "We Poke Along," distributed paychecks to over three million people and is generally credited with giving leaf raking a bad reputation for an entire generation. By 1938 even FDR was embarrassed by his pet program.

Uncle Sam has a long and dismal training record, and new federal programs would be almost guaranteed to repeat past follies.

The modern era of manpower law opened with the Area Redevelopment Act of 1961, a statute based on the "right" of geographical areas to equal economic development. The Area Redevelopment Administration (ARA) was established to direct federal money and training funds to depressed areas and was expected to play a substantial role in achieving full employment. Like subsequent federal training programs, ARA was based on the idea that jobs should come to people, rather than people going to jobs. ARA was thus the first of many training programs that discouraged individual adjustment.

Many of ARA's targeted unemployed did not want to learn a new trade. As its first annual report noted, "One of the most serious obstacles was the fact that job opportunities in redevelopment areas were limited because of the long-term economic decline which characterizes those areas." In ARA's first year only 6,492 trainees enrolled—and fewer than 1,300 got jobs in fields related to their ARA training. Since unemployment exceeded five million when ARA was enacted, its impact was negligible.

The ARA's goal was to "create jobs" and give training, but the General Accounting Office (GAO) found that the agency typically overreported the number of jobs created by 128 percent, did not use available information to evaluate the number of new jobs supposedly created, and routinely gave millions of dollars to locales that no longer had high unemployment. By 1965 the ARA had sufficiently discredited itself to be renamed the "Economic Development Administration." (EDA was eventually also recognized as a four-star boondoggle and was abolished in the early 1980s.)

In 1962 Congress passed the Manpower Development and Training Act (MDTA) to provide training for workers who lost their jobs due to automation or other

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technological developments. MDTA was hailed by "manpower experts" as the great hope for American workers.

But although MDTA expanded throughout the 1960s, its success was confined largely to political speeches and statistical charades. In a 1972 report the GAO concluded that federal manpower programs were failing on every score—that youth programs were not reducing the high-school dropout rate, that valuable job skills were not being taught, that little effort was being made to place trainees in private jobs, that Department of Labor (DOL) monitoring of contractors was inadequate, and that little follow-up of trainees was occurring. GAO noted, "According to DOL, there is an overriding concern with filling available slots for a particular program rather than with developing the mix of services that the person needs."

Renaming the Boondoggle

In 1973, faced with a confusing hodgepodge of floundering training programs, Congress passed the Comprehensive Employment and Training Act (CETA). In the preface to the new law Congress conceded that "it has been impossible to develop rational priorities" in job training. Existing federal programs were widely perceived as failures, and CETA was supposed to be the cure for all that ailed job training. However, most of the contractors and subcontractors under MDTA were simply given new, often more lucrative grants and contracts under CETA. The same agencies and nonprofit organizations repeated the same mistakes under a new acronym.

CETA began as a training and employment program, but job creation took precedence during the 1974–76 recession. Although the recession was over when President Jimmy Carter took office in 1977, he nonetheless ordered the creation of 350,000 additional public-service jobs by year's end. Local government officials complained to Congress that the DOL was pressuring them to hire more people than they wanted; officials threatened to withdraw all funds if localities did not spend "another million by Friday."

CETA gave $500 a month to a communist agitator in Atlanta to, in his words, "organize for demonstration and confrontation." In Philadelphia 33 Democratic party committeemen or their relatives were put on the CETA payroll. In Chicago the Daley political machine required CETA job applicants to have referral letters from their ward committeemen and left applications without such referrals piled under tables in unopened mail sacks. In Washington, D.C., almost half the city council staff was on the CETA rolls.

CETA was often used to increase demand for other government services. In Maryland CETA workers offered free rides to the welfare office. In New York CETA workers ran a phone service to inform people what unemployment compensation benefits they were entitled to receive.

CETA spent over $175 million on art projects. This was not because CETA expected an increase in the demand for artists or because any inadequacy was identified in existing methods of training artists. CETA spent millions on the arts simply because it thought the arts were a nice thing and that taxpayers should have more of them, whether they liked it or not. In Montgomery County, Maryland, the richest county in the nation, CETA paid nine women $145 a week to attend ballet school. In Poughkeepsie, New York, CETA workers busied themselves attaching fake doors to old buildings to beautify the city.

In Montgomery County, Maryland, the richest county in the nation, CETA paid nine women $145 a week to attend ballet school. In Poughkeepsie, New York, CETA workers busied themselves attaching fake doors to old buildings to beautify the city.

CETA was a dismal failure for trainees. A DOL-funded study found that CETA recruits had "significantly lower post-program earnings" than similar individuals who never enrolled in CETA. Congress responded by replacing CETA with the Job Training Partnership Act (JTPA) in 1982. JTPA was more pri-

vate-sector oriented than CETA, but it was still a creature of politics and bureaucracy. JTPA programs were advised and sometimes directed by local Private Industry Councils.

President Ronald Reagan often bragged that JTPA had a 68 percent job-placement rate for "economically disadvantaged" trainees, as proof of the success of a public-private partnership. Former labor secretary Ray Donovan called JTPA "one of the greatest achievements in the history of government social policy," and his successor, Bill Brock, called it "a model for human resource programs." The national 68 percent placement rate was concocted from 50 state measurements with no consistency or uniformity. JTPA's placement figures were "largely one-day-on-the-job" figures, according to Gary Walker, a New York consultant who evaluated the program for the Ford Foundation.

Welfare for Business

JTPA's success was a mirage: Instead of serving the hard-to-employ, JTPA was largely a welfare program for business. Most JTPA contractors also provided services under CETA. Once again, the main thing that had changed was the program's name.

"Customized training"—designing a training program for the specific training needs of an individual company—was a popular JTPA activity. In Cincinnati JTPA paid for in-house training program costs previously assumed by General Electric. In Spring Hill, Tennessee, JTPA paid training costs at General Motors' new Saturn plant. In New Jersey and Maryland special programs were set up to train people to work at McDonald's restaurants. McDonald's would have had to train people anyway. The only difference was who paid for the training.

Where JTPA was not paying for training that would have occurred anyway, it often paid for training for jobs that didn't exist. In the mining region of Minnesota, unemployment reached 80 percent in some towns. With the decline of the American steel industry, demand for iron ore would remain depressed and new industries were unlikely to enter the area. Yet JTPA poured in money to retrain the locals and help them search for nonexistent jobs.

In Pittsburgh 96 percent of JTPA funds were spent on classroom instruction—even though classroom instruction was known to be the least effective training method. But it was much easier to stick clients in a classroom than to place them in private jobs, so employment and training bureaucrats often favored endless classroom training.

JTPA's most bizarre feature was its "employment-generating activities." The Private Industry Councils used tax dollars to advertise and procure federal contracts. Illinois used JTPA funds to set up Procurement Outreach Centers around the state to help local businesses chase federal contracts. In Sacramento JTPA paid for advice on loan packaging, taxes, and employer-employee relations for small businesses.

In 1993 the DOL released a study that revealed that JTPA, like CETA, "actually reduced the earnings" of broad groups of trainees. JTPA was especially vexing to young males, whose earnings after training were 10 percent lower than earnings of similar individuals who avoided the program.

In 1998 JTPA was replaced with the Workplace Investment Act. There is no evidence to presume that government wizards have learned how to square the circle, at least as far as designing effective training programs is concerned.

The federal government has tried every imaginable manpower scheme over 80 years and has failed dismally every time. It cannot create incentives to provide valuable, cost-effective training by doling out billions of dollars. The sooner government stops making false promises and giving people false hope, the sooner that young and low-income people can begin learning real skills in the private sector.

Federal job-training programs will almost always be either unnecessary or worthless. Either the government will be training people for jobs that the private sector would have trained them for anyhow—or the government will be training for jobs that don't exist. Federal training programs have tended to place people in low-paying jobs, if trainees got jobs at all. If the programs have any effect at all, it is simply to help some low-income people get jobs instead of other low-income people. Rather than creating new training programs, Obama should abolish existing programs and cease promising more than the government can deliver. FEE

Hybrids and Hype

BY KATHRYN SHELTON AND RICHARD MCKENZIE

At one time not too many years ago, car buyers had two choices in hybrids: the Toyota Prius and the Honda Civic. The first models were introduced in 2000 and 2002, respectively, and both cars initially received Environmental Protection Agency (EPA) ratings of 52 and 51 miles per gallon (MPG), respectively. Now hybrids come in a variety of models—from downscale (Civic) to medium scale (Ford Fusion) to upscale (Cadillac Escalade)—from most major automobile manufacturers, all claiming that their cars are exceptionally "green" for their sizes.

Hybrid technology might make this behemoth a realistic option for people who otherwise would have driven something smaller.
Ari Helminen [flickr]

Car companies all suggest that hybrids will help stave off global warming, prevent New York City (and the rest of the country's coastline) from flooding, and save the polar bears and the arctic ice shelves to boot. They assume that their hybrids' EPA-advertised improvements in gas mileage (of more than of 10 percent, depending on model) over conventional combustion-engine-only counterparts will more or less be realized along with a reduction in CO_2 emissions.

Such will not be the case, for several good reasons. Indeed, hybrid purchases might very well contribute, albeit marginally, to the "browning" of the planet, especially when their production and purchases are subsidized through car manufacturer bailouts and "green" stimulus schemes, and tax credits for car buyers.

First, most car buyers now understand (or should understand) that EPA mileage estimates for cars are a mirage, or an exaggerated estimate of the mileage that can be expected from cars in real-life (not laboratory or test-track) driving conditions. According to the best available research, which is somewhat dated, the EPA has overstated the fuel economy of hybrids by more than that of combustion-only engines. Before 2008, when cars and trucks sold were subject to the revised EPA test methods to determine fuel economy estimates, the EPA mileage for hybrids overstated the real-life mileage by at least 20 percent. The EPA has since lowered its fuel economy estimates by as much as 20 percent, but the estimates remain higher than the mileage received by most drivers on their daily drives.

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In early 2012 a lawyer won a $10,000 settlement from Honda in small-claims court in part because she was unable to get more than 28 miles per gallon in her Civic hybrid after she accepted a recommended software upgrade that was supposed to improve the car's fuel economy. The lawyer's fuel economy experience is a third lower than the 44 highway miles per gallon Honda advertises now. (One of the authors, McKenzie, has a Civic hybrid and has consistently gotten less than 40 miles per gallon on the flattest of highways and has gotten below 34 miles a gallon in a combination of city-street and highway driving.)

Obscured Costs

Second, additional hybrid production has energy and environmental consequences that government policies designed to spur their sales obscure. Hybrids are generally several thousand dollars more expensive to produce than their combustion-engine-only counterparts in any event. The production and disposal of hybrids' banks of batteries guzzle additional energy, giving rise to additional greenhouse gases. Those batteries, filled with toxic acid that eats steel, can also cause serious future environmental problems relating to their energy-dense disposal processes when they are replaced after eight to ten years (according to a 2011 *New York Times* report, disposing of these batteries is a problem with, at best, only a partial and inadequate solution to date). Producing more hybrids than would have been produced without the government policies means consuming more energy-dense steel and other materials as well, resulting in additional CO2 emissions before the hybrids even reach showroom floors. Tax credits, HOV-lane usage rights, and other forms of subsidy hide many of these costs, however, making hybrids more attractive to consumers (and producers, who can pocket more profits with taxpayers picking up the tab for so many of the costs).

Government policies designed to spur hybrid sales obscure the energy and environmental consequences of the production of more hybrids than otherwise would have been produced.

Third, to the extent that hybrids actually increase the mileage per gallon of gasoline, they lower the cost of driving per mile. The lower (marginal) cost of driving miles will cause many hybrid owners to drive more miles than they would have had the hybrids not been available. Researchers have found that although their commuting habits are similar to those of drivers of combustion-engine-only cars, hybrid owners drive 25 percent more miles on pleasure trips than their counterparts. The Congressional Budget Office has estimated that 40 percent of the *maximum* fuel economy improvement from hybrids can go up in the exhaust from more miles driven.

Also, obesity research shows that a reduction in the cost of driving will cause people to walk less and to go out to eat more frequently, consuming more calories that are energy dense and packing on the pounds that cause the consumption of more gasoline and jet fuel just to transport the added calories around. Moreover, the added body weight can show up in a host of medical maladies that, through added medical treatments, can soak up energy-dense resources, which can have their own browning effects.

Fourth, when only Civics and Prius hybrids were available, car buyers had no opportunity to trade off gas mileage in hybrids for larger hybrids with greater comfort and lower fuel efficiencies than the Civic and the Prius. Now, with the growing array of hybrids in larger sizes with more comfort but lower gas mileage, many would-be Civic and Prius owners can be expected to move up-market, with the result that they increase their good feelings of being "environmentally friendly," all the while increasing their fuel consumption over what they would have consumed had they stayed with smaller hybrids. Even some would-be buyers of smaller combustion-engine-only cars can be enticed to pay the higher prices (especially when government subsidies are available) for more upscale, less fuel-efficient hybrid models, which

can have an array of creature comforts that consumed a lot of energy in their production. These hybrid buyers can actually lower their fuel economy per mile and add to greenhouse gases.

Of course, there is likely to be an offset to these negative effects, as buyers of large cars switch from large combustion-engine-only cars to large hybrids. However, the *net* environmental consequences of the shifts in car purchases remain up in the air, depending on the magnitude of the opposing shifts in car-buying decisions and on the energy density of the added real resources that must be used in large hybrid production.

Fifth, when hybrid owners are allowed to ride in HOV lanes without passengers, as they were for several years in California, the result can be that many commuters who shared rides will drive alone, which means they increase the travel time for all in the HOV lanes and thus increase the energy consumed by the remaining ride-sharing cars in the HOV lanes.

The advent of all-electric cars is similarly unlikely to be the environmental boon that has been advertised by global-warming theologians. They, too, have all the offsets noted for hybrids. In addition, they will draw their power from the electric grid, with costly (meaning energy-dense) resource-consuming grid connections, many of the electric generating plants being powered by various grades of "dirty" coal. Electric-car buyers may ride with wonderful "green feelings" and with pats on their backs from approving environmental friends because no greenhouse gases are coming out of the rear ends of their cars. All the while both the electric-car buyers and their approving friends conveniently ignore the greenhouse gases spewing from far-away coal-fired generators. Out of sight, out of mind—but no less brown.

Few environmental pundits seem to realize that the tens of thousands of dollars in added costs to build the sporty Tesla translate into a lot of additional energy consumption.

More Coal

Roughly half of all the electricity generated in the United States is produced from coal. Research shows that all-electric cars that charge their batteries off coal-fired generators emit 6.5 ounces of carbon *per mile*, half the emissions of gasoline-powered cars. However, much if not all of the pollution gap will evaporate in the exhaust from electric cars' greater energy-dense production costs and battery replacements and from more miles driven, given the 25 percent lower (marginal) cost of miles driven. Few environmental pundits seem to realize that the tens of thousands of dollars in added costs to build the sporty Tesla translate into a lot of additional energy consumption. No matter, as electric vehicles increase their presence in the United States, abetted by green subsidies, new coal-fired turbines will inevitably be brought on line, with progressively dirtier coal being used to fire the growing count of coal-fired turbines.

Our point in this commentary is not that reducing energy consumption is a bad goal for car buyers and the planet. It would be good, but only when the goal is actually achieved. Unfortunately, not all supposedly *alternative* sources of energy have the intended effects, and some may have, on balance, perverse effects obscured by government green policies. Higher production costs for hybrids and prices for them that are artificially distorted by explicit or implicit subsidies are tipoffs that they (and other green products) will have perverse environmental effects. FEE

Where Should the Burden of Proof Rest?

BY ROBERT HIGGS

Perhaps you have been struck, as I have been repeatedly over the years, by the way in which certain disputes are framed. A writer, reporter, or discussant recognizes a difference of views on some matter: A maintains X, and B maintains Y. Yet even though a difference is acknowledged, the question is resolved by concluding that X must be the case because B has not proved that Y is the case. Thus a conclusion is often reached only on the assumption that A should not bear the same burden of proof.

Libertarians constantly encounter this situation when they argue against State provision of a good or service the State currently provides. Libertarians might argue, say, that private suppliers can provide personal security of better quality or at less cost than the government's police can. Critics assert that the libertarians are wrong, noting that the libertarians have not conclusively proved their case. Critics sometimes also claim that if private provision were actually better it would have already become the norm, conveniently ignoring the various ways in which the government has outlawed or burdened private providers.

Most people now presume, without seriously bearing a burden of proof, that the existing State system is superior to any alternative arrangement.

Even ostensibly impartial commentators generally lean toward placing the burden of proof on those who challenge the status quo, whether the dispute arises in science, politics, economic policy, or any other domain in which orthodoxy reigns or long-established institutions operate. This bias helps to preserve whatever has gained sway, regardless of how it attained its current domination. Thus the heliocentric model's displacement of the geocentric model of planetary motion in the solar system required more than a century, as Kepler, Copernicus, Galileo, Newton, and others had to painstakingly demonstrate their conception's superiority to the long-established system derived from Ptolemy (c. 90–c. 168 A.D.).

Likewise, the modern nation-state has been a well-established institution for centuries, and during this era it has expanded its size, scope, and power immensely. People are now accustomed to the State's huge dimensions, and they have difficulty imagining how alternative arrangements might operate. Hence ordinary politics now takes the form of arguments and policies that move the State back and forth between the five-yard line and four-yard line, not far from the goal line of totalitarianism. Libertarians who propose to move the State back to, say, the 50-yard line—still far from the goal line of complete freedom—have difficulty gaining a hearing.

Who Are the Utopians?

The libertarians' critics often assert that libertarians are utopians who seek the impossible, notwithstanding that the modern nation-state did not always exist and that the hopes widely placed in the current State—an institutional arrangement born in and sustained by periodic mass murder and continuous extortion and robbery—attest a more utopian mindset. People dismiss the panoply of State crimes as aberrations or they adduce ad hoc rationales. Most people now presume, without seriously bearing a burden of proof, that the existing State system is superior to any alternative arrangement. Libertarians, however, may justly insist on a rational, even-handed,

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fact-based argument, not simply the flippant dismissal that they are dreamers.

Morally speaking, it would seem that those who favor coercive arrangements ought to bear the burden of proof. If the State is a manifestly superior arrangement to genuine, voluntary self-government, why must it routinely resort to the use of police and armed forces to prop itself up? Why must it constantly threaten us with imprisonment and death in order to bring forth the revenues that support its activities? Walmart and Amazon do not put a gun to my head to gain my patronage.

If the State is a manifestly superior arrangement to genuine, voluntary self-government, why must it routinely resort to the use of police and armed forces to prop itself up?

Public "Goods"

Of course, the standard mainstream-economics apology for this threat of violence against unwilling purchasers is that the government provides a universally valued "public good" and hence must take stern measures to cope with the "free rider" incentive to avoid payment. The trouble is that very little, if any, of what modern governments provide satisfies the criteria for classification as a public good. The pension checks the government sends to grandma are not a public good, nor are its payments to the doctors and other health service providers who attend to grandpa's medical care, nor are the outlays for teachers and schoolhouses to educate my neighbor's kids. The "national defense" that serves as the leading example of a government-supplied public good is in fact a ludicrously poor example. Many of us actually wish the armed forces would cease their current activities in stirring up trouble for Americans around the world, killing innocent people, and destroying property. Far from being a public good, this government "service" is for us not a good at all.

In truth the State occupies itself overwhelmingly in extorting private wealth, transferring much of it to favored supporters, wasting a great deal of it, and retaining the balance to pay its own legions of bullies, do-gooders, and time-servers, as well as its Praetorian Guard of police and military forces. This whole apparatus has no claim to self-evident superiority to alternative arrangements; it ought to bear the burden of proof for every step it takes. Moreover, we should recognize that the blackboard proofs proffered by mainstream economists will not feed the baby. This entire body of thought deserves dismissal as little more than a corpus of apologetics, rather than a serious attempt to justify the State's pervasive presence in modern life.

Much more might be said along these lines, of course, but perhaps enough has been said to show that placement of the burden of proof is utterly crucial in the resolution of disputes, whether they be in science, public policy, or economic analysis. Moreover, we need to be constantly aware that if an arrangement depends on violence or the threat of violence to keep it afloat, it almost certainly has severe intellectual or moral deficiencies. Raw force is always the resort of those who cannot present a good argument for their actions. Although the modern State enjoys the support of countless court intellectuals and apologists, it rests at bottom on the use of violence in the event that we do not accept the excuses it makes for its crimes. That so many people fear and loathe the State should itself be sufficient to indicate that its kingpins and supporters, not those of us who long for freedom, should always bear the burden of proof. FEE

What's Wrong with Right-to-Work

BY GARY CHARTIER

The Indiana legislature recently approved a "right to work" law, the 23rd of its kind in the United States.

A "union shop" agreement between an employer and a union commits the employer to ensuring that new hires join the union within a specified period. Right-to-work laws ban union-shop agreements.

Let's put it another way: They violate freedom of contract.

If employers choose to conclude union-shop contracts with unions, what gives the Indiana legislature the right to interfere?

Employers own the wages they will pay and the sites where work will be performed under such contracts. So it's their right to dispense the wages and make the sites available specifically to union members, just as it's their right, more generally, to trade with anyone they choose.

When a legislature interferes with voluntary employment contracts, it infringes people's freedom to bargain with their own labor and possessions. Treating this kind of interference as acceptable means licensing arbitrary interventions into the market by politicians, who are ill-equipped to second-guess the decisions made by the real people making work agreements with one another.

And there's no principled way to draw a sharp line here: Once it's okay for a legislature to interfere with bargaining in this way, there's no stopping politicians from setting wages and prices, or requiring or prohibiting the hiring of particular people.

> It's not the job of the government to interfere with free agreements to lower costs or boost incomes.

Supporting a free society means embracing people's freedom to form unions. And it means acknowledging that unions—and union-shop agreements—can offer both workers and employers something valuable.

Unions can help to secure workers predictable terms of employment and protect them against arbitrary dismissal. And a union contract can help make workplaces more predictable for employers, ensure that information is disseminated to workers, and reduce a variety of workplace transaction costs.

Proponents of right-to-work laws defend them on several grounds:

- The laws lower wage costs, and thus consumer prices.
- The laws benefit workers in non-unionized workplaces, who will earn less in their absence.
- The laws give particular workers opportunities to negotiate for better, or different, terms of employment.

It's not the job of the government to interfere with free agreements to lower costs or boost incomes. Presumably the government could force lots of people to work for no wages at all. That would also do what right-to-work laws do, albeit much more dramatically: It would treat people as slaves. The same would be true if it mandated wages for everyone.

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All that people need in order to negotiate for themselves is freedom of contract. (Of course, sometimes they might not be able to do so if an employer is bound by a union contract that prohibits individual negotiations. But if the contract is a voluntary one, the government has no business interfering with it.)

U.S. Labor-Law Background

Defenders of right-to-work laws also sometimes point to the background labor-law framework in the United States as a justification for these laws. The National Labor Relations Act (NLRA) and its successors established a system that requires an employer to bargain with a union enjoying majority support in a given workplace. Right-to-work proponents argue that the laws they favor only help to level the playing field created by government action—by reining in special privileges granted to unions under existing labor law.

But those laws actually *presuppose* the restrictions inherent in that framework, while extending them further. One goal of the NLRA and later federal laws was to reduce conflict—and in effect reduce workers' choices—by ensuring that just one union, moderate enough to win majority support (and therefore moderate enough to be cooperative with employers), would operate in a given workplace, while suppressing more radical unions and labor actions.

If right-to-work laws were really about individual freedom, they would simply allow unions to represent voluntary dues-paying members only while respecting employers' right to recognize or not recognize unions. In other words, the laws would permit states to *opt out* of federal labor law entirely—and nothing more. But these laws do much more, perhaps because allowing this kind of flexibility and variety would undermine the interests of politically influential employers by unshackling upstart competitors.

Of course, laws that respected freedom of contract wouldn't mandate particular bargaining rules. Just laws would protect people from violence and leave them free to work out the arrangements that make sense to them. There's nothing sacred about the existing labor-law framework. In a free society bargaining over employment terms wouldn't be constrained by anything like the NLRA. As *Freeman* contributor Percy L. Greaves, Jr., wrote in a tribute to Ludwig von Mises: "[T]he agitators for 'right-to-work' laws forget . . . that the problem is basically one of getting the government out of moral business transactions and not into them. . . . The economic answer is to repeal the bad intervention and not try to counterbalance it with another bad intervention" (tinyurl.com/nfdzdp).

The NLRA framework wasn't created out of sheer benevolence. Rather, the historical record shows, big businesses wanted something like it because they thought it would reduce conflict and increase costs for their competitors.

Big businesses that supported the emergence of modern labor law liked the fact that it had the potential to keep unions tame and manageable.

Even when union activity was legally disfavored, or actually illegal, unions like the Industrial Workers of the World won contract victories with strikes and work slowdowns. The eight-hour working day, for instance, wasn't a gift from benevolent politicians: It was an achievement of union struggles that took place well before the Wagner Act framework was in place.

Years before the New Deal, big, politically influential businesses wanted to diminish conflict, increase predictability, and reduce the appeal of radical unions. So they supported federal labor legislation, and some contributed to the development of the approach embodied in the NLRA. Although most of the corporate elite was unhappy with the NLRA as written, key business figures cooperated with the secretary of labor to implement it, hoping the law would help to handle grievances and prevent instability in the workplace.

Big businesses that supported the emergence of modern labor law liked the fact that it had the potential to keep unions tame and manageable, ensuring that they would operate within a predefined legal framework in order to enjoy legal privileges. (This is not to say that everything worked out exactly as the corporate elite would have liked.)

It should be no surprise, then, that viewed as a package, existing labor law limits workers' options. For instance, since bargaining is required only when a union enjoys majority support, a union that represents a significant fraction of employees—but not a majority—will tend to be treated as irrelevant.

Right-to-work laws typically assume, as does the federal labor-law framework, that if workers are represented at all, they'll all be represented by one union—a single, certified bargaining agent. One practical effect of this arrangement is to undermine "minority unionism"—labor action by any number of workers acting on their own behalf, functioning as a bargaining unit without official certification. The practical effect is to reduce flexibility for workers and to ensure that they have to choose between an established union or no representation at all.

Other aspects of the existing legal framework are troubling, too.

Legal rules that let courts order workers back to work treat workers as slaves, as the State's property.

A secondary boycott—a work action in which one group of workers refuses to work with or for an employer involved in a dispute with another group of workers—can be a powerful, nonviolent tool for achieving workplace goals. But current law bans secondary boycotts and "sympathy strikes," as well as strikes across plants or industries, again treating workers as slaves.

Existing laws provide for "cooling-off" periods before strikes can proceed. They require arbitration of some labor disputes, denying workers access to the courts, and precluding continued, tough negotiation. They encourage collective bargaining to focus just on some fairly specific issues related to the terms of employment rather than broader workplace concerns like plant closings and governance. They rule out contracts that require hiring-hall arrangements in which unions funnel new workers to employers. They even allow a U.S. president to decree an end to a strike. The existing labor-law regime is designed to tame workers in the interests of "industrial peace," not to promote their interests.

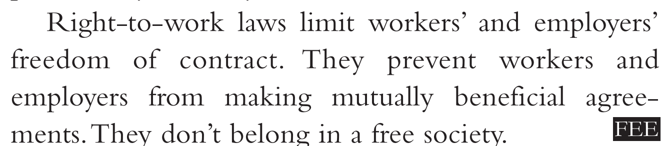
So, by all means, repeal the NLRA *and* all the state right-to-work laws. The government needs to get out of the labor-law business. It needs to respect freedom of contract.

But don't stop there. Eliminate the full range of privileges and restrictions that boost employers' influence over people's terms of employment. For instance: Get rid of the rules that reduce the available alternatives to paid employment by raising the costs of working for yourself—rules like occupational licensing requirements and zoning codes that keep people from running businesses from their homes. And eliminate rules that make self-employment riskier by raising the cost of living—like building and zoning codes, and rent control and land-use controls that limit the availability of housing—and that therefore channel people into the predictable, even if less appealing, world of work for wages. People who have other options can afford to bargain for good terms. It's also important, therefore, to remove the various restraints that limit the number of startup businesses: The more employers there are, the more competition there will be for labor, and the better the terms will be for those who choose to work for others.

So, by all means, repeal the NLRA *and* all the state right-to-work laws. The government needs to get out of the labor-law business. It needs to respect freedom of contract.

To the extent that right-to-work laws might seem to make sense as mechanisms for dealing with union abuses, the solution is to eliminate the whole body of modern labor legislation. Unions have shown they don't need it, even in the unfreed market we have today. And in a genuinely freed market, workers would find it significantly easier than they do at present to work for themselves, to say no to abusive work environments, and so to bargain effectively for appealing wages and working conditions and opportunities to direct their workplaces. They certainly wouldn't need the NLRA.

Right-to-work laws limit workers' and employers' freedom of contract. They prevent workers and employers from making mutually beneficial agreements. They don't belong in a free society.



The Keynesian Cure for Hunger: Eat More

BY RICHARD W. FULMER

Sylvia Nasar, author of the *New York Times* best-seller, *A Beautiful Mind*, has a new book: *Grand Pursuit: The Story of Economic Genius*, which reviews the lives and ideas of a dozen economists from Marx to Keynes and Hayek to India's Amartya Sen. It begins with a description of life in Jane Austen's England (1775–1817). Briefly, it was a Malthusian world in which any improvement in living standards was quickly followed by an increase in population that drove living standards back down to the subsistence level—a level at which nine-tenths of the population was constantly at risk of death from disease and starvation. Nasar assures us that as grim as this world was, life was far worse on the Continent.

By 1870, however, some 50 years after Austen's death, things had improved enormously. Real wages were significantly higher and rising. Most people could now afford more than a single set of clothes, life expectancy was increasing, and London was a far healthier place in which to live. What happened to so dramatically improve the average Englishman's lot in just two generations? Nasar explains:

> The economic historian Harold Perkin argues that "Consumer demand was the ultimate economic key to the Industrial Revolution," providing a more powerful impetus than the invention of the steam engine or the loom. London's needs, passion for novelty, and growing spending power supplied entrepreneurs with compelling incentives to adopt new technologies and create new industries.

There you have it. For millennia people were starving to death and the solution was right there in front of them: Consume more. Similarly, those who died of thirst in the world's deserts could have been saved if they had only drunk more water.

The term *spending power* implies *effective demand*, which means not just need or desire but the wherewithal to fulfill that need or desire. Wherewithal, in turn, implies previous production and saving.

This is not to deride Nasar, but to suggest that Keynes was on to something when he quipped that "even the most practical man of affairs [or the most intelligent historian] is usually in the thrall of the ideas of some long-dead economist." Nasar's passage, following as it does a recital of the terrible poverty that was the common lot for nearly all of human history, perfectly illustrates the emptiness and absurdity of popular Keynesianism. The work that Nasar quotes—*The Origins of Modern English Society 1780–1880*—was published in 1969 at the height of Keynes's popularity: during the presidency of Richard "We are all Keynesians now" Nixon and before the stagflation of the 1970s.

Nasar's last sentence, however, contains an important truth in the phrase "growing spending power." The term *spending power* implies *effective demand*, which

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means not just need or desire but the wherewithal to fulfill that need or desire. Wherewithal, in turn, implies previous production and saving (deferred consumption).

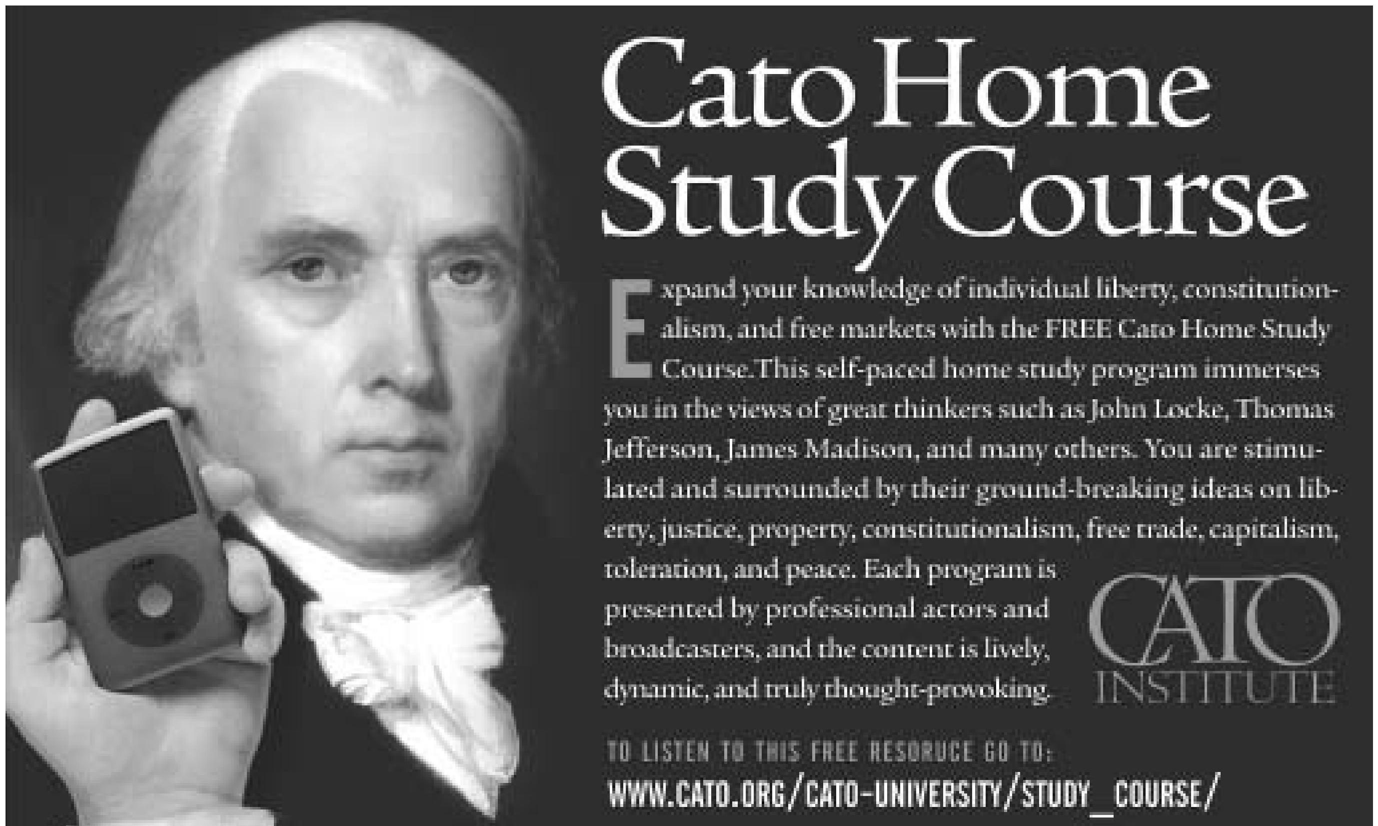
What a man produces is what he can bid for the produce of others. The value of what he creates—that is, its value to others—represents his *effective demand* in the marketplace. If he produces nothing, if what he produces has no value (mud pies), if what he produces loses its value (stone knives in the Bronze Age), or if he produces more than can be consumed (houses after a housing bubble has burst), he has no effective demand though his needs be unchanged.

What changed England was increased production, which made increased consumption possible.

This restates Say's Law, which Keynes in his *General Theory* popularly, though misleadingly, formulated as: *Supply creates its own demand.* This statement is misleading because a supply of goods with no value yields no effective demand and because supply that does have value to others does not *create* effective demand, it *is* effective demand.

What Keynesians do not understand is that if a man is hired to dig holes and then fill them back up, he is fully employed but he produces nothing of value; effective demand is not increased by his efforts. Nor does giving him money or goods in exchange for his useless labor create effective demand; it only shifts it from the people who produced what was given him.

Only production creates effective demand, and only after what was produced is sold can other goods be purchased and consumed. What changed England was not increased consumption but increased production, production that made increased consumption possible. And, yes, that increased production was due in large part to the entrepreneurial employment of the steam engine and the loom, inventions that Nasar cavalierly dismisses. FEE



Why Moral "Don'ts" Matter Most

BY DAVID C. ROSE

How important are moral values for the development and operation of a free-market economy? What follows is an explanation for why some moral values—the moral "don'ts"—are important to the conduct of economic activity, while other moral values—the moral "do's"—can actually act as impediments. This distinction was first proposed in my book, *The Moral Foundation of Economic Behavior*. An interesting byproduct of this exercise is that it sheds light on what a moral framework that comports with libertarianism might look like.

Moral prohibitions create the minimum standards of conduct necessary for trust to flourish in society.
Wikipedia

"Moral do's" are exhortations that tell us what to do if we are to be moral. Since the positive moral action they encourage is often a matter of degree, they tend not to be specific. For example, the moral exhortation "be generous" may induce you to give a beggar money, but it does not tell you how much to give in any given circumstance. Moral exhortations leave unanswered the question of how generous is generous enough to be moral. There are different degrees of generosity, and what you might think is appropriately generous in a given circumstance I might find inadequate.

Since there is no objective basis for determining the proper place to stop on the continuum of positive moral action intensity (people can honestly disagree about how generous is generous enough, for example), moral exhortations are inherently subjective. Moreover, encouraging one to be completely generous or completely kind just trades a specificity problem for a feasibility problem, since in most cases the upper bound (if one even exists) of the intensity of any given positive moral action is above any individual's ability to pay. This brings us to a key point. Because moral exhortations normally require action, and action normally requires resources, moral exhortations normally force us to choose.

"Moral don'ts" are prohibitions that tell us what we shouldn't do if we are to be moral. Unlike moral exhortations, moral prohibitions are not inherently matters of degree. Consider the moral prohibition "don't steal." One either steals or does not. While it is true that there are degrees of stealing, there are no degrees of not stealing.

Because positive moral action is normally a matter of degree, there is normally no objective basis for concluding that someone has behaved immorally in any given circumstance. But because of the categorical nature of moral

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prohibitions (one is either in the set "not steal" or one is not), obeying moral prohibitions is inherently objective. With respect to moral prohibitions, then, you either behaved morally because you obeyed or you behaved immorally because you did not.

Since resources are finite, moral exhortations normally force us to choose between competing ends. So except in rare circumstances, it is not possible to have a universal standard for behavior with respect to moral exhortations. This is rarely a problem for moral prohibitions. Moral prohibitions require inaction, not action, and inaction normally does not require resources. One can "not lie" to an infinitely long list of individuals without running out of resources. Although obeying moral prohibitions may be costly in the sense that one forgoes chances to engage in opportunism, it is nevertheless true that it is nearly always possible to obey them, so with moral prohibitions a universal standard for behavior is possible and expecting others to live up to it is meaningful.

The hallmark of a free-market economy is voluntary transactions. To occur, voluntary transactions must be mutually beneficial, so they tend to be welfare-improving. Mutual benefit is made possible by the existence of transaction surplus—each party gets more than he gives up—the expectation of which provides the impetus for voluntary transactions.

Unless there is a genuine market failure to be addressed, moral exhortations solve a problem that does not exist.

Should economic transactions be encouraged by moral exhortations or should they be left to the pursuit of self-interest? What is morally positive about economic transactions is the surplus they produce, because this is what ultimately increases the value of output per person. But this surplus is precisely what induces transactions to be undertaken voluntarily in the first place, so there is nothing for moral exhortations to do. Unless there is a genuine market failure to be addressed, moral exhortations solve a problem that does not exist. In doing so they are either superfluous because they don't change the outcome or inefficient because they do.

This means there will be fewer resources available to undertake positive moral actions. Even when a genuine market failure exists, it does not follow that moral exhortations are an efficient means of addressing it. It does follow, however, that benevolence is most efficaciously pursued if, when we are moved to behave benevolently, we do so as a private consumption activity financed by income derived from transactions that have already been undertaken because of their mutually beneficial nature.

With respect to economic behavior, there is therefore nothing for moral exhortations to do, no problem for them to solve. What should concern us about the moral character of our transaction partners is not that they aren't sufficiently willing to promote our interest, because we don't need them to. What should concern us is that some are all too willing to opportunistically exploit us.

Opportunism

Opportunism can be defined as acting to promote one's welfare by taking advantage of a trust extended by an individual, a group, or society as a whole. The possibility of opportunistic exploitation drives up the expected cost of transacting. Such *transaction cost* reduces the scope of transactions through which exchange and cooperative surpluses can be realized. Where opportunistic activity is widespread, evidence of its crippling effects is everywhere.

The moral "don'ts" matter most because if an individual obeys all moral prohibitions, it is impossible to engage in opportunism. Widespread obedience to moral prohibitions therefore directly and dramatically reduces transaction costs by precluding opportunism. So while there is nothing for moral exhortations to do to support the development and operation of a free-market economy, there is plenty for moral prohibitions to do.

Individuals who believe they are morally obligated to obey all moral prohibitions before even considering obeying any moral exhortation can be rationally expected to always behave in a trustworthy manner. They will never engage in "greater good" rationalizations at your expense. Societies within which such moral beliefs predominate enjoy a social norm of

unconditional trustworthiness, which makes a high-trust, low-transaction-cost society possible.

Social harmony is directly related to the existence of clear standards for behavior. This is a problem for moral exhortations because, as noted, there is no objective basis for discerning to what degree a positive moral action should be taken, and they entail action that requires resources an individual might not have in sufficient measure.

As we've seen, neither of these problems applies to moral prohibitions. So with moral prohibitions we know what we can practicably expect from others and what others will be expecting of us.

Because of this, with moral prohibitions everyone can conclude at the same time that someone has not lived up to a particular standard for moral behavior. This produces a consensus of disapproval. When everyone can agree that a given action is wrong and therefore requires disapproval, standards can be reinforced automatically and informally. There is no need for a central authority to make value judgments because obeying the standard is not a matter of degree and is therefore not a matter of subjective judgment.

Social harmony is directly related to the existence of clear standards for behavior.

When we don't recognize the elastic nature of moral exhortations in contrast to the categorical nature of moral prohibitions, we naturally treat them as equivalently functioning moral values, with the latter being nothing more than negation of the former. In this case all that matters is relative moral weight. The problem is that even though negative moral actions are by nature well defined, the moral weight put on them is not. This makes moral behavior inescapably subjective *even for behavior involving negative moral actions* and in so doing makes people effectively moral free agents, because they are the ones choosing the weights. As such we don't know (because we can't know) what we can and cannot expect from others.

Many firms have been caught engaging in questionable practices because of a competitive race to the bottom of ethical behavior. Modern moral theorists normally attribute this to corporate leaders not having been sufficiently exhorted to want to "do the right thing." But a better approach might lie in the fact that clear moral standards made possible by prioritizing obedience to moral *prohibitions* would provide minimum standards for behavior that people of integrity can use to avoid getting into a competitive race to the ethical bottom.

The absence of clear moral standards for behavior can make managers feel they are morally compelled to disobey moral prohibitions as a means to the end of pursuing positive moral actions (such as telling a small lie so as not to fire an employee). Such managers can even conclude that being unwilling to disobey a moral prohibition amounts to an insufferable act of moral self-righteousness (such as steadfastly refusing to change a bookkeeping entry after the fact) that puts one's own moral self-esteem ahead of the welfare of others (if, say, changing the entry would avoid bankruptcy, which would lead to workers losing their jobs).

A society composed of individuals who strongly value obeying moral prohibitions is a society composed of individuals who expect to feel very guilty if they undertake negative moral actions. Even when opportunism cannot be observed and no one is appreciably harmed at the margin, they still feel guilty. Such a society will enjoy low transaction costs. Such a society has the reason to create and the ability to sustain institutions that fully support property rights and the creative use of contracts, which in turn strengthen incentives for effort, investment, innovation, and invention.

So what explains efforts by firms to appear benevolent? In low-trust societies firm owners and managers are forced to extend the radius of small-group trust, which is largely based on mutual affection. This they do by treating customers and employees "like family." Such "warm glow" behavior is actually a symptom of a society's inability to produce a norm of unconditional trustworthiness. It is not for nothing that the warmest cultures have the lowest levels of measured trust and trustworthiness, and therefore the lowest levels of economic development and general prosperity. As a society we do best when, with the exception of those very close to us, we do not expect others to promote our welfare and only expect that they will obey all moral prohibitions. FEE

Capitalism, Corporatism, and the Freed Market

BY SHELDON RICHMAN

When a front-running presidential contender tells the country that thanks to Barack Obama, "[w]e are only inches away from ceasing to be a free market economy," one is left scratching one's head. How refreshing it is, then, to hear a prominent establishment economist—a Nobel laureate yet—tell it straight:

> The managerial state has assumed responsibility for looking after everything from the incomes of the middle class to the profitability of large corporations to industrial advancement. This system . . . is . . . an economic order that harks back to Bismarck in the late nineteenth century and Mussolini in the twentieth: corporatism.

Columbia University Professor Edmund S. Phelps, who won the 2006 Nobel Prize in economics, and his coauthor, Saifedean Ammous, assistant professor of economics at the Lebanese American University, write that the U.S. economy ceased to be a free market some time ago, yet the free market is blamed for the economic crisis. (The real question is whether the American economy was ever really free.)

Phelps and Ammous condemn corporatism unequivocally:

> In various ways, corporatism chokes off the dynamism that makes for engaging work, faster economic growth, and greater opportunity and inclusiveness. It maintains lethargic, wasteful, unproductive, and well-connected firms at the expense of dynamic newcomers and outsiders, and favors declared goals such as industrialization, economic development, and national greatness over individuals' economic freedom and responsibility. Today, airlines, auto manufacturers, agricultural companies, media, investment banks, hedge funds, and much more has *[sic]* at some point been deemed too important to weather the free market on its own, receiving a helping hand from government in the name of the "public good."

> Too many people are willing to accept government-set goals (such as energy independence) so long as the "private sector" is induced to achieve them. Regardless of how the goals are achieved, if government sets them, that's statism.

It's great that their list includes the corporate state's declaration of goals. Too many people are willing to accept government-set goals (such as energy independence) so long as the "private sector" is induced to achieve them. Regardless of how the goals are achieved, if government sets them, that's statism.

The cost of corporatism is high, and Phelps and Ammous provide a partial list:

> dysfunctional corporations that survive despite their gross inability to serve their customers; sclerotic economies with slow output growth, a dearth of engaging work, scant opportunities for young people; governments bankrupted by their efforts to palliate these problems; and increasing concentration of wealth in the hands of those connected enough to be on the right side of the corporatist deal.

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Again, kudos to them for noting the increasing concentration of wealth. The corporate state, after all, is a form of *exploitation*, the victims of which are workers and consumers, who would have been better off (absolutely and comparatively) without anticompetitive privileges for the well-connected and without government-induced recessions.

The authors are optimistic that time will work against the corporate state. Young people coming of age in the Internet's decentralized and wide-open market of ideas and merchandise can't be expected to show enthusiasm for a system that protects entrenched corporations from the forces of competition. Moreover "the legitimacy of corporatism is eroding along with the fiscal health of governments that have relied on it. If politicians cannot repeal corporatism, it will bury itself in debt and default. . . ."

My main beef with Phelps and Ammous's essay is their use of *capitalism* to name the economic system that corporatism corrupted. Like many others, they believe that word "used to mean" the free market. To be sure, it was used that way beginning in the mid-twentieth century. But there was an older usage (of *capitalist* specifically), coined by free-market liberals like Thomas Hodgskin who predated Marx, associating it with *government privileges* for the capital-owning class. That undertone has never left. (Longtime *Freeman* writer and historian Clarence B. Carson expressed misgivings about the word: tinyurl.com/can2fl.)

The corporate state, after all, is a form of *exploitation.*

It's tempting to dismiss this as mere semantics. But we are trying to communicate, aren't we? Libertarian theorist Roderick Long, however, shows that more than semantics is involved. For Long, *capitalism* is what Ayn Rand called an *anti-concept*, a term that confuses rather than enlightens. One kind of anti-concept is the package deal, (in his words) "referring to any term whose meaning conceals an implicit presupposition that certain things go together that in actuality do not."

As a thought experiment Long asks us to consider his coinage of *zaxlebax*, which he defines as "a metallic sphere, like the Washington Monument." Obviously this is incoherent. Nevertheless, says Long:

> [S]ome linguistic subgroup might start using the term "zaxlebax" as though it just meant "metallic sphere," or as though it just meant "something of the same kind as the Washington Monument." And that's fine. But my definition incorporates both, and thus conceals the false assumption that the Washington Monument is a metallic sphere; any attempt to use the term "zaxlebax," meaning what I mean by it, involves the user in this false assumption.

Long sees *capitalism* in its common usage as similar:

> By "capitalism" most people mean neither the free market *simpliciter* nor the prevailing neomercantilist system *simpliciter*. Rather, what most people mean by "capitalism" is this free-market system that currently prevails in the western world. In short, the term "capitalism" as generally used conceals an assumption that the prevailing system is a free market. And since the prevailing system is in fact one of government favoritism toward business, the ordinary use of the term carries with it the assumption that the free market is government favoritism toward business.

Similarly for *socialism*, Long writes. He thinks most people mean nothing more specific than "the opposite of capitalism":

> And that, I suggest, is the *function* of these terms: to blur the distinction between the free market and neomercantilism. Such confusion prevails because it works to the advantage of the statist establishment: those who want to defend the free market can more easily be seduced into defending neomercantilism, and those who want to combat neomercantilism can more easily be seduced into combating the free market.

"Either way," Long concludes, "The state remains secure." FEE

Creating Jobs versus Creating Value

BY STEVEN HORWITZ

Picking on *New York Times* columnist Paul Krugman is one of the largest participation sports on the Internet. And rightfully so, since he often says ridiculous things that demand a response from those who understand basic economics better than he does, despite his having won a Nobel Prize. His January 26 column, "Jobs, Jobs and Cars," has him once again making such an argument (tinyurl.com/7a682m5). This time it's on the subject of job creation.

Krugman claims that the Republican argument for the importance of job creation relies too heavily on the "heroic entrepreneur" rather than recognizing that "successful companies—or, at any rate, companies that make a large contribution to a nation's economy—don't exist in isolation." For Krugman this means there's plenty of help from government. Although I can't speak for all Republican politicians, I can say that Krugman's view of the argument for free markets is utterly mistaken.

It's relatively easy to come up with something for a lot of people to do. Creating value is the hard part.
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The argument for the market is based precisely on the fact that the entrepreneur exists in a social context that helps to determine how effective her actions will be. The most heroic entrepreneur imaginable cannot be very productive if she is shackled by government regulations or is trying to operate in a society with ill-defined or poorly enforced property rights. As Ludwig von Mises recognized as far back as 1920, this is the same reason that successful entrepreneurs fail miserably when they try to run government agencies like businesses: What gives the entrepreneur the ability to succeed are market signals, which are necessary to determine what people might want and how well it was provided. Even the smartest person can't learn if a teacher uses black chalk on a blackboard in a dark room. No entrepreneur can succeed in isolation.

More important, though, is that both Krugman and politicians from both parties are much too concerned about *job* creation when they should be concerned about *value* creation. *Creating jobs is easy; it's creating value that's hard*. We could create millions of jobs quite easily by destroying every piece of machinery on U.S. farms. The question is whether we are actually better off by creating those jobs—and the answer is a definite no. We *want* labor-saving, job-destroying technology because it creates *value* by enabling us to produce things at lower cost and thereby free up labor for more urgent uses.

A century ago 40 percent of Americans worked in agriculture; today it's less than 2 percent. The former farm workers didn't all go unemployed. The wealth cre-

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ated by higher farm productivity and lower prices enabled us to demand all kinds of new products that in turn created many more jobs than were lost in agriculture. This is the story of innovation everywhere.

So rather than talking about job creation, let's focus on value creation. The case for freeing markets is that such freedom best enables individuals to find ways to use their knowledge and skills to create value for others and thereby create wealth for themselves. The more wealth that value creators can keep, the more likely they are to continue to create it. Even if a value-creating innovation destroys jobs in the short run, the increased wealth will bring a great deal of job creation in its wake.

The triumph of entrepreneurial innovation is not in creating jobs, but in creating value.

Krugman tries to criticize Apple by pointing out that the "heroic" Steve Jobs has only created about 43,000 Apple jobs in the United States (though he created around 700,000 overseas). But this misses the point: The real job-creation number that matters here is all the ancillary jobs created through the invention of the Mac, iPod, iPhone, and iPad. Those inventions, along with every other technological innovation, have created tens of millions of jobs in programming, web design, app design, hardware maintenance, accessories, and more.

Krugman also takes a swipe at fans of Ayn Rand by referring to "the John Galt, I mean Steve Jobs-type 'job creator.'" But Krugman is blind to the error of his own joke: John Galt's innovative motor took static electricity out of the air and turned it into useful energy, which would have been a *huge job destroyer!* Again, the triumph of entrepreneurial innovation is not in creating jobs, but in creating value. Galt's motor would have freed up a lot of labor to be devoted to new wants made possible by the cheap source of energy. Krugman can't even see that his own example undermines his argument.

The next time anyone starts talking about job creation, stop listening. Jobs come into existence when entrepreneurs are free to create value. Aiming directly at job creation is a recipe for waste and poverty. Set people free to use their talents to create value for others and the jobs will follow. FEE

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Money Market Funds: Success Must Not Go Unpunished

BY WARREN C. GIBSON

Money market funds have been in the news recently, as the Securities and Exchange Commission (SEC) has proposed new rules aimed at "strengthening" them. This has provoked substantial blowback on the part of both fund managers and customers. As this was written, the proposals were stalled by disagreements among SEC board members. A brief summary of the history of money market mutual funds and how they work, along with the proposed regulations, argues against all government regulation of these funds as unnecessary and destructive.

The first money market fund was established in 1971 as an innovative work-around for the benefit of savers who were stymied by the infamous Regulation Q, which limited the amount of interest banks were allowed to pay to their depositors. As inflation swelled, savers pinched by the ceiling looked for alternatives. They began buying Treasury bills, which kept up with inflation to some degree, but the Treasury was not eager to handle small orders and soon raised the minimum purchase to $10,000. (It has since been lowered.) The pioneering Reserve Primary Fund was a new form of mutual fund that invested in short-term, safe, highly liquid securities in a manner that allowed it to maintain a constant share price of one dollar. The Capital Preservation Fund followed in 1972, offering the first all-government fund. The charismatic Jim Benham launched the fund, fought a successful court case against state income taxes, and in his spare time let off steam leading his band, "Full Faith and Credit."

> A brief summary of the history of money market mutual funds argues against all government regulation of these funds as unnecessary and destructive.

Government regulation of money market funds was almost nonexistent at first. Only in 1983 did regulators place a limit on the average maturity that the funds could hold. Rules about credit quality were added later.

Short-term securities are issued in discount form. For example, you might buy a three-month Treasury bill for $9,950, wait for maturity, and then collect its $10,000 face value. The $50 difference is your interest, and the rate you get is 50/9950 = 0.5025 percent for the quarter, or an annual rate of about 2 percent. (This is just an example—short-term rates are now essentially zero!)

Day by day the value of a discount security grows as its maturity date nears. The $10,000 bill in our example would be worth $9,983.74 at 30 days from maturity, $9,994.58 ten days out, and $9,999.46 the day before maturity.

A portfolio of such securities will also grow day by day. This is the key to the one-dollar share price of money market funds. Rather than an increasing share price, investors get a daily share dividend. For example, if you hold 50,000 money market shares and the fund value increases by 0.01 percent overnight, you will get five more shares the next morning. Each share remains priced at a dollar.

The importance of the one-dollar share price can hardly be overstated. Investors treat their shares as sub-

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stitute bank accounts. Fund managers oblige by offering checkbooks and, more recently, online transfers as a convenient way to redeem shares . So well established is this concept that small money-fund balances are included in the broad M2 category of money.

Can anything go wrong with this scenario of daily share dividends? Leaving aside misappropriation by criminal fund managers like Bernie Madoff, two things can go wrong: Interest rates can rise, and securities can deteriorate in quality.

Rising Interest Rates

Consider interest rates first. When market rates of interest rise, the prices of existing debt securities fall. Thirty-year bond prices are highly sensitive to interest rate changes. Short-term securities are relatively insensitive. A drastic overnight rise in market rates from 2 percent to 2.5 percent, for example, would hardly budge a short-term security price. Instead of the $0.54 gain that our $10,000 bond would otherwise realize between the 29th and 30th days before maturity, it would lose $3.34. If a money market fund had its average maturity at 30 days, its net asset value would decline by $0.000334, and that loss would disappear with rounding off to the nearest penny. But if under even more drastic circumstances the share price should drop to $0.99 or $0.95 or $0.90, there would be a problem. Not only would the next day's share dividend be impossible, but the share price might have to drop. What to do?

The answer depends partly on accounting standards. A fund or any other institution that adheres to "mark-to-market" rules is supposed to adjust the value of the securities it holds as their market value fluctuates. This might seem to be a no-brainer. Isn't more accurate accounting necessarily better?

Not necessarily. Some securities are very thinly traded, especially those nearing maturity. Or due to limited liquidity, bid/ask spreads may be wide. Do you mark to the bid or ask—or the midpoint? More important, it would be a huge waste of time to hunt for a market price of an asset that will be redeemed in full and with virtual certainty in a few days.

An alternative to mark-to-market accounting, and the current practice of most money funds, is for the parent firm to support the fund if it believes a slump in its net asset value is minor and temporary. It injects whatever funds are necessary to maintain the one-dollar share price and continues to redeem shares for a dollar apiece.

Breaking the Buck

If that practice were disallowed and the share value of a particular fund appears to have fallen rather than risen, two alternatives are possible. One is to announce a reduced share price, which is called "breaking the buck." The other alternative is to issue a negative share dividend. In other words, your 50,000 shares might become 49,995 shares overnight. Shareholders might not even notice such a minor one-day loss if at the end of the month they found their share holdings had increased as usual. Sensible as it might sound, regulations don't allow negative share dividends.

Sensible as it might sound, regulations don't allow negative share dividends.

We mentioned deterioration of quality as a second hazard. It is conceivable but highly unlikely that a bond issuer will enter bankruptcy without warning and compromise the holdings of a money market fund. There are almost always warning signs long before a firm enters bankruptcy, allowing fund managers, who must be quite careful about quality, to avoid such risky securities. But the unlikely happened to the Reserve Primary Fund in 2008: It got caught by a federal government head fake. The Bear Stearns bailout had led most market participants to believe Lehman Brothers would also be rescued. It was not, and the Reserve Primary Fund had to write off its Lehman holdings and break the buck. Shareholders had to settle for 99 cents on the dollar, hardly a catastrophe, though there was some delay in paying claims.

When a fund breaks the buck or when large numbers of shareholders fear for the safety of their investment, the fund may be hit with substantial redemption orders. Such events are comparable to bank runs, but with one important difference. In a classic bank run depositors literally run to be first in line to withdraw their funds. Those at the head of the line get all their

money and the rest get none. In contrast, if a money fund breaks the buck, all shareholders receive the same treatment—a reduced share price and a likely delay.

Most money market mutual funds are issued by large financial institutions such as Vanguard, Fidelity, Schwab, or Merrill Lynch. These funds are not so much a profit center as a convenience for their customers, perhaps even a loss leader. Brokerage firms offer customers the option of sweeping their investment income into a money market fund, where it becomes available via check-writing or online transfers. Customers like this option, and so firms are highly motivated to maintain the integrity of their money markets even if they must absorb some losses to do so.

Before the Reserve Primary Fund's one-penny tragedy, there was only one incident of breaking the buck. In 1994 a fund that was available only to institutional investors had accumulated too many adjustable-rate securities, which backfired. Shareholders had to settle for 96 cents on the dollar.

That's it. Out of all the trillions of dollars that have flowed in and out of money market funds over the course of some 40 years, through the European crisis of the last two years, and with no insurance and minimal regulation during most of that time, there were just these two mild, nay trivial, incidents.

Out of all the trillions of dollars that have flowed in and out of money market funds over the course of some 40 years, there were just two mild, nay trivial, incidents.

A Tortured History

But a crisis is a terrible thing to waste, as an Obama administration insider famously said. In 2008 the feds instituted a temporary guarantee of money market funds. In 2010 they raised credit standards and shortened maturities. A spokesperson for the Investment Company Institute, a mutual fund trade group, told me those new regulations did nothing to improve the soundness of money funds. In fact, she said, these last four years have been "a long tortured history" for money market funds.

Several new proposals have been floated. One would allow shareholders only 95 percent of any redemption request in cash. They would have to wait 30 days for the rest. In a poll 23 percent of customers said they would close their money market funds should this happen. Another change would require mark-to-market accounting and a variable share price. This could drive almost all the remaining customers away because the stable one-dollar price is crucial to them. A third proposal would require funds to raise and maintain additional capital. In today's bizarre zero-interest world, money market firms are hard pressed to earn any net income. So the call for more capital is like asking a starving man to forgo some of his meager rations and stash away more food reserves.

The mutual fund industry is objecting vociferously. The Investment Company Institute has issued several press releases warning of the aforementioned problems and adding others, like the necessity for shareholders to track their cost basis and pay capital gains tax. Also, some institutions would be required by regulation or their charters to close their money market accounts if a variable share price were adopted.

It looks for all the world like somebody wants to kill money market mutual funds. But who? Senator Pat Toomey (R-Penn.), a Wall Street veteran and a member of the Senate Banking Committee, thinks he knows who. In remarks before the U.S. Chamber of Commerce in February, he said, "I think there is a concerted effort to impose very, very troublesome regulations that . . . threaten the viability of the product itself. . . . Several regulatory bodies are pushing this. . . . [T]he Fed is one of them." Fed Governor Daniel Tarullo has said that, in the absence of new regulations, money market funds could be deemed a Systematically Important Financial Institution (SIFI). Although large individual banks have gotten this "too big to fail" label, it would be an ominous extension of the concept were the feds to slap the SIFI label on an entire industry segment.

Why would the Fed and some other regulators and their congressional enablers want to kill the funds? A

possibility: The funds have been successful with minimal regulation. Regulators thrive on fear mongering. Firms that succeed outside their grasp undermine their scare tactics and must not be tolerated.

If there were no regulations at all, would shareholders be helpless? It might seem so. Most people are not as astute as readers of *The Freeman* and could not comprehend the analysis presented here, much less analyze the holdings of a particular fund. But of course, there are free-market alternatives available to consumers faced with all sorts of complex choices: reputations and expert analyses. An unsophisticated would-be shareholder could ask his neighbor's opinion, check online for five-star ratings, or consult a trusted investment adviser. These personalized alternatives are far superior to one-size-fits-all regulations that are vulnerable to regulatory capture (by the targeted industry) and whose minimum standards tend to become maximum standards when regulation reduces incentives for prudence. On the supply side, fund management firms, eager to enhance and maintain their reputations, could actively seek certification or ratings by independent auditing firms or evaluations like those that Morningstar and others provide for stock mutual funds.

The proposed new regulations would kill money market funds, with ill effects spreading throughout the economy. This is the wrong way to go. FEE

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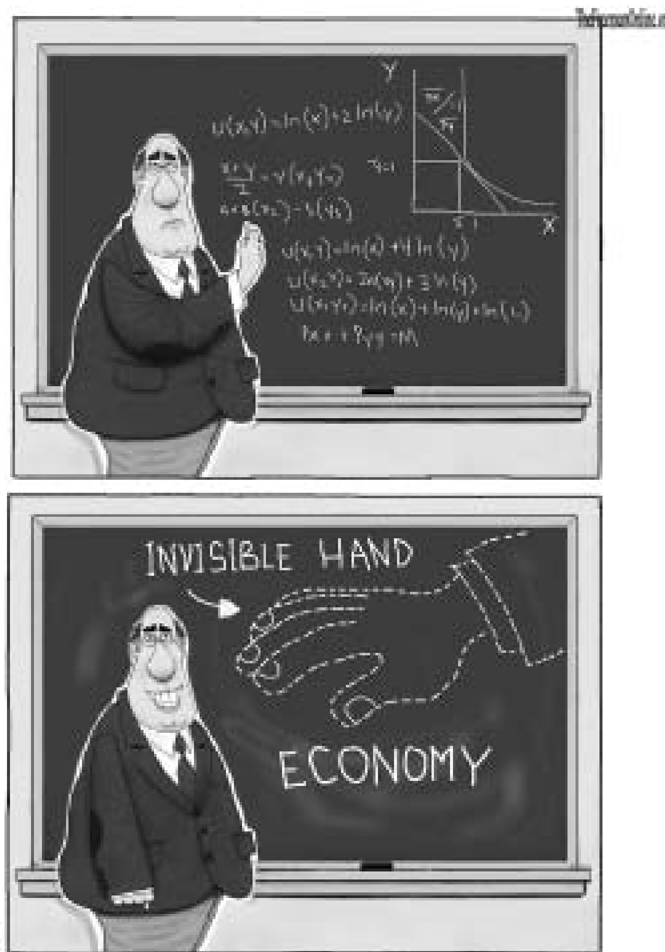
Allegory and Political Economy: Communication and Cooperation

BY DANIEL B. KLEIN

"We must look at the price system," wrote Friedrich Hayek, "as . . . a mechanism for communicating information if we want to understand its real function." Hayek's talk of communication was a great advance in economic thinking. Talk of communication is common among market-oriented economists. In their textbook Tyler Cowen and Alexander Tabarrok write: "[P]rice signals and the accompanying profits and losses tell entrepreneurs what areas of the economy consumers want expanded and what areas they want contracted." Such talk is both illuminating and beautiful.



But the price of eggs communicates, in a literal sense, nothing more than: Yours for $1.89. If we are to be literal, we must mind the element of communion, or community, in communication. Literally, communication is *a meeting of minds*. The knowledge communicated passes through us as commonly experienced ideas, images, or notions.

For the entrepreneur computing her profit or loss, there really is no communication in the literal sense, no meeting of minds—whose mind would she meet? In no literal sense do prices and other market phenomena tell entrepreneurs what to do. We want to talk of prices as "signals," but we must recognize that they are not literally signals.

In discussing market forces in *The Wealth of Nations*, Adam Smith illuminated their marvels by using simile and metaphor. He sketched an aspect of social coordination: "It is the interest of the people that their daily, weekly, and monthly consumption should be proportioned as exactly as possible to the supply of the season." The grain dealer adjusts his prices and quantities in ways that conduce to such coordination:

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> Without intending the interest of the people, he is necessarily led, by a regard to his own interest, to treat them, even in years of scarcity, *pretty much in the same manner as the prudent master of a vessel is sometimes obliged to treat his crew*. When he foresees that provisions are likely to run short, he puts them upon short allowance. Though from excess of caution he should sometimes do this without any real necessity, yet all the inconveniences which his crew can thereby suffer are inconsiderable in comparison of the danger, misery, and ruin to which they might sometimes be exposed by a less provident conduct. [Emphasis added.]

The simile of the prudent shipmaster is a miniature of the metaphor of the being whose hand is invisible: "[The individual] generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. . . . [A]nd by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, *led by an invisible hand* to promote an end which was no part of his intention." (Emphasis added.)

When a simile or metaphor is made elaborate, it may become allegory. The dictionary defines *allegory* as "an expressive style that uses fictional characters and events to describe some subject by suggestive resemblances; an extended metaphor."

The Allegory of Joy

After Smith's time thinkers abandoned allegory for logic, accuracy, and precision. Edwin Cannan—an ardent Smithian and editor of *The Wealth of Nations*—broke with this trend. He wrote in 1902: "The reasons why it pays to do the right thing—to do nearly what *an omniscient and omnipotent benevolent Inca would order to be done*—are to be looked for in the laws of value." The free-enterprise system, Cannan suggests, leads to patterns of activities somewhat like those that would please a benevolent being in an allegory.

The allegory in Cannan's remark is that the allegorical being—let's call her Joy—has super knowledge, encompassing what intellectual historian Knud Haakonssen distinguishes as system knowledge and contextual knowledge. Joy has such knowledge for every individual. The allegory, to continue, is that Joy issues instructions, or requests, to each market participant spelling out "the right thing" to be done.

Joy tells Bridget the baker that perhaps she should buy new ovens, look out for better deals in flour, and advertise her confections. Within the allegory Joy communicates these instructions. Within the allegory there is a meeting of Joy's and Bridget's minds regarding these actions. Bridget is sensible to Joy's benevolence and ethical wisdom and feels entrusted to advance what Joy finds beautiful. Instead of market signals she follows Joy's communications, which are embraced voluntarily by Bridget from what Smith would call her sense of duty. She "enters, if I may say so, into the sentiments of that divine Being," Smith writes in *The Theory of Moral Sentiments*. Those communications tell her to take actions rather like the actions that the market signals lead her to take in the actual world. Cannan suggests that the market conduces to socially beneficial actions much as a benevolent system of superior knowledge, communication, and cooperation would.

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The allegorical talk of communication brings us to fruitful questions about rules and institutions. What arrangements generate the "signals" that best "communicate" what to do? Such talk gets us to focus on what the relevant signals are. It gets us to focus on how well they conduce to the general interest. It helps us appreciate how "communications" adjust when practices go wrong. If the signals start "telling" people to go in the wrong direction, will the system correct itself? Will it tend to correct errors? Will it tend to keep up with changes? Also, will it dig up new opportunity, new matters for "communication"? The allegory of Joy communicating instructions is useful because it enables one to reason with reference to the perspective of one who

has superior knowledge and purposes that we go along with—even while we emphasize that we mere mortals do not have such knowledge. We discuss what Joy feels about what she sees but do not pretend to see what she sees.

Cooperation

Long before Hayek started talking about the market as a system of communication, many authors—including Thomas Hodgskin, Richard Whately, Frédéric Bastiat, Henry George, and Philip Wicksteed—suggested that the economy was a system of cooperation. And we also find such talk in Milton and Rose Friedman's landmark book, *Free to Choose.* To bring the tradition down to today, let's again turn to Cowen and Tabarrok: "To bring just one product to your table requires the cooperative effort of millions. Moreover, this immense cooperation is voluntary and undirected."

But Karl Marx emphasized that the system, in the whole, was not cooperation—and condemned it for that: "[A]ll labour in which many individuals cooperate necessarily requires a commanding will to coordinate and unify the process . . . much as that of an orchestra conductor."

Hayek would seem to concur: "Cooperation, like solidarity, presupposes a large measure of agreement on ends as well as on methods employed in their pursuit. It makes sense in a small group whose members share particular habits, knowledge and beliefs about possibilities."

It is true that the economy entails myriad *instances* of cooperation, but it also entails myriad instances of noncooperation. It entails myriad instances of competition and rivalry. It entails myriad instances of rather impersonal exchange that, as cooperative moments, usually are only tiny and often ambivalent. It also entails myriad instances of deception and misrepresentation. It entails a lot of things, not just instances of cooperation. We should face the fact that it is wrong to say that you have cooperated, in a literal sense, with the myriad people who contributed to the production of your pencil or woolen coat.

We can affirm the cooperation talk, but to do so we invoke allegory: *In an allegory* individuals communicate with Joy and voluntarily follow her guidance to produce a concatenation of activities that scores well. In the allegory Joy is like a quarterback with whom everyone communicates. And *in the allegory* the members of society know that each member communes with Joy. There is a mutual sense of advancing the coordination of a vast concatenation of their actions, just as the members of a football squad have a mutual sense of advancing the coordination of a concatenation of their actions. *In the allegory* there is an "immense cooperation."

It is good to declare the allegory. By unfolding it we come to many interesting questions and insights. But if we deny allegory, we either cut off that inquiry or we edge into it only tentatively and confusedly, not really recognizing and admitting what we do.

If we deny allegory we play into the hands of those who paint us as unattuned to the social.

Another benefit of declaring allegory is that we make it clear to skeptical listeners that the basis for our communication and cooperation talk is not literal. We must be prepared to declare allegory if we want to handle their challenges to our talk of communication and cooperation.

The allegorical being Joy, in her universal benevolence, represents an idea of the social. If we deny allegory we play into the hands of those who paint us as unattuned to the social. So another benefit of declaring allegory is that it helps ensure that we are so attuned, and it makes our tunefulness plain to others.

Declaring the place of allegory and an ethic of universal benevolence does not put us on a slippery slope to statism. Cannan makes the being an Inca to ensure that his readers do not start looking around for a benevolent, omniscient, omnipotent being. Making the allegory explicit makes it clear it is a fiction. There is no being telling Bridget to replace her ovens. And to the extent that moral norms exist within living society, they do not make a social organism. If Joy were a god, she would not have any powers over the individual except perhaps that of conveying her approbation or disappro-

bation, sensed within one's own breast. The more the allegory is spelled out—in particular, as Joy having super knowledge and capabilities of direct personal communication—the less it seems to correspond to any external being or institution, and perhaps least of all government. The coercive nature and overwhelming power of government, in fact, make it especially incapable of candid, confident communication. The more we make the allegory explicit, the more we make it innocuous.

If we deny allegory we relinquish it to others, notably those who are inclined to take it in illiberal directions. Liberals should counter illiberal allegory, not with denials of allegory, but with liberal allegory.

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Finally, perhaps allegory can help to answer, in an enlightened way, the yearning for meaning and connection—perhaps by affording spiritual comfort in the part one plays in the "immense cooperation," in the contributions one makes to universal benevolence, and also perhaps by teaching one where *not* to look for such meaning and connection.

In *The Theory of Moral Sentiments* Adam Smith developed a remarkable allegory of a universal impartial spectator who, like my figure Joy, is super-knowing and universally benevolent. We never get to the impartial spectator, but we do our best in, as Haakonssen puts it, "the search for a common standpoint"—recognizing that it may be only the search "that is common, not necessarily the standpoint."

In the generations following Smith's death in 1790, influential figures criticized *The Theory of Moral Sentiments* for its use of allegory. The work was cast aside and fell into an oblivion lasting some 150 years. There was little regard for allegory in classical economics, neoclassical economics, and the economics of Ludwig von Mises and Murray Rothbard. Liberalism turned away from allegory. And then the world turned away from liberalism.

Is it possible that things went wrong in spurning allegory?

Yogi Berra once said: "If you don't know where you are going, you could end up somewhere else." FEE

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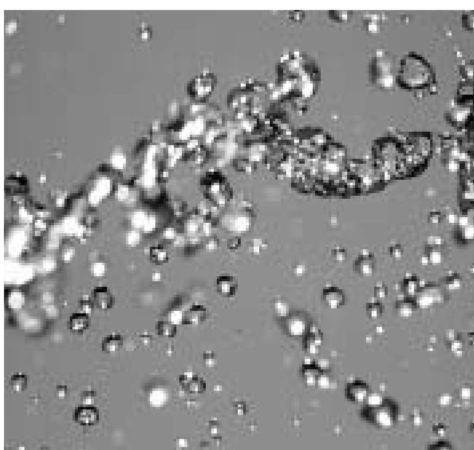
Super Bowl versus Education?

BY SANDY IKEDA

Around the time of last February's Super Bowl, a Facebook friend posted a status update that needed deconstructing. It said: "If we took all the money from Super Bowl ads and spent it on educating our kids, we wouldn't be America." While the statement is rather oblique, I think it's safe to say that she was implying that the values of "America" are so perverse that "we" value a football game over "educating our kids." Consumerism trumps literacy, or something like that. It's evidently a popular sentiment, since the last time I looked it had 1,748 "likes" and 551 "shares."

It's possible to read that statement as being politically neutral. I've known ardent libertarians to decry the materialism that dominates so many lives in prosperous countries such as ours. But the references to "we," "America," and "our kids" reflect an attitude I think libertarians would not be comfortable with. Such sentiments, expressed in that way, tend more to come from the political left. It's similar to things people used to say when I was growing up, such as, "If we can put a man on the moon we can end poverty!" This boils down to an ideological dispute over how best to spend "our" money, with the "we" who would be doing the taking and those from whom it would be taken left unidentified.

It seems that in addition to interpreting the ideological content, it's also possible and probably more constructive to examine the status update in two other ways.



The diamonds-water paradox, even though it's based on a fallacy, continues to appear.
Paul Sapiano [flickr]

When I saw the update I first wondered if the underlying factual assumption is true: that corporate advertisers spend so much on Super Bowl advertising that redistributing it toward education would make a material difference in the academic achievement of our children. Now, in the same way that spending on the military-industrial complex isn't the same as spending on "defense," because there's so much pork involved, spending on the education-industrial complex isn't the same as spending effectively on educating children. But let's put that all to one side. I ran a quick Google search and came up with the following "facts." (I use the scare quotes because I'm not willing to bet my reputation on the results, but I do think they give a sense of the magnitudes involved.)

According to a website called Marketing Vox, in the 20 years between 1988 and 2007 "Super Bowl ads translated into $1.84 billion of network sales from over 200 different advertisers." (That figure, if reliable, is five years old, so we can safely assume that the total is now over $2 billion.) Next I quickly found a website for the National Center for Education Statistics, a federal entity located in the U.S. Department of Education, which says spending on the government's elementary and secondary schools amounted to "approximately $596.6 billion in

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2007–08," which as luck would have it happens to be the last year of the Super Bowl data mentioned above. So it appears that spending on government education in *one year* was 324 times the amount companies spent on Super Bowl advertising *over 20 years*. That pretty much takes the wind out of that particular status update.

But what about the moral sentiment that underlies it? While I don't really care to argue over whether Super Bowl advertising is morally superior to educating children (aside from the tax funding involved), there are three ways I believe that economics can clarify the issue.

First, in a world of perfect knowledge we clearly wouldn't need advertising because we'd already know what the best brands were, where to get them, and at what price. The great economist Israel Kirzner tells us that not only does advertising convey information about products we already know about, but—more fundamentally in a world of imperfect knowledge—advertising draws our attention to the very existence of products, or characteristics of those products, that we may not have been aware of—which helps to explain why commercials try to be so attention-grabbing, especially during the Super Bowl. So advertising confers benefits.

In a free society we can dispose of our time and wealth as we see fit as long as we don't violate the property rights of others.

Second, most advertisers probably wouldn't be willing to change their spending from ads on the Super Bowl, which they typically see as an expensive long-term investment, to funding education, because their comparative advantage is not likely in education but in selling beer, electronic trading, pizza, and cars. At the same time, viewers are willing to tolerate those commercials, quite apart from their entertainment value (such as it is), because they make it possible for them to enjoy watching a championship football game for free. My friend may think that's not important, and it's fine if she turns off the television and reads to her kids instead. It does become a problem, however, if she forces her personal preferences on others by political means.

Finally, and most important, the kind of thinking that underlies all these so-called tradeoffs—football versus education or moon landings versus poverty—commits a fallacy that economics refuted over 140 years ago.

One puzzle economists had to solve before they could come up with a satisfactory theory of value was the "diamonds-water paradox": Why does water, which is more useful in sustaining human life, fetch such a low price on the market when diamonds, which are less useful in that sense, fetch such a high price? The answer lies in recognizing that the dichotomy is a false one. No one, at least in a free society, is in a position to decide between all the water in the world and all the diamonds in the world. It's not water versus diamonds in general. Instead, each of us chooses how much water she would be able and willing to trade for a specific diamond at a particular place and time. How does that apply to football versus education?

From an advertiser's perspective the choice is not between devoting his entire budget to advertising or to something else. It's whether he spends more or less on advertising rather than perhaps plant and equipment, or possibly even on education of some kind. From the TV viewer's perspective, the choice is not between spending all her time watching football or all of it teaching her kids. Rather given her preferences and budget, it's how she can best spend four hours on a particular Sunday afternoon.

In a free society we can dispose of our time and wealth as we see fit as long as we don't violate the property rights of others. Collectivists, however, might like to use political means to impose their preferences on how all wealth should be spent, in which case the decision may very well turn out to be lots more education and much less football. I'm not saying my friend would openly seek coercion to impose her values. In fact I'm pretty sure she wouldn't. But what is behind her sentiments and language is a collectivist mentality that taken to its logical conclusion would lead to bigger government and less individual freedom. FEE

The Economic Value of Time Travel

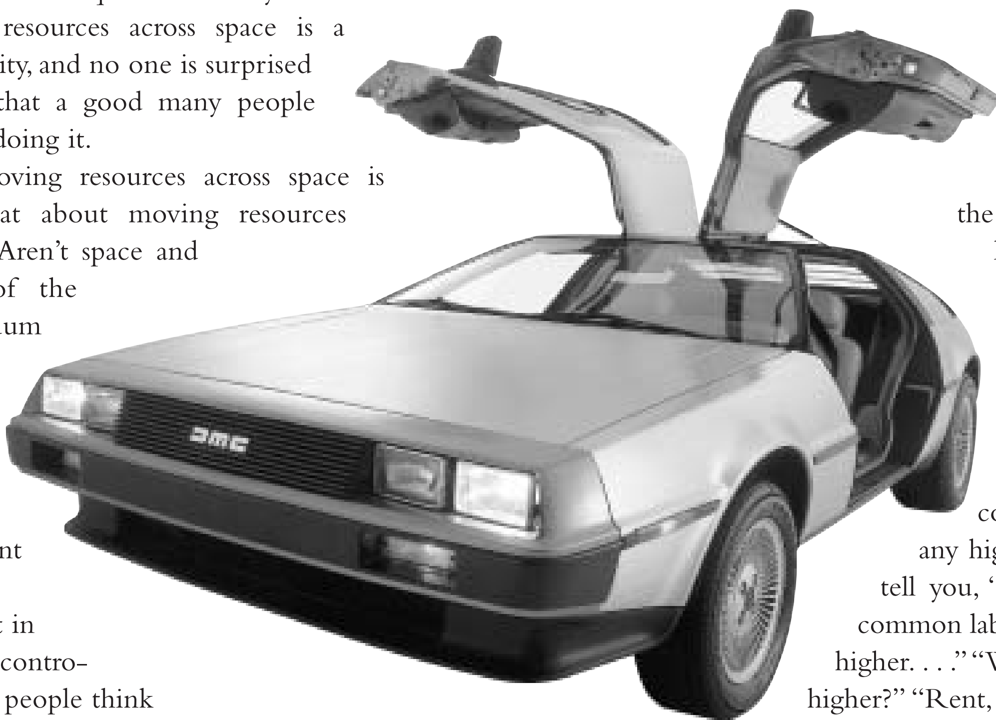
BY ISAAC M. MOREHOUSE

If there is an abundance of steel in one place, say Pennsylvania, and a great demand for steel in another place, say New York, would there be any economic value in the act of transporting steel from Pennsylvania to New York?

Of course—and quite obviously. The act of transporting resources across space is a valuable activity, and no one is surprised by the fact that a good many people earn money doing it.

But if moving resources across space is valuable, what about moving resources across time? Aren't space and time part of the same continuum after all?

For some reason, moving resources from one point in time to another point in time is more controversial. Many people think it's an activity that creates no value and deserves no compensation. They are wrong.



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Transporting resources through time is more commonly known as speculation, a term that makes some people cringe. I was reminded of this a few weeks ago when I came across the following quotation posted on Facebook:

Take now . . . some hard-headed business man, who has no theories, but knows how to make money. Say to him: "Here is a little village; in ten years it will be a great city—in ten years the railroad will have taken the place of the stage coach, the electric light of the candle; it will abound with all the machinery and improvements that so enormously multiply the effective power of labor. Will in ten years, interest be any higher?" He will tell you, "No!" "Will the wages of the common labor be any higher . . .?" He will tell you, "No the wages of common labor will not be any higher. . . ." "What, then, will be higher?" "Rent, the value of land. Go, get yourself a piece of ground, and hold possession." And if, under such circumstances, you take his advice, you need do nothing more. You may sit down and smoke your pipe; you may lie around like the lazzaroni of Naples or the leperos of Mexico; you may go up in a balloon or

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> down a hole in the ground; and without doing one stroke of work, without adding one iota of wealth to the community, in ten years you will be rich! In the new city you may have a luxurious mansion, but among its public buildings will be an almshouse.
>
> —Henry George,
> *Progress and Poverty*, 1879

Henry George was an influential nineteenth-century intellectual, but he is by no means the only person who has advanced the idea that speculating on land or other goods is undeserving of profit. There are two main errors at play in this analysis of speculation. The first is the labor theory of value, and the second is ignorance of the element of time in the market process.

Labor and Value

Economists from Adam Smith to Karl Marx had a hard time understanding the relationship between the cost of production and the price of goods on the market. In its crudest form, the labor theory of value asserts that the cost of production, especially labor, simply determines exchange-value, or price. Neither Smith nor Marx saw such a direct and simplistic relationship between cost and price, but both failed to explain prices and costs in terms of subjective marginal utility. The simplistic interpretation of Smith's and Marx's struggles to explain price has affected the common understanding, and a great many people believe that there's something wrong with high prices on goods that require little labor.

Although the subjectivity of economic value is basic to economics, it has still struggled to penetrate the public consciousness fully. Most people believe it when they act as consumers; few people are willing to pay prices based on labor cost. Yet many people abandon subjectivity when acting as would-be policymakers or critiquing the activities of others. They are open to talk about "fair prices" and "fair wages." You also hear criticisms similar to George's about the injustice of people making money despite not laboring hard.

This is nonsense. First, there is no such thing as a "correct" price (or wage, rent, interest rate, profit, loss, or any other name by which prices may go). Price simply reflects the various subjective values that consumers and producers place on competing items. Second, speculation is a form of labor and often a very valuable one. This is because speculation is actually time travel.

George describes an individual buying land and sitting on it for ten years. He then says the man did not "one stroke of work." But which is it? Buying land and preserving it for ten years *is* doing something. It is moving that resource through time—from a point when its services bring a lower return to a point when they bring a higher return. (The profit is generated by the difference.) It may not be physically challenging, but it is an activity, and if profit is earned in a genuinely free market, that is proof that it is a valuable activity.

Buying land and preserving it for ten years is doing something. It is moving that resource through time—from a point when its services bring a lower return to a point when they bring a higher return.

Conservation

It is fair to point out that speculation in land is slightly different from speculation in other goods. Other goods can be consumed, so buying and holding them literally prevents them from disappearing. The value of speculation in such goods should be clear: Buying and holding goods in anticipation of future shortages or price increases serves to smooth out supply and price swings over time and promotes stability. Land of course is not consumed in that sense, but buying and holding land is still a form of resource preservation, as the land is protected from other uses and is made available for sale at a later date for uses that may not have been possible had it not been purchased by the speculator.

Consider a slightly modified version of the question posed at the beginning of this article: If there is an abundance of land at one time, say New York City circa 1800, and a great demand for land at another time, say

New York City circa 2012, would there be any economic value in the act of cramming the land into a time machine and moving it from 1800 to 2012?

There is no reason to expect a different answer to this question than to the original question about moving resources through space. When seen in this light, it is clear that speculation is productive economic activity.

This does not mean that *all* resource time travel is valuable, just as not all resource transportation through space is valuable. There are no guarantees in markets because consumers' subjective preferences can change as often and as dramatically as the weather. But it would be foolish to try to prevent such unexpected changes or to prohibit the guessing game of moving resources through time and space to curb losses. Incorrect guesses about the value of resources at different points in space and time create value as well. They generate new price signals that help entrepreneurs better choose how to allocate other resources.

Loss Signals

Critics of speculation rarely talk about the losses suffered by speculators (unless the losses are suffered by certain groups of people the critics happen to like—themselves, homeowners, or others). Henry George is unhappy about the man who got rich sitting on land for ten years. But what about the man who lost everything doing the same in a different town? Profit *and* loss result from speculation, and while loss is never desirable, again, both provide valuable market signals that help make the market more efficient. There is no better alternative for allocating resources through time and space than free markets. Ludwig von Mises, F. A. Hayek, and many other economists proved this logically during the socialist calculation debate, and socialism and other forms of economic centralization have proven it in practice time and again.

The market is a dynamic process, and when economic actors move resources through space or time, they have the potential to create tremendous value. Their actions always generate important price signals.

At a time when governments are aggressively borrowing from projected future resources to pay for the past and present, we should be especially grateful for the efforts of those who are busy transporting resources from the present to the future. If there's anything left when we get there, we'll have the time machine of speculation to thank. FEE

THE FREEMAN

IDEAS ON LIBERTY

Congratulations to Tyler Watts
Winner
Beth A. Hoffman Memorial Award for Economic Writing

The second annual Beth A. Hoffman Memorial Prize for Economic Writing has been awarded to Tyler Watts, assistant professor of economics at Ball State University. Through the generosity of a FEE donor, the prize was established to commemorate the late Beth A. Hoffman, long-time managing editor of The Freeman, by recognizing the best article on economics or economic history published in The Freeman the previous year.

Watts's article, "The Canard of 'Underutilized Resources,'" appeared in the March 2011 issue of The Freeman. It was selected from a list of five nominees by an outside panel of judges who knew and worked with Beth Hoffman for many years.

The prize consists of $2,000 and a handsome plaque. A perpetual plaque with the winners' names is displayed at FEE headquarters.

Watts's article critically analyzes the popular Keynesian view of recessions and the supposed solution of monetary stimulus, and applies Austrian economics to the Great Recession, which followed the housing-bubble collapse and related financial crisis.

Government Can't Make Us Happy

BY JOHN STOSSEL

In the Declaration of Independence, Thomas Jefferson called the pursuit of happiness an unalienable right. This was a radical idea. For most of history most people didn't think much about pursuing happiness. They were too busy just trying to survive.

Then came the liberal revolution based on the idea of individual freedom. Only then did they start thinking that happiness might be possible on earth.

Unfortunately, somewhere along the way, the right to pursue happiness has been perverted into a government-backed entitlement to happiness.

British Prime Minister David Cameron says, "There's more to life than money. . . . It's time we focus not just on GDP, but GWB—general well-being."

Well-being sounds good. But is that something that government programs promote?

Philip Booth, an economist with London's Institute of Economic Affairs and editor of *. . . and the Pursuit of Happiness*, says no. He and economist Christopher Coyne of George Mason University, who contributed to that volume, were guests on my Fox Business show.

Since the country of Bhutan got all kinds of publicity by using a measure it calls "gross national happiness" instead of gross national product, and the *New York Times* says it's a "new measure of well-being from a happy little kingdom," I asked them if there is anything to it.

"It's not a model that most Western societies would want to copy," Booth said.

I didn't think so. In Bhutan people can get locked up for criticizing the government. Yet one study ranked the United States 23rd in the list of happy places. Bhutan was higher on the list.

That's nonsense, said Coyne. It makes more sense to judge a country's ability to make its citizens happy by whether foreigners want to move there. Clearly, more people want to move to America than to Bhutan. "The way to think about this," Coyne said, "is the fact that so many people want to come to the United States indicates that they at least perceive there is the opportunity to pursue what makes them happy."

What *does* make people happy? People fantasize about leisure and luxury, but the best data show that such things don't create lasting happiness. What does make for happiness is obtaining work that allows you to move toward goals that you find meaningful. In other words, what's important is not just employment but purposeful work. So is having control over your workplace. Chrysler found that if workers have more control on the assembly line, they are happier. The freedom to decide your own goals is crucial.

Other things that make people happy are religion, having family and friends you care about, giving to others (face to face or via charity), and money.

Actually, money makes you happier if you're miserably poor. But once you have a certain amount—maybe enough that you no longer have to worry about your family's well-being—more money doesn't make much difference. Lottery winners report that, a year after their windfall, they were no happier than they were before.

That's counterintuitive. Instinct tells us that wealth brings happiness. It's a reason why some people envy the rich and why income inequality causes lots of angst today. One left-wing journalist writes, "Every model shows the most unequal societies are the least happy."

"There's no evidence that this is true," Coyne said. "Even the staunchest proponents of government intervention to increase happiness admit that there's no relationship." FEE

John Stossel hosts Stossel *on Fox Business and is the author of the forthcoming* No, They Can't: Why Government Fails—But Individuals Succeed. *Copyright 2012 by JFS Productions, Inc. Distributed by Creators Syndicate, Inc.*

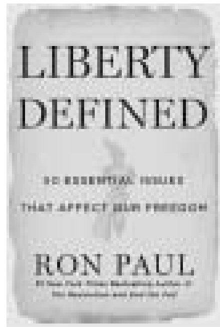
Book Reviews

Liberty Defined: 50 Essential Issues that Affect Our Freedom

by Ron Paul

Grand Central Publishing • 2011/2012 • 352/224 pages
$24.99 hardcover; $14.99 paperback

Reviewed by Becky Akers



If the author of *Liberty Defined* were one of the usual suspects—a professor of economics, say—we might shrug and move on: The book presents an airtight argument for freedom, but libertarianism is awash in airtight arguments for freedom. What the movement needs more than yet another tome are readers for those already written who would thereby learn implacable enmity toward the cruel, corrupt, and interventionist State.

And that is precisely what *Liberty Defined* may give us, considering who wrote it. This national politician dares to say that "[w]hen liberty is under attack, everything we hold dear is under attack" and "maintaining order and safety is the goal at all costs in a totalitarian system. Under those conditions, liberty becomes the enemy."

U.S. Rep. Ron Paul issues a clarion call to freedom with all the moral suasion of a butcher urging us to vegetarianism. He's seen the political slaughter up close; he recognizes, analyzes, and condemns the evil motivating it; and he blows the whistle on government to warn us of its dangers. "I have been told, in serious discussions, with other members of Congress," he writes, "that the people are too 'stupid' to care for themselves and need smart, generous, and caring public servants to take care of them." Yes, we all know this is Our Rulers' attitude, and perhaps we even suspected them of such incriminating conversations. Still, I was stunned.

The book is worth buying and reading just for this confirmation of our fears. Paul is our mole in a government that demands to know everything about us but refuses to return the favor.

But back to the author's legions of fans. These newly awakened Americans eagerly buy his books and defend the liberty he loves. Better yet, unlike many longtime libertarians, they understand that freedom is more than mere philosophy, more than just fodder for discussion among friends. They grab the ideas Paul publicizes and run with them.

Unfortunately they often drop the ball. Like a boy who's seen only a couple of football games but longs to scrimmage with the NFL, they compensate with enthusiasm for what they lack in knowledge—but enthusiasm alone seldom wins the game.

It's those folks who will benefit most from *Liberty Defined*. "What I offer in these pages," Paul explains, "are thoughts on a series of controversial topics"—50, to be exact—"that tend to confuse people, and these are interpreted in light of my own experience and my thinking." That yields 50 chapters averaging about seven pages each, arranged alphabetically *à la* the dictionary implied in the title, from Abortion and Assassination (the good doctor opposes both—though he objects to federal laws against the former) through Democracy, Empire, Lobbying, and Patriotism, to Unions and Zionism. Perhaps surprisingly, the Federal Reserve System doesn't get an essay of its own, probably because Paul has already written an entire book on his signature issue.

Principles of liberty illuminate each chapter. For example, the one devoted to the CIA urges its abolition after describing its violent and illiberal skullduggery. "The first major use of the CIA to interfere with the election process in another country was in 1953 with the overthrow of the duly elected leader of Iran. . . . Overthrowing foreign governments is illegal under international law and common law. It's illegal under U.S. law and the Constitution," Paul writes.

Wouldn't we be more vulnerable if we rid ourselves of corrupt "superspy" agencies? No—just the opposite: "Countries such as Sweden and Switzerland spend miniscule amounts on military preparation. Costa Rica has no military at all. These countries are not threatened because they are regarded as nonaggressive."

Paul's tone is gentle throughout, but he strongly condemns the State and its lackeys: "The existence of the wealth-extracting leviathan state in Washington,

DC . . . a monster that is a constant presence in every aspect of our lives[,] is proof enough that our leaders do not believe [in liberty].”

I like indices, but unfortunately this book lacks one, as do most encyclopedically arranged books. And readers may disagree with Paul on some issues, as I did on immigration. The author advocates “enforc[ing] the [immigration] laws now on the books with more border guards. . . .” But how do we reconcile an enormous border-bureaucracy with the minimal government the rest of the book urges? How can we square the authoritarian abuse of “undocumented” immigrants with liberty?

“We all need to become agitators for liberty,” Paul admonishes, “else we end up in a permanent state of slavery.” *Liberty Defined* will recruit and educate multitudes of new agitators. FEE

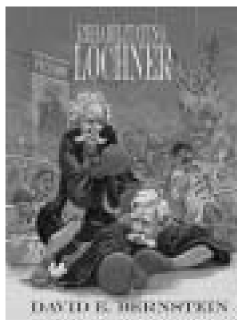
Becky Akers (libertatem@aim.com) is a freelance writer and historian.

Rehabilitating Lochner

by David E. Bernstein

University of Chicago Press • 2011 • 185 pages • $45.00

Reviewed by George Leef



For nonlawyers, the “Lochner” in this book’s title refers to the Supreme Court’s 1905 decision in *Lochner v. New York,* which author David Bernstein of George Mason University Law School argues has been terribly misrepresented by “Progressive” intellectuals. Among lawyers the standard view of *Lochner* is that it was a perverse triumph of ideological judicial activism over a statute meant to protect workers. Bernstein shows that view to be mistaken, as his subtitle—“defending individual rights against Progressive reform”—indicates. Instead of being demonized, the Court’s decision should be extolled for its shielding of individual liberty against authoritarianism.

The case arose after the New York legislature enacted a law limiting the number of hours employees in the baking industry could work. Although the law was proclaimed to be a health and safety measure, Bernstein’s careful history makes plain that it was actually special-interest legislation intended to damage older, usually nonunion bakeries, where the employees often slept while bread was baking—hence their long days. Enforcement of the law could reduce competition for newer, often unionized bakeries, where bakers worked shorter shifts.

Justice Rufus Peckham’s majority opinion was based on an understanding of the Fourteenth Amendment, which protects the citizen’s fundamental liberty to contract his labor as he thinks best. That decision infuriated Progressive intellectuals, who thought that courts should never interfere with legislation intended to (as they saw matters) improve society. They, including Justice Oliver Wendell Holmes, who wrote a famous, often-quoted dissent, wanted to destroy the individualist, libertarian foundation of America and replace it with their vision of an expertly planned and controlled society. Thus whether judges thought a particular statute wise or not was beside the point; if elected representatives had legislated to make society more subject to governmental control, judges should not interfere with that presumptively beneficial trend.

Peckham’s decision was (and still is) denounced in shrill language claiming that it was motivated by hostility toward the working man and that the Court was merely siding with “business interests.” All that rhetoric was wrong, but it created the erroneous idea that any time a court overturned supposedly “protective” legislation, it was the equivalent of a gift to big business. The book makes it clear that those “business interests” often sought interventionist legislation and the “little guy” who was supposed to benefit from such legislative “protection” was actually harmed by it.

Bernstein carefully documents that subsequent decisions in the *Lochner* line consistently defended individuals against oppressive legislation, whether business was involved or not. For example, *Lochner*-inspired reasoning was behind decisions striking down state-mandated residential segregation and state attempts at forbidding parents from educating their children anywhere but in government schools. Bernstein’s research shows that the Progressive jurists often supported appallingly authori-

tarian measures that badly harmed individual workers and consumers, because they felt constrained to uphold them for the "greater good" of moving toward a properly regulated society.

The ultimate case in that regard is *Buck v. Bell,* in which a Court dominated by Progressives (in 1927) upheld state compulsory sterilization laws. In his majority opinion Holmes gloried in explaining the case for eugenics. Who did more damage—*Lochner* libertarians who said that people had to be left free to make their own contracts, or Holmesian Progressives who saw no reason to prevent government from forcibly sterilizing individuals for society's imagined good?

When "liberal" justices in the '50s, '60s, and '70s began to take note of the many state laws that infringed civil rights, they went into severe contortions to avoid being criticized for reviving the dreaded jurisprudence of *Lochner* in cases where they struck down statutes not to their liking, such as school segregation and laws against selling contraceptives. Bernstein takes some glee in poking holes in their arguments. He argues that while the *Lochner* justices were principled, consistent defenders of liberty against State power, the Warren Court was inconsistent, relying on tortured constitutional theorizing to pick certain rights they liked for protection (calling them "fundamental") while allowing government to trample other rights they regarded as undeserving of constitutional protection, particularly property rights and economic liberty.

Bernstein's book does not merely revisit an old case of interest to only a few lawyers. *Lochner* has direct bearing on crucial contemporary issues, especially the monstrous pile of legislation (and still greater pile of regulations) known as Obamacare. If the Court were to examine Obamacare through the philosophy that prevailed in *Lochner*, the law would have to be struck down, for it deprives individuals of freedom of choice at many turns. On the other hand, if the Court's majority continues with the "government knows best and must be deferred to" philosophy of the *Lochner* dissent (and innumerable other cases), then the law will be upheld.

Rehabilitating Lochner is a sharp and iconoclastic work of scholarship, one that challenges the deepest beliefs of the defenders of our almost omnipotent government. FEE

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Peddling Protectionism: Smoot-Hawley and the Great Depression
by Douglas A. Irwin
Princeton University Press • 2011 • 256 pages • $24.95

Reviewed by Phil Murray

One of the more infamous pieces of legislation in American history is the Smoot-Hawley Tariff. Willis Hawley, a Republican member of the U.S. House from Oregon, promised the bill would create "a renewed era of prosperity." Reed Smoot, a Republican senator from Utah, claimed, "[T]he Depression would have been worse without the higher tariff." No doubt they believed that high tariffs were sound policy, but in this book economics professor Douglas A. Irwin examines the actual effects of their protectionist handiwork and shows that it was harmful.

A popular perception is that American producers agitated for protection from imports. Irwin's review of the history shows that to be wrong. Although some farmers wanted higher tariffs, many others preferred price floors, subsidies, or lower tariffs on manufactured imports. Failing to enact those policies, Republican politicians (mostly from the Midwest) hatched the idea of raising tariffs on agricultural imports. The Republican Party speculated that farmers would vote for its candidates if it incorporated this strategy into the 1928 platform. Republicans retained their majorities in both houses of Congress that year, and Herbert Hoover became president. Their revision of the tariff code metastasized into the Smoot-Hawley Tariff Act of 1930.

Irwin's longest chapter is the story of how Smoot-Hawley was made. Congress is predisposed to restrict trade because, he explains, "the benefits of a tariff are highly concentrated on a few producers who are strongly motivated to organize and defend that policy; whereas the costs of tariffs are spread widely among

many consumers for whom it does not pay to organize any serious opposition." Nearly all who testified on the bill before the House wanted higher tariffs.

Occasionally producers who imported their inputs clashed with domestic producers of those inputs. Cattlemen, for example, wanted higher tariffs on imported leather but manufacturers of footwear opposed them. "Such conflicts were usually resolved," Irwin observes, "by offering higher tariffs to both sides." Logrolling raged in the Senate. Smoot, for instance, "convinced nine senators to change their votes on the sugar tariff in a vote-trading deal in which greater protection would also be given to lumber, oil, cement, and glass." Eighteen months after deliberations began, in June 1930, the House and Senate passed their reconciled version of the bill. President Hoover promptly signed it.

Another common idea is that the Smoot-Hawley tariffs were astronomical. Irwin shows this to be wrong, too. According to him, "[T]he best guess is that [Smoot-Hawley] probably raised the average tariff on dutiable imports by about 15–18 percent, an increase of about 6 percentage points." Compared with other tariff bills Congress had passed, that wasn't especially high. The Fordney-McCumber Tariff of 1922 had been much worse. Nor did Smoot-Hawley have a dramatic effect on imports. The tariff did cause imports to fall somewhat during the early 1930s, but the combination of price deflation and lower incomes as the Depression deepened contributed to this reduction in trade.

Irwin also dismisses the belief that Smoot-Hawley played a major role in bringing about the Great Depression. "The consensus among economic historians," he reports, "is that monetary and financial factors were the dominant factors behind the Great Depression in the United States." The tariff increases undoubtedly made matters marginally worse, but they were not causative.

What impact did Smoot-Hawley have, then? It led to trade retaliation by foreign governments—increases in their tariffs, which cut down U.S. exports. For example, Canada more than tripled its tariff on eggs, and egg exports from the United States fell drastically. Similarly, Spain placed a high tariff on American cars, and exports fell 94 percent. Smoot-Hawley was not, however, the only reason protectionist policies broke out around the world. Irwin maintains that Britain's abandonment of the gold standard in 1931, which made its exports cheaper, induced other countries to impose protectionist measures. Irwin concludes with this assessment: "But although Smoot-Hawley was not entirely responsible for the massive outbreak of protectionism in the early 1930s, it certainly contributed to the climate in which such policies flourished."

The ultimate irony of this is that the tariff bill could not possibly have accomplished its narrow objectives of helping American farmers. In 1930 America's largest exports were cotton, wheat, and tobacco. Increasing import duties were sure to damage our larger export markets.

Most of the book is quite readable, although a few passages sound like an academic journal. It is also enlivened by 17 editorial cartoons from the era. Through Irwin's account one learns a lot about this period, the grisly process of making legislation, and the consequences of interfering with trade. FEE

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Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System

by Barry Eichengreen

Oxford University Press • 2011 • 224 pages • $27.95

Reviewed by Gerald P. O'Driscoll, Jr.

The dollar is not just America's means of payment but also the global currency of choice. Dollars are created by the Federal Reserve System at negligible cost, but can be used to purchase goods around the world. While serving as Charles de Gaulle's finance minister in the 1960s, Valery Giscard d'Estaing referred to this as America's "exorbitant privilege." Giscard thereby both summarized succinctly the benefit to Americans of producing the global currency and provided University of California Professor Barry Eichengreen with a punchy title for his book on the international monetary order.

Eichengreen is an excellent writer and makes intricate issues of money, banking, and trade accessible to the ordinary reader. He has a knack for making the mundane interesting and even at times entertaining. I sing his praises not because I agree with everything he writes; I do not. Nor will readers of *The Freeman*. If they read the book, however, they will be better informed about international monetary issues.

The book recounts the history of the dollar from humble origins (it evolved from Mexican silver pesos circulating in the colonies) to global dominance, and then possible eclipse. For much of the nineteenth century Britain was the dominant economy and London the world's dominant banking and financial center, especially for financing international trade.

The rapidly growing U.S. economy gained ground on Britain in the nineteenth and early twentieth centuries. Its banking system, however, remained primitive compared to Britain's, chiefly due to legal restrictions and regulations. Eichengreen views the creation of the Federal Reserve System in 1913 as a watershed event. I am less inclined to do so, and much more inclined to identify World War I as the transforming event. (Eichengreen gives weight to both.) After the war the dollar became a dominant international currency in a modified gold standard.

After World War II the entire international monetary system was reconstructed around the dollar. The Bretton Woods system defined the dollar in terms of gold and all other currencies in terms of dollars. For the first decade other countries were chronically short of dollars. By the 1960s the United States began abusing its privilege. Dollars were issued in excess, first to finance the Vietnam War and the Great Society's social programs. Then the Fed under Arthur Burns pursued an inflationary policy to ensure President Nixon's reelection.

There were chronic budget deficits and balance-of-payments deficits. The great French economist Jacques Rueff remarked that America was able to run balance-of-payment deficits "without tears."

Eventually, Bretton Woods collapsed when Nixon suspended the conversion of dollars into gold in August 1971. The dollar was now officially a fiat currency, what Wall Street iconoclast James Grant describes as "faith-based" money. To believe in a fiat currency, one must have faith in politicians and central bankers. Such faith has seldom been rewarded.

What followed has been a series of crises, a downward spiral of the dollar interrupted by the Reagan reforms of the 1980s and by overall sound economic policies in the Clinton 1990s. Yet the dollar remains dominant today around the world by almost any measure. Much of the book is devoted to asking why that is so.

Eichengreen repeatedly reminds us that the key question for currency dominance is, "Compared to what?" There are just a few serious candidates to displace the dollar. The euro is the most serious contender, but Europe has more problems than even the United States. The Chinese renminbi is not even a convertible currency. The Japanese yen has never lived up to its potential to rival the dollar. The Swiss franc is a strong currency, but Switzerland is too small a country to produce global money. A few stalwarts believe a return to the gold standard is possible, but Eichengreen gives little credence to such a possibility.

He considers a number of scenarios in which the dollar is replaced by another currency and concludes that only truly bad U.S. policy could cause such a global monetary eruption. (Remember: U.S. policy must be worse than that of its competitors.) The most likely outcome is a multipolar global monetary system: greater use of other currencies, most likely the euro, but continued importance of the dollar. In the context of current events I would call Eichengreen's thesis the case for dollar optimism.

Exorbitant Privilege is a timely contribution to the discussion of the international monetary order. I recommend it highly. FEE

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The Employee Rights Act

BY CHARLES W. BAIRD

Unions claim to represent the interests of workers against the interests of employers. In practice unions often act in their own interests. For example, in collective bargaining it is not unusual for a union to forgo wage increases in exchange for the employer agreeing to force those workers to pay union dues or agency fees as a condition of continued employment. Recently the National Labor Relations Board, which was originally conceived as a neutral referee in labor disputes, has taken the side of unions against employees.

In August 2011, a bill to defend workers against unions was introduced in the Senate (S. 1507, by Orrin Hatch) and the House (H.R. 2810, by Tim Scott). The proposed Employee Rights Act (ERA) would make seven significant changes to American union law. The supporters of the bill commissioned Opinion Research Corporation International (ORCI) to sample public opinion on the bill's seven provisions (tinyurl.com/85245a2).

First, the ERA would make secret-ballot elections the only way for unions to be certified as exclusive (monopoly) bargaining agents. (The Obama administration favors card check over secret-ballot union elections.) The table below shows ORCI poll support for secret ballots. Some may be amazed that overall support is 78 percent among all households and union households alike; but insofar as unions are seen to look out for their own interests over the interests of workers the result is not surprising.

Employees should have the right to a federally supervised secret ballot election when deciding whether or not to join a union

	All Households	Union Households
Strongly Support	54%	52%
Somewhat Support	24%	26%
Overall Support	**78%**	**78%**

Second, the ERA would ensure that in a certification election all parties would have at least 40 days to make their arguments. The table below shows support for a 40-day hearing period. The data speak for themselves.

Employees should have the right to a minimum of 40 days to hear from both sides and weigh the pros and cons of joining a union before any election

	All Households	Union Households
Strongly Support	58%	60%
Somewhat Support	28%	26%
Overall Support	**86%**	**86%**

Third, currently once a union has been certified as the monopoly bargaining agent over a group of workers, it is presumed to continue to have majority support among the workers indefinitely. There is no regularly scheduled reelection to determine whether the union continues to be supported by the workers There is a decertification election process, but its rules severely handicap any workers who want to get rid of the monopoly bargaining agent. Individual workers have to declare publicly that they want to decertify the union and seek out like-minded colleagues. Intimidating face-to-face encounters with union bosses cannot be avoided. Employers are forbidden to help. Because of this quirk in the law only 10 percent of workers represented by a monopoly bargaining agent actually voted for it (tinyurl.com/85ez4wj).

The ERA would require that once a union is certified as a monopoly bargaining agent it would have to stand for reelection every three years. The following table shows support for that proposition. Again there is strong overall support among union households as well as all households.

Charles Baird (www.charlesbaird.info) is a professor of economics emeritus at California State University at East Bay.

Employees should have the right to a secret ballot election every three years to determine whether or not they want to remain represented by a union

	All Households	Union Households
Strongly Support	60%	64%
Somewhat Support	24%	19%
Overall Support	**84%**	**83%**

Fourth, the ERA would substantially increase the ease with which workers could vote to decertify their monopoly bargaining agents. A substantial majority of union households, according to the next table, are concerned about being stuck with unwanted unions.

Employees should have the right to petition the federal government at any time to conduct an election to get rid of a union without the fear of facing penalties or fees levied by the union

	All Households	Union Households
Strongly Support	55%	48%
Somewhat Support	23%	23%
Overall Support	**78%**	**71%**

Fifth, except in the 23 states that prohibit it, workers who are represented by a monopoly bargaining agent can be forced to pay union dues or agency fees as a condition of continued employment. To a large extent unions turn those forced payments over to politicians who promote compulsory unionism. Many dues payers do not support the political candidates favored by union bosses. The ERA would protect them against involuntary political contributions.

Even union households don't like unions to abridge their freedom of political speech.

Employees should have the right not to participate in their union's political support of specific candidates or political parties by requiring the union to get approval from employees before their dues money is spent on behalf of political parties or political candidates

	All Households	Union Households
Strongly Support	60%	58%
Somewhat Support	20%	21%
Overall Support	**80%**	**79%**

Sixth, in *U.S. v. Enmons* (1973) the Supreme Court ruled that acts of violence by a union, if they promote legitimate union purposes in a labor dispute, do not violate the federal antiracketeering Hobbs Act. This is one of the Court's most egregious end-justifies-the-means rulings. The ERA would reverse that error. According to the next table, union households recognize that violence by unions is, well, violence.

Employees should have the right to be free from violence, coercion, intimidation, and threats from union leaders attempting to unionize employees

	All Households	Union Households
Strongly Support	83%	78%
Somewhat Support	8%	10%
Overall Support	**91%**	**88%**

Seventh, present law leaves it up to individual unions to decide if they can call a strike without having workers vote to determine whether they approve of the strike. The ERA would make a secret-ballot election among all workers represented by a union, not just its members, mandatory before any strike could commence. Once again, even union households support employees over union bosses.

Employees should have the right to a secret ballot vote to approve or disapprove a union's call for a strike.

	All Households	Union Households
Strongly Support	67%	72%
Somewhat Support	19%	16%
Overall Support	**86%**	**88%**

In the present Congress I expect the ERA to pass the House and to be ignored in the Senate. But a new Congress will be seated in 2013. Perhaps it will seize this opportunity to defend employee rights over union interests. FEE