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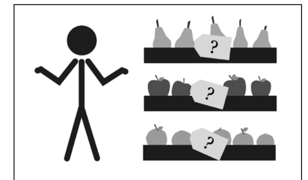

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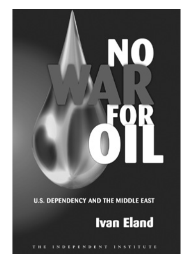

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PERSPECTIVE

Dear Friends of FEE:

Change. Every politician promises it; few deliver very much of it. Even in our own lives, activities, and businesses, change is often difficult and risky.

For 30 years (1963–93) a political group in Canada called the Rhinoceros Party poked fun at politics with its hilarious proposals. One election year the theme of the RP's platform was "Change for the Sake of Change." One of the planks called for switching the side of the road that cars should drive on—from right to left. But rather than do it all at once, the party suggested it be phased in. In the first year the new rule would apply only to big trucks.

At the Foundation for Economic Education we're serious about change. We've given it many months of careful thought. With this issue of *The Freeman*, our flagship magazine that we've published for more than half a century, you can see the first of many changes to come. They are all the result of a new strategic plan we've been working on for two years—a plan that will transform not just this magazine but everything FEE does, how we do it, and for whom we do it.

What won't change—and I guarantee it—are our principles. They haven't budged in the 66 years since FEE was founded. We're immensely proud of that fact.

FEE's new, refined focus is on relative newcomers to the ideas of liberty and free market economics, specifically those within the ages of 16 to 24. We want to inspire, educate, and connect them. We want to help them become the leaders and activists for liberty that a free and prosperous future requires. The potential is enormous because so much of this young and promising market is vastly underserved. Imagine a world where high school and college students learn and appreciate liberty before they start their careers! Thanks to technology, social media, and smart, strategic thinking, we don't have to wait and hope the schools will do the job for us.

The Freeman now has a fresh new cover design. Its configuration and paper stock are different, making mass distribution far more affordable than the previous, glossy (and expensive) format. In forthcoming issues you'll notice more young voices, more humor, more short features, more lively and provocative writing, more news about the liberty movement, and more eye-catching graphics. You are hereby invited to suggest other improvements of your

own—improvements you think would help us excite and activate newcomers to liberty.

No, we're not making all the changes we'd like to make in just one issue. So I guess that means our plan is a little like what the Rhinoceros Party proposed for Canadian highways. We're phasing it in. It's a good thing analogies only go so far!

These are not changes for the sake of changes. Across the board at FEE, we are aiming to win the future for liberty, so we are shaking things up with a purpose in mind. Even if you were born when Calvin Coolidge was in the White House, we hope you're going to like the new ways in which FEE is reaching out to the younger generations. Thanks for your support and encouragement, your ideas, and your confidence in us!

Sincerely,
Lawrence W. Reed, President

***

The search for a better life often leads people to look abroad for opportunities they can't get at home. Immigration policies that make this more difficult leave many at the mercy of smugglers and traffickers. **Lewis Andrews** describes the often dire consequences.

"The hangman, not the state, executes a criminal." Ludwig von Mises's insight into the source of human action contains a world of wisdom, says **Warren Gibson**.

Everyone knows *The Man in the Gray Flannel Suit* is about how commerce strangles the spirit, right? They should try reading it, says **Sarah Skwire**.

Don't let the "fantasy" in fantasy football fool you: The game illustrates some crucial points about opportunity costs and comparative advantage. **Isaac Morehouse** has been keeping score.

Inflation wouldn't be so hard to understand if it wasn't wrapped up in so much untruth, wishful thinking, and misdirection, **Richard Fulmer** says.

Freeman readers know markets excel at creating new efficiencies and improving everyone's lives in the process. The inefficiencies they create might be even more interesting, says **Sandy Ikeda**.

We've heard of cities going bust after city managers and the like get through looting them. Wasting money, though, is a matter of routine for local governments, says **D. W. MacKenzie**.

Economists know that just making more stuff isn't the same as productivity—it has to be stuff people want, at prices they're willing to pay. The nation's most famous newspaper doesn't seem to get this, so **Steven Horwitz** delivers a lesson in basic economics.

Ignoring the law of demand often has perverse consequences. **Art Carden** has a few examples.

Central planning can't deliver resources efficiently because it ignores the full complexity of the price system. **Alex Salter** lays it out.

Trade begins with the private inner states of individuals, who value things differently. This is great news for people seeking their own happiness, **Max Borders** explains, and bad news for people who think they can legislate the happiness of others.

Despite the bad rap it gets, free trade is the key to economic progress. **Arthur Foulkes** has the details.

Fred Foldvary says profit isn't quite as sinple a concept as it might seem at first glance.

Our columnists have plenty to tell you this month. **Donald Boudreaux** explains why free markets are still the best choice even if they aren't foolproof; **Burton Folsom, Jr.**, says FDR still sets the terms of discussion about the role of the federal government; **Walter Williams** takes another look at segregation; and **Tyler Watts**, hearing politicians blame outsourcing for our economic troubles, says, "It Just Ain't So!"

Our reviewers take a look at books presenting the case for classical liberalism, busting the myths of interventionist energy policy, tracing the benefits of a free flow of people and ideas, and lauding the benefits of urbanization. FEE

Outsourcing Is Bad for the Economy? It Just Ain't So!

TYLER WATTS

Presidential campaign demagoguery hit full stride when President Obama released ads accusing Mitt Romney of "shipping jobs overseas" as CEO of private-equity firm Bain Capital. Romney responded not by denying this aspect of Bain's operations, but rather by insisting that he was no longer actively managing the company at the time the alleged outsourcing occurred.

I can understand why a politician would downplay such charges. After all, "the economy" is supposedly the top issue this year, and many voters buy into the rhetoric that companies involved in outsourcing are somehow responsible for a net loss of employment opportunities in the United States.

But outsourcing, far from being a cause of economic trouble, is actually part of any highly developed market economy. Outsourcing, in a fundamental sense, is the source of all wealth.

OUTSOURCING, far from being a cause of economic trouble, is actually part of any highly developed market economy. Outsourcing, in a fundamental sense, is the source of all wealth.

To tackle the misconceptions surrounding this controversy, let's start with a definition. In the Bain Capital case, outsourcing means "hiring foreign workers to do a particular task, as opposed to hiring domestic workers." Now why would an entrepreneur do this? It should be pretty obvious that the foreign labor costs less. Outsourcing therefore generates some combination of lower prices for the company's products and higher profits for its owners—indicating that the company is creating more value with the resources it uses. So, as a corporate executive might say in defense of an outsourcing announcement, "It just makes economic sense for our customers and shareholders."

But what about the workers? The media focus on the horrid "shipping American jobs overseas" aspect of outsourcing. Even if they acknowledge the gains for consumers (lower prices) and shareholders (higher business profits), many commentators will complain these are offset by the losses to American workers.

First off, let's recognize that, in a free society, workers aren't entitled to their jobs; most employment is an arrangement subject to termination by either party at any time for any reason. Individual workers are always losing jobs for all manner of reasons and finding new ones—even in a recession. The mass layoffs associated with outsourcing are not economically different, just more noticeable, and therefore more subject to political demagoguery—especially in a recession.

We shouldn't ignore this kind of labor upheaval, whatever its cause. There is obviously going to be some pain associated with the adjustment process. It's never easy for people to find new employment opportunities, let alone a large pool of workers released onto the market at the same time. Readjustment costs are especially acute for people with strong local ties, such as family obligations. Underwater mortgages make it difficult for some people to migrate. Retraining for new industries is especially tough for older folks, and so on. Sad stories abound, which politicians artfully manipulate in order to enact laws and programs that purport to "save American jobs."

But economic change happens for a reason. In a free market, when outsourcing becomes viable, market forces are telling entrepreneurs, workers, and resource owners, essentially, "The old ways of doing things, the old places, the old patterns that you were so accustomed to—they're not working so well anymore. There are better ways, better places, and better patterns available. For the good of all

mankind, to take advantage of the greatest possible global opportunities, we need some rearranging. A large group of people in place Z will now be able to do what people in place F used to do, but at lower costs. That means people in F need to find something else to do, whether that involves moving to place Q, joining industry Y, retraining, or what-have-you."

Of course the market is not a person and has no motives. What we call markets are just the systematic patterns of exchange, production, and specialization that take place between and among countless individuals across the world. Yet the core insight of economics is that while people tend to pursue only their own narrow interests, "market forces" act as if they are trying to maximize the value of what is being produced across the entire market space—in our case, the whole world. Long-distance business transactions are a natural and important part of this market process. It's only labeled "outsourcing" when it's done by a large corporation and involves a noticeable transfer of a certain production process across an arbitrary national boundary. The term invokes images of Gordon Gekko-like corporate executives in smoke-filled boardrooms, chuckling about the fat profits to be had by transferring widget production from Chicago to Shanghai.

But in reality all economic advances involve one form or another of outsourcing. We're all doing it all the time. When a shopper selects German beer or Colombian coffee, few people accuse her of outsourcing (hardcore "buy local" activists notwithstanding). Yet the consumer is engaging in trade in which some production took place in a far-off location. Is it any less outsourcing when I go online and buy a book from Boston, or a suit from Seattle? Outsourcing is everywhere!

Consider what a world of no outsourcing would look like. Everything you use—and I mean everything!—must be acquired within a few miles of where you live. As economist Russ Roberts said, we've already tried that. It was called the Middle Ages, and life was "nasty, brutish, and short." Indeed, economic progress in recent centuries has been marked by ever-increasing outsourcing—what Adam Smith called an ever-extending "division of labor." We have outsourced most of our food production from the field behind our own huts to the huge farms of the corn and wheat belts, with their great farming machinery, genetic engineering, and chemical marvels, themselves all dependent on highly specialized production processes that are outsourced across the globe.

We outsourced our clothing needs from the backyard flock and the spinning wheel to the textile mill, which itself was progressively outsourced from northern England in the 1700s to New England in the 1800s, then to the southern United States in the early 1900s, and presently to parts of Asia. We outsourced entertainment from the occasional village troubadour to the big recording studios and now, with the Internet, to specialists all over the world.

ALL ECONOMIC advances involve one form or another of outsourcing. We're all doing it all the time. Is it any less outsourcing when I go online and buy a book from Boston, or a suit from Seattle? Outsourcing is everywhere!

I could go on, but you get the point: Throughout history the rise in outsourcing has paralleled a rise in productivity, a rise in human opportunities and accomplishments and a rise in global living standards. This is not a coincidence; economics indicates that outsourcing is not a bane to our economic health, but a core component of economic progress.

Nothing said here, however, is meant to countenance the many government interventions, here and abroad, that distort the patterns of global commerce, making them different from those the free market would have generated.

Economics makes clear that outsourcing is not the problem; the problem is scarcity. Outsourcing is (part of) the solution. Presidential candidates or anyone interested in promoting economic progress should think about policy changes that would allow American entrepreneurs, workers, and resource owners to better integrate themselves into an increasingly interconnected global economy. **FEE**

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Human Trafficking: The Other Good Reason to Reform Immigration

LEWIS M. ANDREWS

Restrictive immigration policies have long been associated with a variety of economic problems. These include the diminished availability of foreign talent, the inability of businesses to fill low-skilled agricultural and service jobs typically scorned by legal residents, and reduced access to the kind of entrepreneurial enthusiasm characteristic of those willing to risk their futures in another country.

Recently social scientists have discovered that restrictive immigration laws generate perverse consequences beyond those associated with labor migration. Consider human trafficking, the practice of using force and fraud to supply black markets in slave labor and sexual services. It turns out that tight immigration restrictions help sustain this age-old scourge.

TRAFFICKING and exploitation are the sad but obvious consequences of migration pressure in a world of closed borders.

To understand these consequences, it is important to appreciate just how lucrative a branch of organized crime the modern slave trade has become. Efficient transportation, technological advances in both farming and factory work, and advances in communication have all combined to make the use of forced labor inexpensive by historical measures.

Free the Slaves, a Washington, D.C.-based nonprofit, has calculated the return on the cost of an enslaved field worker in 1850s Alabama at just 5 percent, whereas today a trafficked farmhand can yield the owner anywhere from double digits to 800 percent. Similarly, an imprisoned prostitute shuttled around the boroughs of New York City in a van by a driver scheduling appointments on his cell phone can service as many as 40 customers in a single shift. As one researcher coldly put it, "People are a good commodity as they do not easily perish, but they can be transported over long distances and can be re-used and re-sold."

The result, according to the United Nations Office on Drugs and Crime, is that 2.5 million victims, approximately 80 percent female and 50 percent under the age of 18, are being trafficked around the world at any given time. In 2005 the International Labor Organization in Geneva, Switzerland, estimated the annual revenues from this "industry" at $32 billion, or $13,000 per victim.

It would surprise many Americans to learn the extent to which this modern slave trade operates within their own country. A 2004 study, *Hidden Slaves: Forced Labor in the United States*, by Free the Slaves and the Human Rights Center at the University of California, Berkeley, estimates that "tens of thousands" of women and children are trafficked nationwide, with the largest numbers coming from China, Mexico, and Vietnam.

According to the study, 46 percent are prostitutes, 27 percent are imprisoned household servants, 10 percent work in agriculture, 5 percent are held in sweatshops, and 4 percent serve against their will in restaurants and hotels. A May 2012 report by the BBC identified a single town in Mexico, Tenancingo, where 10 percent of the 10,000 residents are engaged full time in trafficking teenage girls to work the streets of New York, Chicago, and other major U.S. cities.

The unexpectedly large size and scope of America's slave economy is hidden from policymakers and the public in part by its criminal nature, but also by a longstanding federal metric that substantially undercounts victims. The government has traditionally not tallied imprisoned workers identified in crackdowns of border-smuggling operations or in raids of sweatshops and brothels, only the relatively small number who somehow escape their captors and formally apply for assistance.

Debt Bondage

It is also important to understand the basic mechanism of human enslavement, which is typically referred to as "debt bondage." The victim, almost always from a poor, developing, or economically unstable country, agrees to repay the trafficker from future earnings for the cost of transport, border-control evasion, and accrued interest in order to land what is believed to be a legitimate job in a more prosperous part of the globe.

By the time a trafficked laborer discovers the real work he or she has been imported to perform, it is too late. Amid threats of violence, uncertainty as to the help local authorities are willing to provide, possible retribution against loved ones back home, inability to speak the local language well, and a lack of financial resources, the victim has no choice but to accept the captor's unilateral modification of the contract.

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Even when brothels, sex tourism operations, exploitative factories, and farm labor camps are subjected to local law enforcement crackdowns, the trafficker himself is typically insulated from prosecution by having set up some of his victims as onsite managers. According to the Danish Centre against Human Trafficking (DCAHT), most pimps and forced labor guards rounded up in police raids around the world usually turn out to have been trafficked themselves.

The Business Model

For all the human misery inflicted by the slave trade, there was little hard data on the problem beyond the statistics already cited until recently, when social scientists in the United States and Germany began to think that a dispassionate economic perspective might be helpful. Reasoning that an objective analysis of the market could conceivably reveal unexpected vulnerabilities in the typical trafficker's business plan, they set out to create an unemotional commercial understanding of slavery, framing what most consider an abhorrent activity in terms of standard business concepts such as product demand, asset life, aftermarket, and ordinary expenses.

In 2010, for example, Elizabeth Wheaton, Edward Schauer, and Thomas Galli created a detailed report for the journal *International Migration*, showing how traffickers calculate the marginal cost of each new person sold into slavery and therefore the optimal size of a given network. They also described how successful traffickers in mature markets survive competition by cultivating resale customers.

The first thing this research starts to make clear is the surprisingly large number of subcontractors a trafficker needs to employ: recruiters on the ground, corrupt officials, smugglers, forgers, pimps and labor camp enforcers at the back end, and even people to compose advertisements to lure naive victims using the false hope of legitimate jobs in distant lands.

What economists then began to see is that a trafficker's ability to control operating expenses is dependent almost exclusively on migration patterns. Large, efficient smuggling operations arise in poor and underdeveloped rgions full of people seeking employment in richer countries with closed borders. (A smuggler is not necessarily a trafficker until he is employed by one or branches out into that business himself.) Economies of scale similarly lower the costs of recruitment and documentation.

Take the dissolution of the Soviet Union, for example. This may have been a welcome political development, but the resulting chaos in the satellite counties led to waves of migration, which in turn made trafficking from Eastern Europe exceptionally profitable. Combined with the formation of the European Union, which eliminated border checkpoints across much of the continent, the fall of the Russian empire made it possible to cheaply transport coerced workers from countries like Bulgaria, Moldova, Romania, and the Ukraine to almost anywhere in the West.

THE MOST effective way to reduce trafficking would be to undercut the barriers to employment migration in more affluent nations.

One result is that sex tourism in Spanish border towns like La Jonquera is currently booming. According to local authorities interviewed for a story by *New York Times* reporter Suzanne Daley, a disproportionately large percentage of female slaves are lured from Eastern Europe under the control of a network.

Between Poverty and Closed Borders

Weak legislation in the receiving counties, the poor quality of law enforcement, and official corruption—all may exacerbate trafficking, say the Kiel Institute's Toman Omar Mahmoud and the Free University of Berlin's Christoph Trebesch in their study *The Economics of Human Trafficking and Labour Migration*. But "it is first and foremost the wish for a better life abroad that puts millions of people at risk of ending up in exploitative working conditions."

"In a nutshell," they write, "trafficking and exploitation are the sad but obvious consequences of migration pressure in a world of closed borders."

What this conclusion clearly suggests is that the most effective way to reduce trafficking would be to undercut the barriers to employment migration in more affluent nations. Noting that the vast majority of victims are trapped between a desperate desire to improve their lives and restrictive immigration policies, Kevin Bales, professor emeritus at Roehampton University in London and the author of *Ending Slavery*, argues that stemming the illegal flow of slaves means "facing up to the economic demand for people to fill jobs in richer countries."

Interestingly, this argument dovetails with the commonsense observations of those fighting slavery on the ground in countries like Thailand, which is notorious for child prostitution, labor exploitation, and sexual tourism. The Development and Education Programme for Daughters and Communities (DEPDC) notes that the Thai government recognizes only nine of the tribes in the remote highlands. As a result, the other tribes are disproportionately vulnerable to traffickers because they are treated as if they were foreigners and officially they have no rights. DEPDC has long argued that the most effective antidote for human slavery in Southeast Asia would involve conferring some kind of legal status on would-be workers who are effectively stateless.

Halfway across the world in the United Kingdom, the Adam Smith Institute, a market-oriented think tank, has similarly argued that government efforts to stop the trafficking of bonded labor to meet seasonal demands in the European supermarket business are a largely a waste of time and taxpayer money. Instead of passing tougher regulations or hiring more police to crack down on illegal migrant workers, the society recommends making employment visas more flexible and easier for foreigners to obtain.

The case for a more lenient immigration policy has long been based on the sound economic argument that an open employment market increases productivity, which in turn raises a country's overall standard of living. To that we can now add the opportunity to undermine human trafficking and start to mitigate an age-old source of human misery. **FEE**

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Methodological Individualism

WARREN C. GIBSON

I am just now rereading Ludwig von Mises's magnum opus, *Human Action*. What a joy it is to get reacquainted with this masterful work and to use it as a benchmark to gauge my own intellectual odyssey since first reading it more than 40 years ago.

Early on the reader encounters the term "methodological individualism." This mouthful may seem at first to be some abstruse epistemological concept that can be forgotten once the foundations for Mises's economics have been established. On the contrary, revisiting Mises has made me realize just how thoroughly I have internalized the concept and what a big difference it has made in my thinking about political and economic controversies.

Let's start with what methodological individualism is not. It has nothing to do with "rugged individualism." It is not ideology at all. It is a term that describes the essential nature of human thought and action. It is a bedrock principle on which Mises grounds his entire exposition of economics.

"The hangman, not the state, executes a criminal." This is Mises's pithy summary of methodological individualism. Mises does not deny that the hangman acts under the influence of his relationships to others in society. He is an employee or a servant of some penal system and is obliged to carry out executions when so ordered. He may fear consequences if he fails to act as ordered. He may have a family that he provides for. He may wish to secure his place in Heaven. None of these conditions alters the basic sequence of events: The hangman ponders the action he is set to perform, thinking carefully or hardly at all. He believes his best choice is to pull the rope that opens the chute. He causes his arm to move and the deed is done.

When we think about the hangman from the point of view of praxeology (Mises's name for the science of human action) we are not concerned with the social or psychological factors that may have influenced his action, nor the neural firings in his brain, nor the musculoskeletal actions in his arm. We are simply observing that actions are always initiated and carried out by individuals and are always motivated by the individual's expectation of being better off as a result of the chosen action rather than some alternative. We have volition, and we have goals. We cause things to happen hoping to remove "felt uneasiness," as Mises puts it.

If only individuals act, "group action" means nothing more than the concerted actions of individual group members. Yet we constantly hear people talking in ways that imply groups in and of themselves really do act. As a harmless example, think of a fan leaving the stadium and saying, "We beat the Tigers!" when all that really happened was that somebody hit a home run and somebody threw a bunch of strikeouts and so forth.

The language of group action gets serious with politics. The very first sentence of the U.S. Constitution, which declares that "We the People" established it, is simply a myth. A few select individuals voted it into existence, and they're all dead. We might like the Constitution very much and wish the politicians would obey it, but in no way does that leadoff sentence morally bind anyone alive today.

It gets really serious when warfare is involved. It may be a convenient shortcut when a U.S. citizen says, "We are sending drones into Pakistan." But the corrosive implication is that all of us Americans are somehow responsible for the actions of the CIA operatives and others who actually send in the drones.

Studying and internalizing Mises's notion of methodological individualism inoculates one against the aforementioned fallacies and countless others. "But at what cost?" you might ask. Does this individualistic outlook somehow make one into a hermit, a curmudgeon, a sourpuss? On the contrary, I submit that our social and business relations are more satisfying for us and for those around us when we are grounded in the recognition of each individual as the source of his or her own actions. We are more likely to find people we can admire and trust and less likely to get mixed up with fools. **FEE**

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Stripping off the Gray Flannel Suit

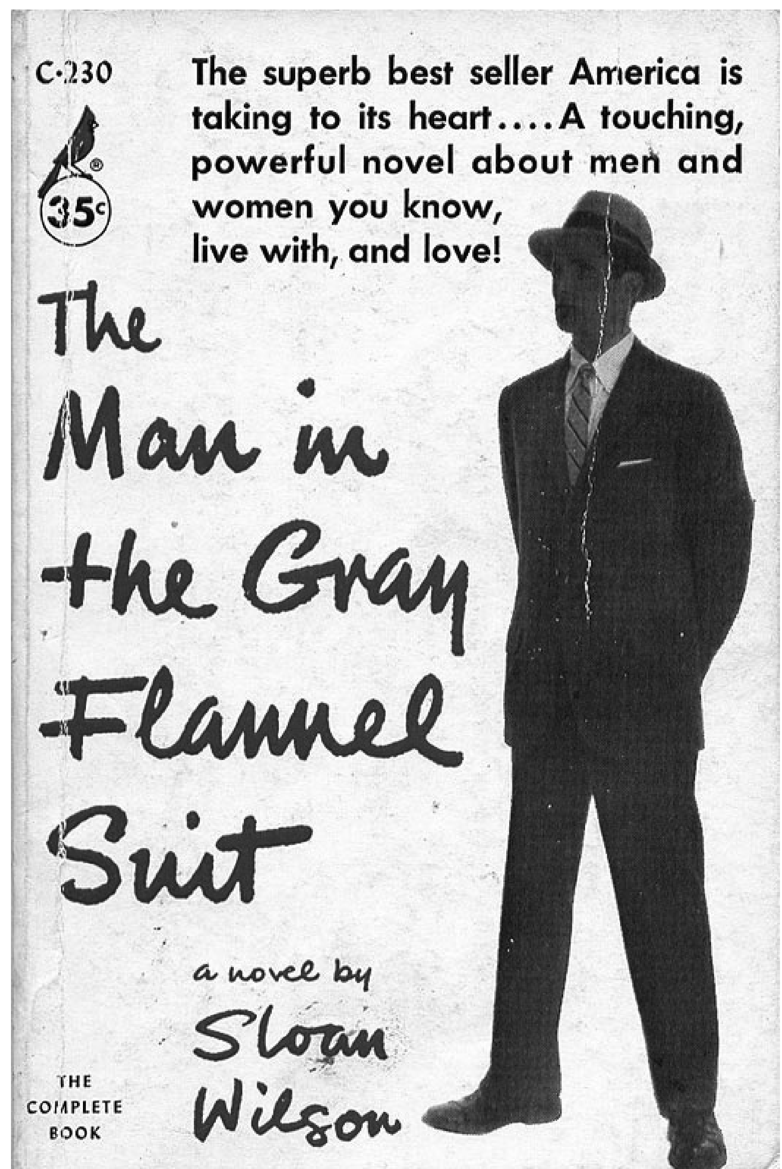
SARAH SKWIRE

Sloan Wilson's *The Man in the Gray Flannel Suit* is one of those business novels about which everyone has heard—especially since it was referenced on *Mad Men*—but which almost no one reads any more. This is a shame because the most common descriptions of it in the press and online are not particularly accurate. Bob Greene famously referenced it as "a ground-breaking fictional look at conformity in the executive suite, and it was a piece of writing that helped the nation's business community start to examine the effects of its perceived stodginess and sameness" and the Wikipedia entry, among other inaccuracies, calls it a novel about "the American search for purpose in a world dominated by business."

Wilson's novel is far better and more subtle than these descriptions give it credit for. Even labeling it a "business book" is something of an injustice. Amid the discussions of business, *The Man in the Gray Flannel Suit* also contains substantial portrayals of war and the difficulties experienced by soldiers and their families during the return to civilian life, the rapid social changes of 1950s America, and some fascinating ruminations on the nature of justice and law.

That said, the novel is best known as a business book, and as one that deals with questions of conformity. While the hero, Tom Rath, fears that "I am just a man in a gray flannel suit. I must keep my suit neatly pressed like anyone else, for I am a very respectable young man," the novel goes out of its way to show that he is not such a man, that he need not be such a man, and that innovation and entrepreneurship, combined with a little soundness of character, will keep him from becoming such a man.

A veteran of World War II, Tom came home and became an assistant to the director of an arts and science research foundation. The position, arranged for him by his wealthy and well-connected grandmother, allows him to buy a small house and provide for his wife and three children, but as the novel begins the small house and the small salary have begun to pinch. When a friend



tells Tom about a job opening in public relations at the United Broadcasting Company, Tom and his wife Betsy leap at the chance, though they both express concerns about whether Tom will be suited for the work.

Tom works hard to fit himself into the mold of "the man in the gray flannel suit," which he believes is crucial for success. As he works on draft after draft of a speech for the head of the company he becomes increasingly persuaded that the only way to succeed in business is to become a cipher. "My business education, you see, is not complete. In a few years I'll be able to suspend judgment entirely until I learn what Hopkins [the boss] thinks, and then I'll really and truly feel the way he does. That way I won't have to be dishonest any more." His wife Betsy (frequently misrepresented by critics as "shallow and materialistic") is horrified by this suggestion that success requires such a betrayal of self. "I don't like the idea of your becoming a cheap, cynical yes-man and being so self-satisfied and analytical about it."

Indeed, when Tom eventually decides to be honest with his boss about the speech, it is the beginning of a new camaraderie and respect between the two men that eventually leads to more promising job opportunities for Tom.

But the most interesting part of *The Man in the Gray Flannel Suit* is a narrative that runs parallel to the story of Tom's struggles in the business world. At the same time that Tom is adapting—first poorly and the more successfully—to his post-war entry into the business world, he and his wife are becoming entrepreneurs. When Tom's grandmother dies, she leaves him virtually no money and an enormous and dilapidated family mansion on 23 acres of land with a view of Long Island Sound. The house is too run down to live in for long, and would be cripplingly expensive to repair and maintain. Betsy is clever enough to come up with a plan for this white elephant of an inheritance:

> Let's say we took all our available money, from selling this place and from Grandmother's estate and everything. Let's say we took it all and converted Grandmother's carriage house into a dwelling…Let's say we did that and sold it with one acre of land for forty thousand dollars. Places like that go for at least that, and I bet we could fix the old carriage house up for twenty thousand. That would give us a profit of twenty thousand. We could use that to build another house and sell that for profit. We could put up a whole housing development, one house at a time.

Betsy commits to learning the real estate business and trying to contact the zoning board, and challenges the reluctant Tom for being "a coward" who is afraid of risk and who has "got *no guts*."

As the novel ends, Tom has used his business and social skills to find a better job and he and Betsy are waiting in happy anticipation for zoning board approval. The man in the gray flannel suit has broken out of the mold. But he didn't do it by eschewing the world of business. He did it by finding a kind of business to which his resources were more suited. He did it by having the good sense to marry a woman with entrepreneurial instinct and the bravery to take a chance on her optimistic vision of a world of possibility.

The Man in the Gray Flannel Suit is not about "the American search for purpose in a world dominated by business," not if we are meant to assume that the ideas of "purpose" and "business" are intrinsically opposed within the novel. Instead, it is about finding a way to do business with a purpose and to be all the better because of it. **FEE**

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Klinging to Reality

DONALD J. BOUDREAUX

Up until recently, one of the brightest lights in today's blogosphere was EconLog's Arnold Kling. (Alas, he recently decided to opt for the essay form.) He was one of the few bloggers whose every post I read and pondered carefully. When I found myself objecting to something that Arnold had written, I worried that my assumptions or knowledge or reason had failed me for the matter at hand.

Among Arnold's themes that I especially like is this one: "Markets fail. Use markets." The idea is the vital one that the case for markets does not depend on markets being perfect—or to use economists' terms, the case for markets doesn't collapse simply because of the existence of some "market failures."

First, the concept "market failure" is notoriously slippery. The absence, say, of more light-rail transportation in Little Rock might plausibly be seen by Jones as evidence of market failure but might also plausibly be seen by Smith as evidence of the prohibitively high cost of expanding such transportation in Little Rock. Social and economic reality being what it is, there are simply no tests available to settle this question with the sort of certainty that is often achieved by tests of physical matter.

Importantly, Jones's assessment might be correct. Perhaps investors and entrepreneurs really are underestimating the demand for—or overestimating the costs of building and operating—more light-rail lines in Little Rock. Arnold wisely advises friends of free markets to recognize and to publicly concede that markets can and do fail, even though such failure might never be provable in the way that the earth's elliptical rotation around the sun is provable.

To reject Arnold's advice is inadvertently to strengthen the hand of those who insist that instances of market failure are sufficient justification for government intervention. It is (at least to appear) to concede that if and when markets should fail, government should intervene to correct the failure.

But in reality markets aren't perfect. They're just not. Markets do sometimes fail because of (bear with me as I parade before you a band of fancy economics terms) "asymmetric information," "moral hazard," "time inconsistency," "free-rider problems," "opportunism," "strategic behavior," "empty cores," "lumpiness," "transaction costs," "bounded rationality," and other features of reality that prevent markets from performing ideally.

These sources of market imperfections are themselves a second reason to take seriously Arnold's advice to use markets even though markets sometimes fail. Too many people—including economists—remain stubbornly unaware that even the proven existence of a "market failure" is only a necessary condition to justify government intervention; market failure is not a sufficient condition.

> Voters and government OFFICIALS DON'T BECOME MORE GODLIKE simply by acting in the domain of politics.

Voters and government officials don't become more godlike simply by acting in the domain of politics. So voters and government officials are at least as likely as are investors, consumers, and other private-market participants to be poorly informed, to let their emotions block their rational faculties, and to suffer each of the other decision-making quirks that can lead to market failure.

But this fact suggests only that political outcomes are likely to be as imperfect as market outcomes. It does not

suggest that political outcomes are likely to be worse than market outcomes. So why the strong advice to "use markets"?

The answer is that market institutions are better than political institutions at minimizing the frequency, intensity, and ill consequences of uninformed, emotion-ridden, and otherwise fallible decision-making.

The competition among businesses for consumers' dollars, being never-ending, is more continuous than the intermittent competition among politicians for citizens' votes.

Relatedly, markets typically offer several competing products simultaneously—for example, Coca-Cola competes side by side against Pepsi, and shares in Apple are traded side by side with shares in Microsoft. Consumers and investors can reliably, if not perfectly, gauge the merits of each of these offerings relative to the merits of competing offerings. Not so with political candidates or public policies. Only one man will be president during the 48-month span from January 2013 through January 2017. If, say, Romney is sworn into office in January and three months later the unemployment rate falls dramatically, no one can be sure that this happy occurrence wouldn't have occurred also—perhaps even more dramatically—if Obama had still been in office.

In our complex and dynamic society it's a challenge under the best of circumstances to determine which of the consequences that follow on the heels of some action are caused by that action and which are merely coincidental. This challenge is even more difficult when an action has no competitors—that is, when no other similar actions are allowed to take place simultaneously with that action. With only one person in the Oval Office at any given time, the effects of that president's economic policies are especially difficult to disentangle from the many other occurrences that are taking place in the economy. Perhaps the economy improved despite, rather than because of, that president's policies.

MARKETS typically offer several competing products simultaneously. Not so with political candidates or public policies.

Were it somehow possible for two (or more!) presidents to pursue their different policies under exactly the same conditions, the actual consequences of each policy would be more easily determined. The merits of one president's policies relative to those of the other president's would then stand out more clearly than they do in the real world where no two presidents' economic policies can actually be compared simultaneously.

Yet another feature of government that causes its outcomes to be less desirable than those of the market is "lumpiness." When Congress and the president agree on an annual appropriation for the U.S. military, every American is party to that specific annual appropriation. I—a dove—don't get to have a lower appropriation than does my neighbor the war hawk. Government's provision of national defense comes in a largely indivisible lump.

Not so in markets. If I prefer wine to beer, I get to have more wine than beer while my neighbor with opposite preferences gets to have more beer than wine. And all the while the teetotaling couple down the block chooses—and receives—a third, alcohol-free bundle of consumption goods.

Arnold Kling endorses free markets not because they are foolproof or flawless. They aren't. Arnold supports them because the alternative is generally much worse: an especially flawed institution that fosters unusual amounts of foolishness. FEE

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Fantasy Football, Opportunity Cost, and Comparative Advantage

ISAAC MOREHOUSE

The year was 2010. I missed the live draft in my fantasy football league, so the computer's auto-draft function took over and drafted the best player remaining whenever my turn came, regardless of position.

I ended up with a decent roster, yet there were a few obvious weaknesses. I had an abundance of excellent wide receivers but only one quarterback, who was mediocre at best. Just a few weeks into the season my quarterback was injured with no indication of when he'd return. Scrambling to cobble together a competitive team, I proposed a trade to another league member. I offered an excellent wide receiver (projected to average 25 points per week) for his backup quarterback (projected to average 15 points per week). He accepted the trade. But right before I excitedly adjusted my lineup for the week, I got some news: The league commissioner had used his veto power to cancel the trade. I was furious.

I emailed to ask why he had cancelled our mutually agreed-upon trade. He said he did so because the trade was "absurd" and "unfair." I was trading a great player expected to generate 25 points every week for a poor player expected to generate 15. Obviously I was getting ripped off.

If you care about individual rights you might be outraged by the condescension, the idea that the almighty commissioner knows my interest better than I do. I certainly was outraged. But let's set aside the violation of my "right" to peacefully trade (I did choose to join a league with commissioner veto power) and apply some clear-headed economic analysis to examine the commissioner's claim.

My roster had a certain number of players who started every week, plus a few spots on the bench for players I might want to start in another week. After the draft I ended up with six wide receivers. The top four were expected to average between 15 and 25 points per week. In any given week, I could only start three of them, so I was willing to part with 25 points from one in exchange for 15 from the other player's backup quarterback. The commissioner saw a net loss of ten points and cried foul. But he missed something important: opportunity cost.

> OPPORTUNITY cost is not just a boring economic concept. It's an incredibly powerful tool for helping us understand the world and make better decisions.

Opportunity cost is not just a boring economic concept. It's an incredibly powerful tool for helping us understand the world and make better decisions. Every action has an opportunity cost. This is why economists say things like, "There's no such thing as a free lunch." If I leave my office to get an advertised "free" lunch, there is an opportunity cost: the value of what I am giving up to spend my time chasing the free food. There are a number of other things I could be doing with the time it takes me to get the lunch. I could work for 30 minutes or spend time with my wife or look for the newest YouTube video of a cat wearing an absurd outfit (tinyurl.com/9vzsz7a). Since I can only be in one place at a time, the choice to engage in one activity means I give up the others. But since I couldn't pursue all the other choices at one time either, my opportunity cost is only the value of the next best alternative, as determined by my own subjective preferences.

Let's say I value a free sandwich very highly and think it the best use of 30 minutes of my afternoon. Absent the sandwich, my next most valued activity for those 30 minutes is watching cat videos on YouTube. The opportunity cost of getting the free lunch is the pleasure I would have gotten from watching the cats (tinyurl.com/7c4333).

Back to fantasy football. Remember not everyone on my roster can start—and therefore earn points—every week. Every player I put in my starting roster has an opportunity cost. That cost is the value of the next best player I am not putting in that spot. If I start a wide receiver worth 25 points, the opportunity cost is the receiver worth 15 points who now can't take his spot. In this case the value of the starter is greater than his opportunity cost by ten points, so it makes sense to put him in the roster. He is expected to create ten points of value above the next best option.

When my quarterback went down I had no backups. Since the rules dictate that you must put players in the correct position on your roster, I couldn't substitute my next most valuable player for my downed QB—I couldn't put a wide receiver there. The next best option for my QB was an empty roster spot worth zero points. Meanwhile, I had four receivers worth 25, 22, 20, and 15 points, yet I could only play three at a time.

I offered my best receiver in trade because I feared my trading partner wouldn't part with his backup QB for anything less. What was the cost to me of giving up my 25-point wideout? It meant my three best players left in that position were worth 22, 20, and 15 points. The fourth receiver would not have started; now he took the spot of the 25-point receiver, leaving a net loss of ten points. But what did I get in return? A QB worth 15 points. So my team as a whole gained five points in the deal.

My new QB was worth ten points less than my discarded receiver, but my opportunity cost for keeping the receiver over the QB was higher than if I traded. Without the QB I'd have had to forgo 15 points. Without the receiver I'd only have had to forgo ten points because I had a 15-point backup on the bench. The move for a new QB put my team at an absolute disadvantage; I had fewer total points on my roster. But it gave me a comparative advantage over my pretrade roster because my starting players were generating more points. I gave up more points in a position with a lower opportunity cost (more alternatives) for fewer points in a position with a higher opportunity cost (fewer alternatives).

In my example, this advantage exists is because of specialization. Receivers and quarterbacks specialize in their trades, and the skill sets cannot be substituted for one another. This is exactly what happens in the economy at large. If you're the best lawn mower and the best spinal surgeon in the world, it would make economic sense for you to specialize in the latter and pay someone else to clip the grass. The opportunity cost of your time spent on the lawn is the money you leave on the operating table. Even for the best lawn mower in the world, that's probably no small amount.

IF YOU'RE THE BEST lawn mower and the best spinal surgeon in the world, it would make economic sense for you to specialize in the latter and pay someone else to clip the grass. The opportunity cost of your time spent on the lawn is the money you leave on the operating table.

Economist David Ricardo famously used the concept of comparative advantage to explain why countries benefit from trade, even if one country is less productive at everything than another country. I found the concept more empowering when used as ammunition against a tyrannical fantasy football commissioner who failed to understand why a 15-point player could be more valuable to a team than a 25-point player.

Who says economic concepts aren't useful in everyday life? **FEE**

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Wrapping an Enigma in a Mystery: Why Inflation Is So Misunderstood

RICHARD W. FULMER

In his book *The Economic Consequences of the Peace*, John Maynard Keynes observed, "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

Inflation—the process by which currency is debauched—is difficult to diagnose largely because it is carefully protected by an army of lies, many promoted by Keynes himself. Keeping the concept mysterious allows government to debauch its currency without citizens understanding that they are being systematically robbed.

Inflation—the process by which currency is debauched—is difficult to diagnose largely because it is carefully protected by AN ARMY OF LIES.

In his *General Theory of Employment, Interest, and Money*, Keynes made clear that he understood the deception behind inflation as policy: "Unemployment develops, that is to say, because people want the moon;—men cannot be employed when the object of desire (i.e. money) is something which cannot be produced and the demand for which cannot be readily choked off. There is no remedy but to persuade the public that green cheese [fiat money] is practically the same thing as the moon and to have a green cheese factory (i.e. a central bank) under public control." (tinyurl.com/8b9uc9m)

Prices And Money

Perhaps the most effective bit of misinformation was to redefine inflation as a rise in the general level of prices of goods and services. A general rise in prices, however, is a potential symptom of inflation and not inflation itself—potential because even though a currency is being inflated, prices may not necessarily rise.

Inflation is nothing more than an increase in the amount of money in circulation relative to demand. If the number of dollars in the market outstrips demand and increases relative to the amount of available goods and services, the dollar's value will fall and prices will rise. However, during the 1920s, even though the quantity of money increased nearly 60 percent, prices were fairly stable because productivity rose significantly during the same period, leaving the dollar-to-goods ratio relatively unchanged.

In today's bout with inflation some prices have risen (food and petroleum) while others have fallen (computers and iPods), but prices have not yet "generally" risen in proportion to the increase in the nation's money supply. In part this is because much of the new money is sitting in banks and Federal Reserve accounts (for which the Fed pays interest) and is not in circulation, thanks to the federal government's anti-growth regulatory, spending, and tax policies.

Another myth is that rising wages or oil prices cause inflation. On the surface this seems logical. After all, energy and labor are incorporated into all goods and services, so if their prices rise, the prices of all goods and services must rise as well, right? No.

If there are a fixed number of dollars and the price of oil goes up, people will either purchase less gasoline or less of something else. Perhaps they will walk or ride bicycles more or will carpool or cut down on discretionary travel. Or maybe they will cut back on expenses by eating at home more often or purchasing less popcorn at movie theaters. If wages go up, companies may increase automation or simply make do with fewer workers. Higher oil and labor prices, then, will not cause a general rise in prices. Rather,

other prices will fall as fewer dollars are spent on widgets and more on gasoline and labor.

The Myth of Managed Inflation

The country's current financial woes explode yet another myth about inflation: the idea that a managed, low rate of inflation is sustainable. The problem is that new money is not initially spread throughout the economy evenly, keeping the market's complex web of relative prices intact. Instead, it enters the market at specific points. Because the Federal Reserve usually inflates the currency by easing credit, the new money tends to flow to things such as homes and cars that are sensitive to interest rates. In response, capital and labor shift into the construction and auto industries. When the Fed shuts off the spigot, though, demand collapses and carpenters and auto workers are laid off. The economy will not fully recover until the capital and labor that were malinvested in home building and auto manufacturing are re-employed in more sustainable areas.

KEEPING the concept mysterious allows government to debauch its currency without citizens understanding that they are being systematically robbed.

Keynes believed that one of the main barriers to re-employment following a bust was "sticky" wages. Rising unemployment may indicate that wages are generally too high and must fall before more people will be hired. The problem is that workers and unions fight wage decreases and companies tend to resist them as well because of their impact on employee morale. Keynes argued that by inflating the currency, nominal wages could remain high, while real wages (purchasing power) would drop, making labor cheaper. For this to work, however, labor had to be kept in the dark—possibly explaining Keynes's efforts at obfuscation. As soon as workers caught on to the scam, they would demand cost-of-living increases and the jig would be up. This is exactly what has happened: COLA means more than just a fizzy drink to a large swathe of workers, having long since become a standard feature of most employment contracts.

There are other difficulties with this shell game, though. First, aggregating all workers into a homogeneous pot called "labor" is inherently problematic. If the unemployment rate rises, some wages may indeed be too high. Yet even despite today's high unemployment rates, there are tens of thousands of job openings for engineers, accountants, welders, and machinists throughout the United States. The problem is a mismatch between the skills needed and the skills available, and this disparity cannot be remedied by manipulating the currency. Moreover, currency manipulation ultimately impacts the entire economy; it cannot be narrowly focused on just those sectors in which wages are too high.

Even though Keynesians tend to dismiss the Austrian argument that inflation does not initially raise prices uniformly, the Keynesian "sticky wage cure" depends on new money flowing precisely enough to drop the real wage where wages were too high while keeping it the same (though nominally increasing it) where wages were okay before. The cure requires that new money injected into the economy must impact prices with a selectivity bordering on the magical. Prices that companies can charge for their products must rise while costs, including labor costs, must remain unaffected. (If a company's costs were to rise while the prices it could charge remained the same, it could hardly be expected to expand production and hire additional employees.) Nothing magical happens because one company's prices are another's costs.

By contrast, Austrians believe that new money will lead not to a general rise in employment, but to a shift in employment from some sectors of the economy to others. Further, they argue that this shift will be sustained only so long as the new money continues to flow. When the money stops, the bubble will burst and the malinvestments caused by the monetary manipulation will be exposed.

Green cheese is no more the moon than fiat dollars are real savings. Were it otherwise, Zimbabwe, whose monthly inflation rate reached nearly 80 billion percent in 2008, would have wealth piled from here to the Sea of Tranquility. FEE

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How FDR's Economic Bill of Rights Changed American Politics

BURTON FOLSOM, JR.

Many people are perplexed by the new government programs that have changed American life in the last century. So much of this intervention has been damaging, and so much of it is unconstitutional. Can we pinpoint a time, or an event, that led Americans to accept a more powerful central government in their lives?

The intervention has been gradual since the Progressive Era of the early twentieth century, but one event helped crystallize the rising dominance of statist ideas: President Roosevelt's promotion of his Economic Bill of Rights during World War II. FDR announced this new bill of rights during his State of the Union message in January 1944. "Our Economic Bill of Rights," the President said, "like the sacred Bill of Rights of our Constitution itself—must be applied to all citizens." He added, "A new basis of security and prosperity can be established for all—regardless of station, race, or creed." Among others, these new rights included the following:

- the right to a useful and remunerative job in the industries or shops or farms or mines of our nation;
- the right of every family to a decent home;
- the right to a good education;
- the right to adequate medical care and the opportunity to achieve and enjoy good health.

Roosevelt concluded: "All of these rights spell security. And after the war is won we must be prepared to move forward, in the implementation of these rights, to new goals of human happiness and well-being."

Where do Roosevelt's new rights come from? They are not natural rights, or God-given rights, because nature, or God, does not endow man with "a good education," "adequate medical care," or "a decent home." Only if government is the source of rights do Roosevelt's rights have meaning. If an American has a right to "a useful and remunerative job," then government has the obligation to find or provide employment, even if that requires taxing those who have jobs. If an American has a right to "a decent home," whatever size and furnishings that might include, then if necessary, other Americans have the responsibility to pay for that decent home. Thus Roosevelt's new Economic Bill of Rights was revolutionary. To provide these new rights, government would have to tax and redistribute wealth on a massive scale.

> Only if government is the source of rights do Roosevelt's rights have meaning.

The original Bill of Rights was very different. It listed freedoms from government interference, not the freedom to invoke government to fulfill wants. The Founders understood that freedom of speech and religion were natural rights that all people can enjoy without hampering one another's liberty.

During Roosevelt's 12 years in office, he increased government immensely, preparing the nation for the larger government he wanted after the war. His New Deal firmly established the government's right to guarantee a minimum wage for jobholders, Social Security for elderly Americans, and targeted subsidies for groups the president needed for reelection. The Economic Bill of Rights presaged programs for national health care, federal aid to education, and a federal housing authority.

The taxing machinery was also in place. It had to be. Building houses, sending people to college, creating job

programs, and providing medical care for many millions of Americans would be costly, and FDR needed a steady torrent of cash to do it all. World War II gave FDR the opportunity to raise taxes and keep them high afterward to support his Economic Bill of Rights.

FDR had increased taxes step by step during his presidency. He started with the rich. In 1932, the year FDR won the presidency, the top marginal tax rate was 25 percent. By 1939, the first year of the European war, FDR had hiked that rate to 79 percent. During World War II he was able to get the rate up to 94 percent on all income over $200,000. The top marginal corporate rate had risen to 90 percent.

WORLD WAR II gave FDR the opportunity to raise taxes and keep them high afterward to support his Economic Bill of Rights.

Near-Confiscatory Taxes for All

But, as FDR discovered, near-confiscatory taxes on the rich were not enough to pay for the war and not enough to fund houses, education, jobs, and medical care for many millions of Americans after the war. He had to make taxpayers out of most American wage earners. This he achieved by lowering the personal exemption from $1,000 to $500, so only that amount was tax-free. He increased the bottom marginal rate from 4 to 23 percent from 1939 to 1945. Thus when FDR made taxpayers out of most Americans, the revenue from the income tax skyrocketed from just over $1 billion in 1939 to more than $19 billion in 1945.

To achieve his ends FDR also promoted "withholding"—forcing employers to collect federal taxes from the pay envelopes of their employees on each payday. With a surge of revenue week by week from American workers all over the nation, FDR could raise much of the money to fight the war first and fund his welfare state next.

Roosevelt had support from many politicians in his quest to increase taxes. In the congressional debate over the withholding tax, many Democrats supported the President's idea that rights came from government. On May 14, 1943, Senator Happy Chandler (D-Ky.) said, "Mr. President, all of us owe the government; we owe it for everything we have—and that is the basis of obligation—and the government can take everything we have if the government needs it." Chandler wanted to be clear on this point. "The government," he added, "can assert its right to have all the taxes it needs for any purpose, either now or at any time in the future."

To help persuade Americans during the war to accept paying taxes at higher rates, Irving Berlin, the great songwriter, produced a propaganda masterpiece entitled, "I Paid My Income Tax Today." Singer Danny Kaye recorded the song, and the Treasury sent it to 872 radio stations with a letter urging that it be played frequently. Berlin's song, which appealed to pride and patriotism, had these lyrics:

> I paid my income tax today.
> I never felt so proud before,
> To be right there with the millions more
> Who paid their income tax today.
> I'm squared up with the U.S.A.
> You see those bombers in the sky;
> Rockefeller helped to build them,
> So did I!
> I paid my income tax today.

American radio stations, which owed their licenses to the federal government, played the tax song and other tax messages from the Treasury.

Roosevelt died in 1945, before the war was won, but the tax system he favored would set the agenda for the political debate for the next two generations. The President used the war emergency to raise taxes, and his successor, Harry Truman, kept them high after the war to support FDR's Economic Bill of Rights. The debate over the federal government's role in job creation, education, housing, and medical care has shaped American politics through the present day. FEE

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The Virtue of Market Inefficiency

SANDY IKEDA

Markets are often rightly characterized as extraordinary problem solvers. Under the right rules of the game (including private property, free exchange, and the rule of law) people following their own self-interests can coordinate their plans with one another more or less successfully, generating an overall order without being aware, or needing to be aware, of how it all gets done. That's why economists sometimes say that markets are a lot "smarter" than any single person.

But I think markets are more important for the problems they "create" than for the problems they solve.

When GOVERNMENT ERODES private property rights, INTERFERES with trade, DISTORTS prices, and MANIPULATES money, it doesn't just make it harder to be efficient; it also PULLS THE RUG out from under anyone trying to spot inefficiencies at all.

In 1920 Ludwig von Mises explained that a given individual in society can only plan rationally—that is, find the most efficient, least-cost means to achieve a given end—if she has money prices to guide her. Would it be better from her point of view to build a bridge out of molybdenum or steel or perhaps some combination of the two? Or should she build a bridge at all rather than invest in a ferry service? These questions are difficult enough in a world with money prices, but they would be impossible to answer absent money prices for steel, molybdenum, and all the other inputs used to build a particular kind of bridge (or a particular kind of ferry service, for that matter).

In this way money prices—prices that emerge from the free exchange of private property in a free market—help her solve the problem of how and whether to build a bridge. With their help she is at least in principle able to estimate what the cost of the various alternatives might be. And the one that generates the most profit, where she estimates the expected benefits to exceed the expected costs the most, will also tend to be the most efficient (that is, she will be getting the highest return on her investment).

About 20 years after Mises's article, Friedrich Hayek explained how these market-created prices enable an imperfectly informed individual to coordinate her plans with a vast number of people scattered across the global economy without needing to know that or how she is doing it. If the price of gasoline goes up, no one has to tell her to use less, even though this is precisely what the increased relative scarcity of gasoline (which is behind the higher price) necessitates.

Taken together, Mises's and Hayek's analyses of the market economy added greatly to our understanding of what Adam Smith in the mid-eighteenth century referred to as the "invisible hand." Considering that the process of coordination, enabled by prices, is repeated again and again for all goods and services produced in an economy, it's easy to see why many economists are impressed by the problem-solving capabilities of the market.

This coordination process also sheds light on how government policies, collectivist or interventionist, that eliminate or distort these prices tend to make the world a whole lot dumber.

As marvelous as the market economy is at problem solving, in a sense the real genius of the market process is in how it brings problems to people's attention in the first place. Before you can solve a problem, you have to be aware that there is a problem. This, I believe, is the great insight that Israel M. Kirzner, beginning in the 1970s, contributed to our understanding of the market—in particular, that it is a process of entrepreneurial discovery of error.

One implication of this insight is that government policies that undermine the (admittedly imperfect)

reliability of money prices also make the discovery of inefficiencies profoundly problematic: Undermining prices casts doubt on the very meaning of inefficiency.

Strictly speaking, an inefficiency exists when, for a given person at a given time and place, the cost of an action outweighs the benefit. We've seen that to rationally calculate costs and benefits you need money prices of inputs and outputs, of steel and bridges. So when government erodes private property rights, interferes with trade, distorts prices, and manipulates money, it doesn't just make it harder to be efficient; it also pulls the rug out from under anyone trying to spot inefficiencies at all.

Using the rules of arithmetic, for example, it's easy to see that the statement 1 + 2 = 4 is wrong, but what about _ + _ = _ ? What's the solution to this "problem"? Is there even a problem here? Money prices fill in the blanks; they "create errors"—i.e., reveal mistakes that no one could see without them—that alert entrepreneurs might then perceive and correct. If mistakes and inefficiencies remain invisible, the search for better ways of doing things could never get off the ground.

An economy without inefficiencies is either one where knowledge is so perfect that no one ever makes a mistake, or it's one in which government policy has effectively foreclosed the very possibility of inefficiency. In a world of surprise and discovery, of experiment and innovation, the former is impossible; the latter sort of economy, as Mises showed almost 100 years ago, is impossible as well as intolerable.

So a living economy needs to "create" inefficiencies, and lots of them, to set the stage for greater efficiency and ongoing innovation. And that's just what the market process does all the time—thank goodness! **FEE**

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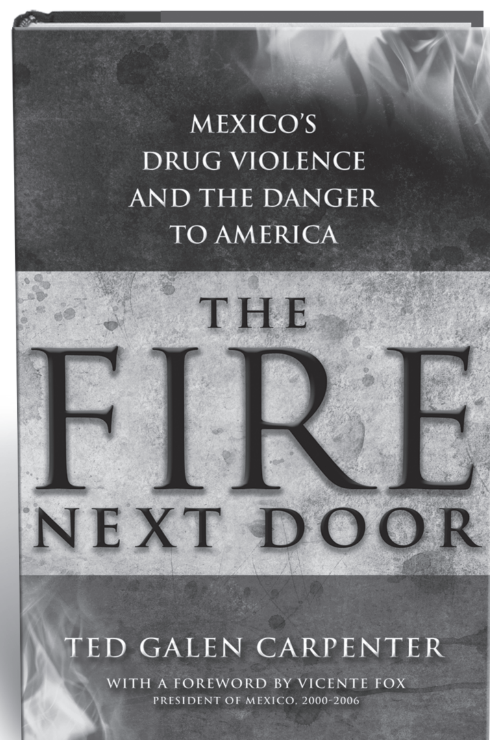

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A Few Observations on the Efficiency of Local Government

D. W. MACKENZIE

Recent discussions of local government and state finances have focused on high-profile employees. Efforts to control costs in Wisconsin resulted in protests and a recall election. Now Scranton, Pennsylvania, has reduced its workers' wages to the legal minimum wage. Local budgetary crises have made it difficult for towns to pay for police, firefighters, and school teachers. Some people claim that government employment must be maintained—maybe even increased—because these workers provide vital services.

As a teacher at a private college, I can't help but notice that the private sector can and does supply education—as well as security. Private provision of education and security are and will always be imperfect, but the track record of government services is hardly enviable. Towns like Sandy Springs, Georgia, and Maywood, California, have saved money by contracting local services, except for the police and fire departments, out to the private sector. (While bidding for a government contract is semi-competitive—there's only one purchaser—the winning firm is a monopolist, so this arrangement is different from a competitive market.)

There is a fundamental problem with government in that the people who are most familiar with THE WORST EXAMPLES OF WASTE are precisely those people who gain from it: public employees.

We should examine the relative merits of private and government education and security, but there are other issues that may deserve more attention. Many town departments get little scrutiny. The operation of our water, road, recreation, and engineering departments often escapes notice.

Twenty-seven years ago I worked as a summer employee of the Livingston, New Jersey, engineering department. At that time I intended to earn a degree in civil engineering, so this job seemed like a good idea. I was told the engineering department hired several local college students every summer so they could learn surveying, build a résumé, and "earn" some money. During this summer I observed a local government from the inside. I had plenty of time to watch what people were doing because as the chief engineer put it on my first day, "There is no work for you to do in this job." I thought he might be exaggerating, but this was not the case.

One could say that my own observations are merely anecdotal, but Livingston's government works like other municipal governments. A town council makes decisions, and residents pay for these decisions, mostly through property taxes and small fees.

The time I spent not working that summer enabled me to observe others not working. The engineering department of Livingston had three full-time civil engineers. There wasn't enough actual work to keep even one busy. We surveyed land that had already been surveyed. We observed a road construction project and some housing construction. Very little of what any of us did had any practical purpose.

The water department was slightly more productive. Every morning the water department van would go out to fix broken water mains. Most of the time there were none to fix, so this crew of about a half dozen men would be "on call." How often did water mains break? Once every month or two. How long did it take them to fix a broken main? Two or three days. Do the math and it is obvious that these men were paid to do nothing most of the time. What did they do? They would hang around the local parks, the Livingston Mall, the Donut Basket or somewhere else.

The road department would clear fallen trees or branches a few times a year. During the summer that I worked in the town hall, some of them were busy replacing street signs they had previously misspelled.

The town recreation department was somewhat busy during the spring and summer. I am not sure how they passed the time the rest of the year.

Perhaps the oddest daily event was the 2 p.m. break in the town hall. Every day town employees would gather in the break room for about an hour for donuts and coffee. This was not a break from work so much as a break from sheer boredom. Soon after the "break" ended, town employees would leave this den of inactivity, fill up their cars at the taxpayer-funded town gas pump, and go home.

MANY COSTS of operating local government go entirely unnoticed, making cost control impossible. What takes the place of decision-making on the basis of cost? Decision-making on the basis of politics.

My overall impression that summer was that if the entire town hall staff had been abducted by aliens, it could have been weeks, perhaps more than a month, before any residents would have noticed.

I doubt much has changed. Several years ago Livingston had a scandal when the town council built a new and lavish town hall. The remodeling was so expensive that it sparked outrage. The point here is not just to note an example of waste, but also the difference between high- and low-profile waste. Livingston wasted $30 million on its municipal building, but paying the salaries and benefits for dozens of nearly useless town employees over decades costs even more.

As a graduate of the Livingston public school system I can say that the teachers do teach. As a former resident of Livingston I can attest that the streets are safe. High-profile government employees do provide some services. But as an economist I can see that town governments are biased toward waste. Local taxes are coercive and go into a general fund to finance all of a town's departments. Local taxes disperse costs over all residents, obscuring the costs of financing specific departments and of hiring individual employees. Many costs of operating local government go entirely unnoticed, making cost control impossible. What takes the place of decision-making on the basis of cost? Decision-making on the basis of politics. There is no market test because the "buyers" of services are not free to say no. Thus politicized management by local governments has a proven track record of waste, to the point where many cities and states are faced with budget crises or have gone bankrupt.

In the past several years many people have realized that the overall costs of government are excessive. Public outrage over waste can have two outcomes. Government officials may occasionally respond to public pressure on high-profile issues, perhaps yielding partial or temporary improvements. Lasting solutions to government waste (local or federal) require extensive privatization. There is a fundamental problem with government in that the people who are most familiar with the worst examples of waste are precisely those people who gain from it: public employees. Taxpayers are at a permanent disadvantage when it comes to learning exactly how their tax dollars are spent or wasted. The smartest move for taxpayers is therefore to press not for more efficient government, but for much less government.

Modern government is a failed social experiment at both the local and national levels. Those who insist on maintaining traditional government services at any cost fail to see that we have options. Recent examples of outsourcing services have been successful, but these moves may not go far enough. Economist Walter Block has written extensively on road privatization. The late Elinor Ostrom, who won the 2009 Nobel Prize in economics, examined common-pool resource management by local nongovernment organizations. Alternative institutions have proven track records. We should have moved away from government economic management before it created severe budgetary crises. Now that these crises are upon us, we should act decisively to end the era of big government. FEE

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Is Being Less Productive Good for Humanity?

STEVEN HORWITZ

It is not often that one comes across an article, especially one in arguably the most important newspaper in the country, that is so misguided across the board that one hardly knows where to begin in pointing out its errors. Unfortunately, such an article appears in the May 27 *New York Times* (tinyurl.com/7qfujg5). Tim Jackson's "Let's Be Less Productive" argues that the quest for more and more productivity and efficiency has led us to make any number of mistakes with respect to priorities and policies. Furthermore, he suggests that whatever good that productivity gains have provided in the past, there may be "natural limits" to those gains that will eventually lead to the end of growth. He concludes that we should ease back on the quest for greater productivity as a way to ensure sustainable growth.

> IN THE VERY first weeks of Economics 101, teachers introduce the concept of efficiency by emphasizing that it cannot be understood outside of the end that is being pursued.

Would being less productive really be good for humanity?

Jackson's problems begin with a profound misunderstanding of what economists mean by productivity and efficiency and the role that "output" plays in a market economy. His opening definition of productivity as "the amount of output delivered per hour of work" is perfectly serviceable. He also notes that it "is often viewed as the engine of progress in modern capitalist economies," which is also accurate, although it is not the only or necessarily the primary engine. The trouble starts in the next sentence: "Output is everything." Output for the sake of output is most certainly not what productivity is about. Producing what consumers want at the lowest cost possible is the goal.

Similar errors plague Jackson's discussion of efficiency. Here too he seems to think the point is to just do things faster, regardless of what the things are. He tries to show how silly that idea is by pointing to examples where doing things faster is strange, such as playing Beethoven's Ninth faster and faster each year, or trying to do detailed craftwork faster and faster. These examples, however, knock over a straw man. In the very first weeks of Economics 101, teachers introduce the concept of efficiency by emphasizing that it cannot be understood outside of the end that is being pursued. It cannot be "more efficient" to play Beethoven faster because that is not what people want. The same is true of craft work: People want the care and detail that go into such work, so it is not more "efficient" to get craft workers to work faster. It is inefficient given that what people want is a carefully produced, detailed piece of work (or to hear Beethoven's Ninth more or less as he wrote it).

Jackson then points out how crafts, music, and other service industries are desirable because they are not about the "outpouring of material stuff" and therefore might promote sustainability. What Jackson fails to recognize here is one of the fundamental truths of economic history: The reason cultural products and services are taking up such a large portion of economic activity is that we have become so very productive and efficient at making physical stuff.

Take agriculture. For most of human history, we have had to devote the overwhelming majority of human labor to just feeding ourselves. The incredible productivity growth of the agricultural sector has meant we can do that by employing, in the United States anyway, only about 2 percent of the population. At first the labor no longer needed there went into manufacturing to produce the physical stuff we wanted. Of course we then got incredibly productive at making physical stuff. People claim that the U.S. manufacturing sector is stagnating because there has been little job growth, but when you look at what it actually produces, you see that it is stronger than ever—precisely

because it is so productive that it doesn't need more labor to make more stuff.

The combination of productivity gains, which produce higher wages, and declining costs of food and manufactured goods means that people have a great deal more disposable income. Some of it goes to buying more food and physical stuff, but much of it goes to buying services and enjoying culture, which people couldn't afford before. The nonmaterial portion of "output" grew as we became increasingly productive. We consume more nonphysical stuff because we have continued to allow enough scope for the market that productivity gains are rewarded.

Unintended Consequences

To commit, as Jackson would, to a low-productivity economy would cut this process short with two consequences he probably would not want. First, it would slow, if not stop, the very process that will enable us to have a smaller environmental footprint: more efficient ways of manufacturing things so we can increase the number of cultural and service jobs. Part of industrial efficiency is that producers learn how to turn what starts as "waste" products into productive inputs. The history of industry is full of such examples where efficiency considerations have reduced waste. (See Pierre Desrochers's *Freeman* article "Saving the Environment for a Profit, Victorian-Style," tinyurl.com/872j4ku.)

Second, restricting productivity growth would perpetuate poverty in the undeveloped world. The combination of markets and productivity growth has been a major engine of economic development across the globe. Jackson's proposal to restrict productivity growth is but another example of Western eco-imperialism: We've got our wealth, but now you'll have to stay poor longer to save the planet. I assume Jackson does not intend to consign billions to their current levels of poverty for longer than necessary, but that would be one major result of lower productivity; it would reduce exports and raise prices elsewhere in the world.

So why, in the end, does Jackson think productivity is a problem? Early in the essay he suggests there might be limits to our ability to grow. He presents no argument other than pointing to the financial crises, rising oil and other resource prices, and increasing ecological damage. He offers no explanation of why these are caused by, or reflections of, limits to growth. Apparently he assumes his readers will simply nod along.

Of course none of these problems results from growth or any supposed limits thereof. The financial crisis was the predictable result of excess money creation and of housing policies that fueled an artificial boom. Looked at over the long run, the real prices of natural resources are falling, not rising, and we have more proven oil reserves than ever before. Environmental damage has been reduced in the developed world through the very forces of productivity-generated wealth increases that Jackson rejects. None of these reflects "limits to growth." In fact there are, as Julian Simon was quick to remind us, no limits to growth as long as we allow the human mind, what he called the "ultimate resource," the necessary freedom to invent and create—and get more productive.

In fact there are, as Julian Simon was quick to remind us, NO LIMITS TO GROWTH as long as we allow the human mind, what he called the "ultimate resource," the necessary freedom to invent and create—and get more productive.

Jackson's article is a sad reminder of how much work there is to do in communicating the larger story of economic history and the way in which market institutions have made possible a wealthier and cleaner world. Productivity gains are not the enemy of human progress but one of its central causes. To limit productivity is to limit our ability to continue the amazing story of better lives for more human beings. **FEE**

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The Law of Demand

ART CARDEN

The law of demand is a simple principle with profound consequences and incredible explanatory power. The law is so simple, it can be expressed as haiku:

All else held constant
quantity demanded falls
when the price rises.

When tomato prices rise, people eat fewer tomatoes. When tomato prices fall, people eat more tomatoes. What is true of the tomato market is true of other markets as well. The law of demand applies to markets for goods like tomatoes and to markets for services like auto repair and landscaping.

The law of demand applies to more than just the goods and services we buy, however. We can think about having a "demand" for all sorts of things, like a demand for speed and comfort while driving. When fast driving becomes riskier, people do less of it. When fast driving becomes safer, people do more of it.

Consider something else that has been controversial recently: the demand for convenient communication. With the diffusion of cell phones (and smart phones especially), communicating via email, text messages, Facebook, Twitter, and other applications has never been easier. The siren song of email, the Internet, and text messages can be strong, even for people who are driving at the time. Let's consider first how the law of demand helps us explain why people text while driving and second the implicit theory underlying laws against texting while driving.

First, consider something called the Peltzman Effect (tinyurl.com/dxeqga), named for the economist Sam Peltzman, who studied driving habits before and after seatbelt laws were passed. Mandatory seatbelt use makes driving safer, which effectively makes risky driving less dangerous, or reduces the "price" of risky driving. Indeed, Peltzman found that people were riskier drivers after seatbelt laws were passed. As Steven Landsburg summarizes Peltzman's findings in *The Armchair Economist*, there were more accidents but fewer fatalities per accident. Those who truly suffered were pedestrians; their fatalities increased.

Not everyone has to respond this way for the law of demand to be applicable or useful. There are probably a lot of people who don't really change their driving behavior just because they have a seatbelt, just as there are some people who aren't going to increase their beer consumption just because the price has fallen. But just because you are a teetotaler who will not drink more beer when the price falls doesn't mean that there isn't someone who will. In the same way, someone is more likely to text or check Facebook while driving because he is behind the wheel of a safer car.

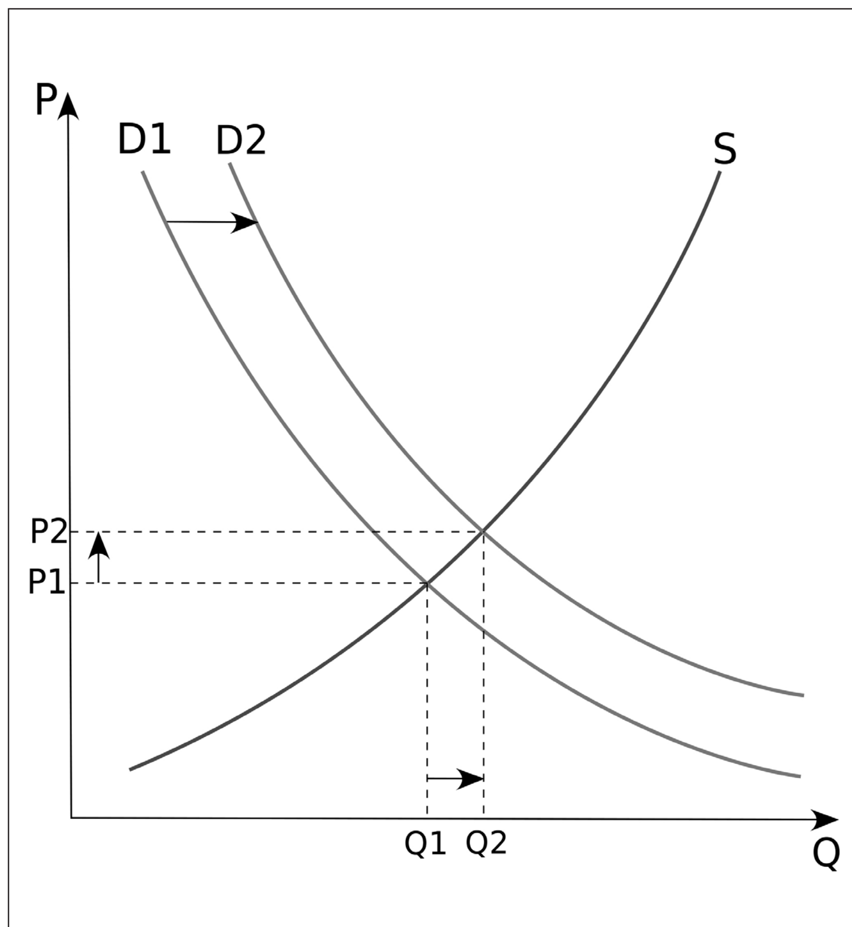
BANS ON TEXTING WHILE DRIVING are attempts to raise the price of reckless behavior and thereby reduce the degree to which people engage in it.

Authorities recognize that people respond to the changing costs and benefits of different courses of action. Bans on texting while driving—like the one that just went into effect in Alabama—are attempts to raise the price of reckless behavior and thereby reduce the degree to which people engage in it. It remains to be seen how these bans will affect overall safety as the resources that have to be dedicated to enforcing them must come from somewhere else. Police officers who are enforcing texting-while-driving bans are, by necessity, not solving crimes.

Ignoring Demand

Government policies sometimes ignore the law of demand outright. Consider minimum wages. When the government mandates a higher price for labor, employers reduce the quantity of labor they demand and search for substitutes. Employers might cut back on hiring. They might cut back on employees' hours (and according to the law of supply, workers will be willing to supply more hours at the higher wage), or they might substitute capital for labor (such as self-checkouts at grocery stores). Other effects might be difficult to see, and the effect of a minimum wage may not show up in a higher unemployment rate. Firms that used to offer paid training may stop doing so. Firms that used to provide uniforms might start making employees pay for them. And so on. In response to a higher price, firms reduce the amount of labor they demand.

Governments also impose price controls on things like rental apartments. After natural disasters, nebulous laws against "price gouging" might go into effect that limit suppliers' ability to raise prices during emergency conditions. In emergencies people want more ice, flashlights, batteries, plywood, bread, milk, and gasoline at any given price. If the price is allowed to increase, people will get the signal that they need to think twice about some of their purchases. In response to price controls, firms are not as willing to bring more ice, flashlights, batteries, and the rest to the market. People still pay higher prices for goods that are in short supply. They may not hand over much cash, but they will find themselves "paying" by standing in longer lines.



The law of demand is one of the most important ideas in the social sciences. It is a deceptively simple principle with a wide range of applications. It helps us understand markets for goods like tomatoes, services like plumbing and landscaping, and even things that aren't straightforwardly "economic" like law enforcement and risk-taking. It is also a law that we ignore at our peril: By making policies that do not acknowledge the law of demand, politicians often enact political "cures," like minimum-wage laws and price controls, that are worse than the problems they are intended to address. **FEE**

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Economics and the Calculation Problem

ALEX SALTER

Can a rationally planned economic order outperform the market process as a means of using resources efficiently? This is the central question behind one of the most important debates in the history of economic thought. Its answer has profound implications for the material well-being of societies.

By the early 1900s economists were in broad agreement on the free-exchange system's effectiveness in bringing about an efficient use of resources. Despite this, the system did not want for enemies. Marx and his disciples disparagingly called it "the capitalist mode of production," though the word "capitalist" actually derived from free-market critics of mercantilism. Dissidents accused the system of leading to socially detrimental outcomes in the form of market power wielded by large businesses and recurring cycles of boom and bust. Critics maintained that these shortcomings were the inevitable result of an "anarchic" system of production. However, if the means of production were brought under rational control, these deficiencies could be avoided. Combined with expert management, state socialism—the system characterized in theory by collective ownership of the means of production—would result in increased material abundance and a more socially just distribution of wealth.

With no prices, NOBODY COULD DETERMINE what to produce or how to produce it.

Enter Mises

In 1920 the Austrian economist Ludwig von Mises took on the critics in his essay "Economic Calculation in the Socialist Commonwealth." Mises explained that the largest challenge facing any economic order was the employment of capital goods—things like machines and factories, whose purpose was to make other goods for final consumption. This insight has important implications for deciding not only what goods to produce, but also how these goods should be produced. For example, if a railroad company wants to build a new branch line, should it use steel or titanium rails? Both projects are technologically feasible, but only a working price mechanism conveys that, at the margin, titanium is much more expensive than steel, meaning titanium should be saved for more urgently desired (and thus higher-yield) investment projects. Socialism, by collectivizing the ownership of capital goods, necessarily destroys the markets in which these goods are traded, thus making rational economic calculation impossible. With no markets for the factors of production, there can be no prices for the factors of production. With no prices for the factors of production, it is impossible to discern which lines of production are profitable. With no information regarding profitability, nobody could properly determine what goods to produce nor how to produce them. Given these informational difficulties, Mises explained, it would be impossible for socialism to produce material abundance to the same degree as the free-exchange system.

Mises's claim was fiercely debated in academic circles in the 1920s and 1930s. Socialist intellectuals came to accept that some sort of price system is necessary for the rational use of resources. However, these intellectuals did not endorse the free-exchange system. Instead, economists such as Oskar Lange and Abba Lerner maintained that as long as there is a market in final consumers' goods, a socialist planning board could use the prices that emerged on that market to discern the correct use of capital goods. For example, by allowing the price mechanism to function in the market for chocolate, socialist planners could use the resulting price of chocolate to impute the appropriate prices for goods used to produce chocolate, such as cocoa and mixers. Using the consumer goods prices as data, socialist planners could construct a system of equations of costs and revenues. Next they could solve that system

for the efficient quantity of a given good, which could be produced in a way that minimized costs. In this way, the socialists could have their cake and eat it too. They could keep a functioning price mechanism, which would ensure the generation of data needed to allocate resources efficiently, and also organize production in a way that would avoid the inefficiencies and inequities of the capitalist system.

Leading the charge against this particular brand of socialism was F. A. Hayek, who was Mises's greatest student and a towering figure in theoretical economics in his own right. Hayek pointed out a grave flaw in the socialists' models: They assumed they had all the relevant information to solve the equations. In fact this information is dispersed throughout the economy and does not exist in any single mind or group of minds. Often this information takes the form of specialized knowledge (such as local business conditions or subjective value rankings) which by its very nature could not be quantified in the socialists' equations but was still indispensable for resource allocation.

HAYEK pointed out a grave flaw in the socialists' models: They assumed they had all the relevant information to solve the equations. In fact this information is dispersed throughout the economy and does not exist in any single mind or group of minds.

Furthermore, market transactions are not a one-way information system, as the socialists presumed. Individuals use prices as knowledge surrogates when they make their decisions, and when they trade in the market, they feed their own knowledge back into the price system for others to utilize. Hayek famously used the example of tin: If the price of tin rises, a consumer does not need to know why, out of the infinite number of possibilities, this occurred. All he needs to know is that tin is more expensive, which means he must give up more resources to acquire the same quantity as before. He is led to economize on tin, saving what amount remains for uses that bring a greater return. By divorcing market prices from the process by which they are generated, Hayek argued, the market socialists robbed prices of any meaningful epistemological content, so their solution failed on its own terms.

Unfortunately Hayek's arguments were either ignored or misinterpreted. By the 1940s it was widely agreed that the defenders of free exchange had been soundly defeated. Central planning could allocate resources efficiently as long as a few key aspects of a market system were retained. As a consequence, the various experiments with central planning in the communist nations of the mid-twentieth century were given intellectual legitimacy. Statistics detailing massive production of capital goods, such as steel and concrete, poured out of those countries' economic bureaus, which seemed to give empirical confirmation to the supremacy of socialist production under central planning. All the while, many of the world's leading economists, including Nobel laureate Paul Samuelson, pointed to cases such as these when instructing new economics students.

In the end Mises and Hayek were vindicated in no less grand a forum than the world political stage. By the 1980s it was obvious that living standards of citizens in communist countries were far below those of citizens of countries which had retained (more or less) the free-exchange system. The increased internal unrest in the Soviet Union and its suzerainties became increasingly hard to ignore. The collapse and formal dissolution of the Soviet Union in December 1991 demonstrated once and for all the contradictions inherent in nonmarket allocation schemes. Only market-guided resource use—the system of free exchange—could lead to widespread material abundance. Any attempt to suppress this system, however well-intentioned, was doomed to bring about nothing but lower standards of living.

Ultimately the socialist calculation debate demonstrates the incredible importance of ideas in shaping the course of societies. Only if the crucial insights discovered by luminaries such as Mises and Hayek are accepted and put into practice can societies continue to prosper. FEE

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Subjective Value

MAX BORDERS

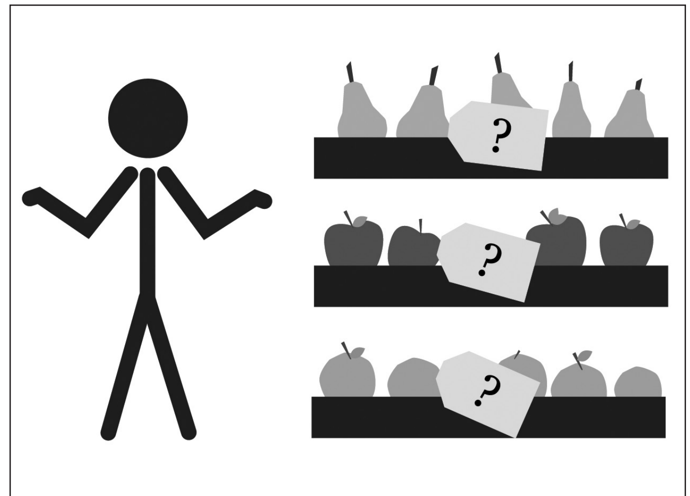
For an undetermined period of time I felt myself cut off from the world, an abstract spectator. . . .
The road kept descending and branching off, through meadows misty in the twilight.
–Jorge Luis Borges, "Garden of the Forking Paths"

The eye of the beholder—that's where beauty lies. I look at all those paint spatters, and I see, well, paint spatters. You see an interesting, colorful feast for the eyes. Sure, we're looking at the same object. But we appreciate the painting in different ways. And our differences don't just lie in the aesthetic domain. All value is subjective.

I may want to take that bottle of water and put it to my parched lips in order to survive. You may want to load your squirt gun. I'd pay a thousand dollars for that water in the right circumstances. You might only be willing to give a buck. So perhaps we can at least agree that the circumstances of time and place can cause us to value things differently. But matters run even deeper. We are different, you and I—on the inside. We are likely to value things differently even in identical circumstances.

Allow me to share an experience I wrote about a few years ago (tinyurl.com/9a3zzbk):

> I was living in an apartment complex with a coin laundry. One day, when I put the quarters in to dry the laundry, I found myself $.25 short. I was in a hurry. I couldn't wear my sweats to dinner. I needed clean, dry slacks. Fortunately, a man with a basketful of whites and a Ziploc bag, quarters jingling, wandered into the laundry room. I fished a dollar bill from my pocket.
>
> "Excuse me, sir," I said. "Would you take a dollar for one of those quarters?" He smiled. "Sure, no problem." At that time, in that context, from my perspective, his quarter was worth at least a dollar to me. That afternoon I wore clean, dry pants. Could I have made a better choice? And, if so, by whose lights? Certainly not mine.



A key element in that story is perspective. Even if the circumstances had been identical in every respect from one person to the next, we can imagine someone who likes wearing wet clothes. Or perhaps there are some who would only be willing to beg the guy for a quarter, or pay as much as 75 cents but not a dollar. These are people who simply don't share my subjective valuations—my inner states, which motivate me to act or not.

Subjective value can be a tough idea for some people to grasp. It can be even harder for people to accept. But here's the hard truth: Value does not inhere in things. Sunsets are not inherently beautiful. Vanilla ice cream is not inherently tasty. Jazz is not universally loved. Prices are objective—that is, publicly observable. We can each walk into a store and see that the avocado is $1.50. But our inner states will determine whether the fatty fruit winds up in any of our baskets.

The implications of this idea are profound. All economics begins and ends with something rather illusive: the private states of people's minds. And it's a good thing,

too. In many respects we should celebrate that we value things differently. I've always liked this rhetorical question from Murray Rothbard: "How can both parties benefit from an exchange?" He answers:

> Each one values the two goods or services differently, and these differences set the scene for an exchange. I, for example, am walking along with money in my pocket but no newspaper; the newsdealer, on the other hand, has plenty of newspapers but is anxious to acquire money. And so, finding each other, we strike a deal.

That countless exchanges happen all over the world at every second is due to interconnected systems that start with subjective valuation and are facilitated by the price system.

Unfortunately much of modern economics overlooks this key insight. Either economists take subjective valuation for granted in order to dabble in the arcana of mathematical macro, or they make a fateful two-step into the false objective theories of value—like the one Karl Marx embraced (tinyurl.com/4sr6ms9). Failure to appreciate subjective value can cause people at best to err in their understanding of prices. At worst, it can lead people to embrace illiberal policies such as those designed to force us to do what others consider to be for our own good.

Policymakers almost never do a good job of making choices for us, because they cannot appreciate our particular circumstances. "Nudgers" and other paternalists are rarely any better informed than the rest of us. Sometimes they are. But more often than not, even old-fashioned good advice requires local knowledge and a perspective no bureaucrat has. Most of the time, the "choice architectures" that policymakers dream up for us create perverse effects the policymakers weren't smart enough to anticipate. Will Michael Bloomberg really be able to nudge Americans

VALUE DOES NOT INHERE IN THINGS. Sunsets are not inherently beautiful. Vanilla ice cream is not inherently tasty. Jazz is not universally loved.

to slim down by banning Big Gulps in New York? Weren't a lot of Americans "nudged" into mortgages they couldn't afford?

George Mason University economist Peter Boettke reminds us how subjective valuation underlies so much of economics: "In deciding courses of action, one must choose; that is, one must pursue one path and not others. The focus on alternatives in choices leads to one of the defining concepts of the economic way of thinking: opportunity costs"—the highest value forgone as the result of any choice.

The process of weighing benefits to make choices is fundamental to human action. As a precondition of human action, subjective valuation is the prime mover. Yet it cannot be measured. There are no units like "hedons" or "utils." All that is observable is the action. And that means much of economics—especially welfare economics—is predicated on a false concept of value. That inner fire, unique to each of us, is the prime mover of that economic unit known as the individual. We forget this fact at our peril. **FEE**

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The Magic of Free Trade

ARTHUR E. FOULKES

The fifth graders looked up as I placed a gift on each of their desks. Each student randomly received a small item, such as candy, a box of crayons, a magic trick, or a comic book.

After giving each child a gift, I told the students they could each trade—if they chose—with the person seated to their left or right. Several made trades; some didn't. Next I told them they were free to walk around the room and exchange their gifts. In a moment the room was filled with excited kids making trades.

When they had sat down, I asked them how many traded. Nearly all had. How many felt they were better off after their trade? I asked. They all did.

I was trying to teach these fifth graders a little bit of the magic of trade—how it allows us to improve our lives while improving the lives of others. As long as the people trading do so voluntarily, trade is always a win-win proposition.

But trade is far more magical than this. In the fifth-grade class, all the things being traded were simply handed out, free. Nothing had to be produced. In the real world things must be produced, meaning people must spend time, effort, and other resources producing them.

This is where we find trade's real magic: It directs people into areas of work and production where they can make the most at the lowest cost. That increases the total amount of wealth for everyone.

This is David Ricardo's law of comparative advantage. It indicates that trade opportunities will exist between people and groups even when one side is absolutely more efficient at everything than the other side. (A $500-an-hour lawyer who is also an excellent typist will nevertheless hire a $10-an-hour typist because every hour the lawyer spends typing is an hour in which he could have made far more money lawyering.)

In short, generating wealth requires productive resources, such as labor, capital, and land. Free trade promotes the discovery of the best uses of scarce productive resources to make the most goods and services.

Free trade truly is needed for an economy to grow and prosper. According to the 2012 Index of Economic Freedom published by the Heritage Foundation and *The Wall Street Journal*, countries with the most trade freedom (such as Hong Kong, Switzerland, and Canada) have higher per capita GDPs, lower incidences of hunger, lower rates of unemployment, and cleaner environments than countries at the bottom of the trade freedom scale, such as North Korea, Bangladesh, and Zimbabwe. And countries that tried for decades to be self-sufficient, such as India, paid a heavy price in stagnant growth and poverty.

What's more, free trade among nations is a way to promote peaceful international relations. When individuals are free to trade across political boundaries, they are more likely to view "foreigners" positively. The mutual benefits of trade, in other words, can promote peace.

Ricardo, one of the most influential economists of all time, was among the first to understand the great value of free trade. In his *Principles of Political Economy and Taxation* (1817) he summed up the benefits of free international trade nicely:

> Under a system of perfectly free commerce, each country naturally devotes its capital and labor to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. . . . [It] distributes labor most effectively and most economically; while, by increasing the general mass of productions, it diffuses general benefit, and binds together, by one common tie of interest and intercourse, the universal society of nations throughout the civilized world.

Free trade gets a bad rap from domestic producers and protectionists of all sorts. But nothing is more important to a growing, dynamic economy than allowing the basic human right to freely and peacefully exchange with others. FEE

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What Is Profit?

FRED FOLDVARY

Basically, profit is revenue minus costs. It sounds simple, but the concepts of "revenue" and "cost" are complex when we examine them closely.

In economics "cost" is not the money one pays for a purchase. If you buy a lunch for $10, the money is not an economic cost, because the exchange of money for food is a gain. You would rather have the food than the money, so the payment generates a benefit not a cost. But the purchase does have a cost—namely, the next best thing you could have bought for the $10.

In economics the forgone item—what you could have done or gotten instead—is called the "opportunity cost." All costs are opportunity costs: what you give up when you do or get something.

Costs come in two categories: explicit and implicit. What accountants and bookkeepers record are explicit costs—that is, payments to others, such as payments for labor, real estate, or supplies. Subtracting those from revenues produces what, in economics, is called an "accounting profit."

But the implicit costs are also real costs, so for economics the accounting profit does not provide the real profit.

Suppose you are self-employed and want to calculate the real gain from your business. Your annual revenue is $500,000, and your explicit costs are $400,000, so you have an accounting profit of $100,000. But your real gain is the economic profit, which is revenue minus all costs, both explicit and implicit.

One implicit cost is the wage you could have earned if you worked for another firm instead of being self-employed. Suppose the highest wage you could earn as an employee is $80,000. That amount is the opportunity cost of self-employment. You give up the $80,000 you could have earned, so it is a cost of business. In effect, you as owner are paying yourself as a worker the $80,000.

Suppose also that you own assets such as machines worth $400,000 in your business. If you sold the business, you could buy bonds that safely pay 5 percent. The $20,000 interest income you could earn is another opportunity cost of your business. The implicit costs are therefore $80,000 plus $20,000, or $100,000. To get the economic profit, subtract the $100,000 implicit cost from the $100,000 accounting profit, leaving an economic profit of zero.

You don't have any real gain from your business that year, because costs equal revenue. That does not imply you should sell the business, because the accounting profit provides you with an implicit wage of $80,000 and an implicit return on assets of $20,000, the same you would get if you sold the business.

We also need to distinguish economic revenue from accounting revenue. Suppose a thief enters a house and steals $1,000 of loot. To break into that house he bought a tool for $100. Ignoring the opportunity cost of his time, the thief's accounting revenue is $1,000, and his cost is $100. Is the $900 net gain a profit in the economic sense?

Stolen loot is not real profit because it is a forced transfer of goods or money from the victim to the thief. True profit is a net gain from production and exchange. If someone gives you a gift of $100, it too is just a transfer.

If instead of directly stealing wealth someone uses the government to forcibly take money from some and give it to others, the gain is also not true profit. Corporate welfare—subsidies, protection from competition, and other forms of transfer seeking—is not an economic gain and should not be included in economic profit.

The existence of real profit implies there has been a productive benefit to society. The entrepreneur has put resources to better use than in his other opportunities. But when gains are due to subsidies and government-protected monopolies, the social opportunity costs are the gains that would have gone to more productive labor and enterprise. These costs need to be subtracted from revenue.

One reason some people have a dim view of profit is that they include gains from looting. After removing forced transfers from profit, what is left are gains that benefit society, not just the entrepreneur. We should celebrate true profit and deplore gains from forced transfers that masquerade as profit. **FEE**

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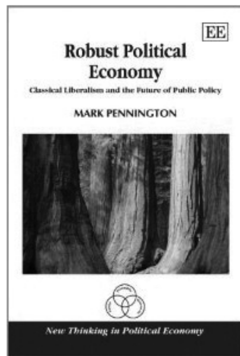
Robust Political Economy: Classical Liberalism and the Future of Public Policy
by Mark Pennington
Edward Elgar • 2011 • 320 pages • $125.00 hardcover; $40.00 paperback



Reviewed by Donald Boudreaux

In *Robust Political Economy*, Mark Pennington offers one of the best cases for classical liberalism ever presented in a single volume. I do not exaggerate. Pennington—professor of political economy at King's College, University of London—here surveys fully and summarizes fairly the major objections to classical liberalism (or, if you prefer, libertarianism). He systematically demonstrates that each of those objections fails. The alternative social arrangements, plans, and schemes offered by opponents of classical liberalism all fall well short of dealing adequately with two eternal problems that must be dealt with if people are to enjoy peace and prosperity: the knowledge problem and the incentive problem.

Because people operating within social institutions that conform to classical-liberal tenets deal best with these two enduring problems, such institutions are more robust than their alternatives. Pennington painstakingly shows that the further institutions are from those recommended by classical liberalism, the more their success requires that individuals perform superhuman feats of accumulating and processing information while exhibiting implausible readiness to sacrifice their personal self-interests for (what they imagine to be) the greater good.

Pennington is hardly the first scholar to identify these two problems and to explain their relevance. The knowledge problem is most famously associated with the work of F. A. Hayek (or, more generally, Austrian economists) and the incentive problem with the work of James Buchanan and Gordon Tullock (or, more generally, Public Choice economists). But in applying so comprehensively and powerfully the lessons drawn from a recognition of these two problems, Pennington gives us a volume that might justly be described as *The Constitution of Liberty* for our day.

I am aware that this praise is unusually high. And while significant differences in both style and substance do indeed separate Pennington's 2011 book from Hayek's 1960 classic, the similarities are enough to justify the comparison and the praise.

As with Hayek's work, central to Pennington's book is a deep understanding of the knowledge problem. This of course involves understanding that the relative values of alternative outputs that can be produced with the same set of inputs can be determined only in competitive, private-property-based markets. But this understanding involves more; it also involves the realization that such knowledge is never and can never be "given" (as is assumed in economics textbooks). That is, this knowledge is not simply revealed by decentralized, competitive decision-making; it is also produced by that process.

No consumer comes to market with a detailed, full, and fixed scale of values that he seeks to satisfy. That scale takes shape only as consumers confront actual alternative opportunities in the market. Likewise, no producer comes to market with detailed, full, and fixed plans on exactly what to produce, how to produce it, and how much of it to produce. Those plans take operational shape, and are modified, in light of actual experience in the market—a market whose details are always changing in unanticipated ways for both consumers and producers.

The knowledge problem, though, has yet another dimension beyond the economic. It springs from the fact that different people have different scales of ethical and political values. Pennington shines especially brightly in showing how various proposed alternatives to a classical-liberal society are bound to fail—or at least to encounter unexpectedly rough seas—because the success of those alternative social arrangements requires far more agreement than is likely to be found on the relative weights of different ethical and political values. Egalitarians of various stripes, "market-failure" theorists of various pedigrees, and environmentalists of various shades of green all typically base their social-engineering schemes not only

on a presumed agreement on ends that is unlikely to exist, but also on the simplistic assumption that knowledge of the rankings of various ends is easily gathered and made known to government officials.

Speaking of government officials, Pennington goes well beyond repeating the fact that the incentives facing political decision-makers frequently prompt them to act in ways contrary to the best interest of society at large. He carefully details how the many egalitarian, market-failure, and green challenges to classical liberalism overlook—each in its own uniquely careless way—the perverse incentives that their implementation would create for officials charged with intervening in market arrangements.

Pennington's survey of the most notable challenges to classical liberalism is a tour de force of scholarship. And his crystal-clear, fair, yet firm demonstration of the serious flaws that infect each of these challenges is not to be missed. FEE

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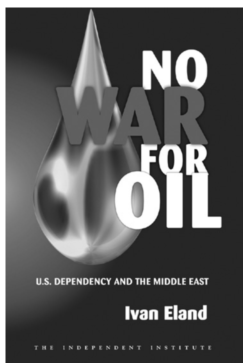
No War for Oil: U.S. Dependency and the Middle East
by Ivan Eland
Independent Institute • 2011 • 224 pages • $21.95 hardcover; $15.95 paperback



Reviewed by George Leef

Ever since the Royal Navy converted its ships from coal to oil in 1911, oil has been a "strategic" resource. Powerful nations whose fleets and economies depend on abundant, readily available oil have schemed and when necessary fought to make certain they would be able to get all the oil they wanted. Much blood has been shed in conflicts over oil, but Independent Institute scholar Ivan Eland shows in *No War for Oil* that we would have saved many lost lives and squandered resources if we had simply allowed the market to work. There is no more need to fight over oil than over iron ore or coffee plantations.

This is a myth-busting book that directly challenges many mistaken ideas that keep leading America into terrible policy blunders. Combining historical analysis with a sound grasp of economics, Eland presents an overwhelming case in favor of a noninterventionist energy policy.

The first part of the book gives the reader the historical background to understand our present oil problems. Just as America's medical care "crisis" has its origins in government intervention long ago, so too with oil. Early in the twentieth century, the Texas Railroad Commission sought to keep oil prices artificially high by dictating how much each producer would be allowed to market. Despite the image of rugged individualism, oil producers have often looked to government for favors.

The British and French also played oil politics. After World War I they carved up the old Ottoman Empire with oil domination in mind. The artificial nation of Iraq was stitched together so the British could control oil production in the region. That political connivance, Eland writes, "has haunted the world up until the present."

American involvement in World War II also had much to do with oil, specifically the Roosevelt administration's decision to embargo oil shipments to Japan. Eland observes that Roosevelt had wanted to goad Japan into military aggression with the embargo, calculating that the militaristic Japanese would try to seize the energy (and other resources) they needed. That strategy of course "worked." FDR got the war he wanted. Ironically, American policy over the last two decades has been very similar to imperial Japan's, Eland argues.

During the Cold War American oil interventionism was almost incessant. Eland takes readers through one blunder after another. One that had especially severe repercussions was the meddling in Iran. In collaboration with the British, the CIA engineered the overthrow of the elected government of Mohammed Mossadegh in 1953 because he had nationalized the western-controlled oil fields in his country. To be sure, nationalization was bad for the oil companies, but it would have had no impact on the international oil market and American

consumers. Nevertheless, the Eisenhower administration, to protect "our" interests, got rid of Mossadegh and restored to power the autocratic Shah, who was happy to let the oil companies stay in return for aid from the U.S. government. In 1979 the United States would feel the wrath of Iranians who had suffered under the Shah's regime, as an Islamic revolution overthrew him and stormed the American embassy. All the hostilities and enmity ever since would have been avoided if we hadn't played the oil politics game.

The first (1991) and second (2003–11) wars with Iraq were entirely unjustified, Eland argues. Many Americans fell for the argument that if Iraqi dictator Saddam Hussein had control of Kuwaiti and Saudi oil fields, he would be in a position to inflict terrible damage on our economy through an oil embargo—and therefore had to be first stopped and then removed. In the book's most important economic insight, Eland shows what an utterly mistaken concern that was. He refutes the notion that American policy must intervene (militarily or otherwise) whenever some foreign government hints that it might use oil as an economic weapon. That idea overlooks the crucial fact that producing countries are desperate for revenues. They will sell their oil into the world market, and even if they say they want none to go to Americans, that won't make the least bit of difference. We will still be able to buy as much as we want from other producers.

In short, Eland shows, it is much cheaper to buy oil on the market than to fight for it.

Just as it's foolish to fight for oil, it is similarly foolish to strive for "energy independence." Eland attacks the idea that foreign oil is something we must avoid buying and that therefore we need to subsidize all sorts of inefficient alternatives like biofuels, solar power, and wind power.

The big message of *No War for Oil* is impossible to miss. The ideal energy policy is to leave things alone—no intervention internationally, no subsidies domestically. **FEE**

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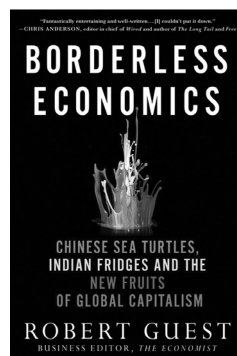
Borderless Economics: Chinese Sea Turtles, Indian Fridges and the New Fruits of Global Capitalism
by Robert Guest
Palgrave Macmillan • 2011 • 256 pages • $27.00 hardcover; $12.99 e-book



Reviewed by Warren Gibson

Robert Guest, the business editor for *The Economist*, has organized insights gleaned from 20 years of reporting on and analyzing events around the world into a breezy yet profound account of the flow of people and ideas across borders.

Raw immigration statistics miss the "networks of innovation," as Guest calls them. Immigrants may find it difficult to adapt to a new land with strange customs and a new language. But in just about any American city they find a community of people like themselves who can ease the transition and help them get established. This process is good for everyone involved.

For example, Indian immigrants to America—most notably Silicon Valley engineers—are tightly networked among themselves and have contacts in India and around the world. Having made their fortunes, some then return to India to pursue business or philanthropic activities. To illustrate, Guest describes the Universal Identity program. Hundreds of millions in India have no public identity beyond their immediate communities. A team of Indian expatriates returned to India and launched a program to create a computer-based system that would allow Indians to submit to fingerprinting and retina scans and to receive a national ID number that would serve as their entrée into the modern Indian economy. Libertarians look askance at government identification numbers, but in rich countries we take for granted our ability to prove our identities.

Some of the book's best economic analysis explodes popular fallacies, such as the concept of "brain drain." British hospitals have come to rely on Nigerian nurses; the hospitals would collapse without them. Is it a tragedy for Nigeria that these nurses didn't stay home instead?

Guest argues that the prospect of emigration to Britain encourages young Nigerians to train for nursing, and some of those nursing graduates decide to stay home. Those who do migrate often send remittances home, and they also transmit firsthand knowledge of how rich countries work. So immigration is good for the migrants but also for the workers left behind.

Guest compares foreign aid with remittances from expatriate workers. Aid is often stolen and thus amounts to a forcible transfer from poor people in rich countries to rich people in poor countries, as the late international economist Peter Bauer put it. When not stolen, it is filtered through layers of bureaucracy in both the donor and recipient countries. In contrast, remittances are transferred at low cost through firms like Western Union. If an immigrant from Ethiopia misses a payment, his mother back home will let him know right away. If the Ethiopian government loses favor with U.S. politicians, aid may cease suddenly, but Ethiopians abroad will likely disregard politics and continue sending payments. Guest calls networks of business and financial relations among connected individuals "networks of trust."

Just when he has us smiling with enthusiasm for the new networks of innovation and trust, Guest turns the coin over to examine how "networks of trust can be infected with hatred or twisted for criminal ends." We have all heard of the genocidal conflict between Hutus and Tutsis in Central Africa, but the two groups are almost indistinguishable ethnically. Nonetheless, German and Belgian colonial masters assigned natives to one or the other group and made them carry identity cards (leading one to wonder whether the new Indian identity database will include ethnic or caste membership). Although the two groups have skirmished for centuries, Guest shows the part played by networks in igniting mass slaughter.

Guest is not an academic economist, fortunately. Most academic economists avoid moral questions. We hear lots of statistics about China's economy—"hard data"— but few academics would risk their reputations with a refreshing statement like this: "[China's] leaders understand that the rest of the world considers them morally inferior—and they must know in their hearts that the rest of the world is right." Or consider this gem: "People matter more than patches of earth. We are so used to looking at the world through the prism of nation-states that we often forget this."

America has serious problems, but Guest, with his long overseas service, puts them in perspective. The standard of living of ordinary people here is still the envy of the world. Our freedoms have been eroded lately but remain stronger than those almost anywhere else. People still want to come here. Guest concludes that if we can avoid hysteria about immigration, we can look forward to a steady influx of that most precious resource: motivated human beings.

The title of his chapter on the United States, "A Ponzi Scheme That Works," is unfortunate because the metaphor is weak and misleading. This and a few other minor excesses, likely the work of his editor, are tiny blemishes on a most enjoyable, informative, and thought-provoking book. FEE

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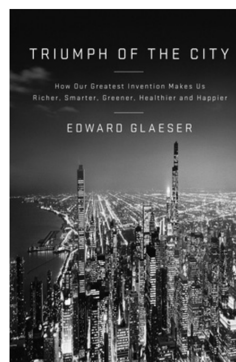
The Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier

by Edward L. Glaeser

Penguin • 2011/2012 • 352 pages • $29.95 hardcover; $16.00 paperback; $9.99 e-book



Reviewed by Ángel Martín Oro

In 2007, for the first time in history, the share of urban world population surpassed its rural counterpart. According to estimations by the United Nations Population Fund, in 2030 the urban population will represent about 60 percent of the total world population. This process is being driven largely by the remarkable economic performance of the developing world.

Many argue that this trend is not only environmentally unsustainable but also socially harmful. Cities are viewed as places of huge social inequalities, unhealthy modes of living,

and unfriendly environmental practices. Although this view is mainly present among the critics of capitalism, it is widely entrenched in public opinion. Thus it strongly influences the regulations and policies regarding urban spaces.

One of the strongest opponents of this view is Harvard economist Edward L. Glaeser, whose *The Triumph of the City* makes a persuasive defense of cities. As its subtitle suggests, he claims that cities are "our greatest invention" and presents the case that they make us not only richer, but also greener and healthier.

The book combines economic logic with sound research through the study of history, data, quantitative relationships (using econometrics), and direct observation from several case studies of cities. Glaeser provides a comprehensive and generally convincing treatment of his subject.

Cities thrive, Glaeser argues, because human beings are essentially social agents who need to be close to each other. This important and subtle idea is vividly present throughout the book. Unfortunately it is largely neglected, especially among policymakers devoted to the belief that they can centrally plan complex and emergent orders like cities.

Glaeser critically analyzes the most pressing urban problems and the government responses to them. The common denominator of bad and pernicious public policies is the lack of understanding of what cities really are: "cities aren't structures; cities are people," he writes. He proceeds to illustrate the law of unintended consequences of government interventions with many different examples involving welfare policy, environmental issues, and land-use planning.

The conventional view is that cities create pockets of extreme poverty. Glaeser suggests that cities, instead of making people poor, attract very poor people from the rural world with the prospect of improving their material conditions by giving them superior opportunities. Thus urban growth is how rural, and also total, poverty is reduced—and that is how it has been actually reduced historically. In this respect Glaeser states what he calls the great urban poverty paradox: "if a city improves life for poor people currently living there by improving public schools or mass transit, that city will attract more poor people."

Thus policymakers face a dilemma. On the one hand they would like to improve the conditions of their poor citizens, but on the other they would not like to attract more poor people, thereby raising alarms due to increases in the standard poverty and inequality figures. Given how the political process works and the inherent difficulties of government intervention to do good, it is no wonder why these public policies end up hurting the poor more often than not.

Moreover, Glaeser claims, the solution to urban problems, whether they are due to pockets of poverty, traffic jams, or other causes, "is more likely to come from local initiative [such as from social entrepreneurs] than from federal policy."

The book also directs the reader's attention to urban environmental policies, where Glaeser again has a contrarian view, writing, "Manhattan and downtown London and Shanghai are the real friends of the environment. Nature lovers who live surrounded by trees and grass consume much more energy than their urban counterparts." Glaeser calls for a smarter environmentalism that combines both good economic logic and evidence to avoid counterproductive policies based solely on wishful thinking.

However harmful the effects of urban planning in developed countries, they can be a matter of life and death in countries like India. For instance, Mumbai's restrictions on building heights hurt the poorest people the most by preventing the expansion of the supply of affordable housing.

I wish the book had addressed the recent Free Cities movement, but still Glaeser's book is highly recommended reading for anyone who wishes to understand better the city where he lives and the disastrous public policies that hurt him and his neighbors. In the end, readers will see cities very differently. And perhaps they will agree with Glaeser that "our culture, our prosperity, and our freedom are all ultimately gifts of people living, working, and thinking together." **FEE**

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Diversity, Ignorance, and Stupidity

WALTER E. WILLIAMS

George Orwell admonished, "Sometimes the first duty of intelligent men is the restatement of the obvious." That's what I want to do—talk about the obvious.

Law professors, courts, and social scientists have long held that gross statistical disparities between races are evidence of a pattern and practice of discrimination. Behind this vision is the notion that but for discrimination, we'd be distributed proportionately by race across socioeconomic characteristics such as income, education, occupations, and other outcomes.

There is no evidence from anywhere on earth or any time in human history which demonstrates that but for discrimination there would be proportional representation and absence of gross statistical disparities by race, sex, nationality, or any other human characteristic. Nonetheless, much of our thinking, laws, litigation, and public policy is based on proportionality being the norm. Let us acknowledge a few gross disparities and decide whether they represent what lawyers and judges call a "pattern and practice of discrimination," while at the same time thinking about what corrective action might be taken.

> There is no evidence from anywhere on earth or any time in human history which demonstrates that but for discrimination there would be an absence of gross statistical disparities by race, sex, nationality, or any other human characteristic.

Jews are not even 1 percent of the world's population and only 3 percent of the U.S. population, but they are 20 percent of the world's Nobel Prize winners and 39 percent of American Nobel winners. That's a gross statistical disparity. Is the Nobel committee discriminating in favor of Jews, or are Jews engaging in an educational conspiracy against the rest of us? By the way, during Germany's Weimar Republic, Jews were only 1 percent of the German population, but they were 10 percent of the country's doctors and dentists, 17 percent of its lawyers, and a large percentage of its scientific community. Jews won 27 percent of Nobel Prizes won by Germans.

The National Basketball Association in 2011 had nearly 80 percent black and 17 percent white players. But if that disparity is disconcerting, Asians are only 1 percent. Compounding this racial disparity, the highest-paid NBA players are black, and blacks have won Most Valuable Player 45 of the 57 times it has been awarded. Such a gross disparity works in reverse in the National Hockey League, where less than 3 percent of the players are black. Blacks are 66 percent of NFL and AFL professional football players. Among the 34 percent of other players, there's not a single Japanese player. But not to worry, according to the *Japan Times Online* (Jan. 17, 2012), "Dallas Cowboys scout Larry Dixon believes that as the world is getting smaller through globalization, there will one day be a Japanese player in the National Football League—though he can't guarantee when."

While black professional baseball players have fallen from 18 percent two decades ago to 8.8 percent today, there are gross disparities in achievement. Four out of the six highest career home-run totals were accumulated by black players, and each of the eight players who stole more than 100 bases in a season was black. Blacks who trace their ancestry to West Africa, including black Americans, hold more than 95 percent of the top times in sprinting.

How does one explain these gross sports disparities? Do they warrant the attention of the courts?

Other Disparities

There are some other disparities that might bother the diversity people. For example, Asians routinely get the highest scores on the math portion of the SAT, while blacks get the lowest.

Then there are deadly racial/ethnic disparities. Vietnamese American women have an incidence rate of cervical cancer that is five times higher than that of Caucasian women. The rates of liver cancer among Chinese, Filipino, Japanese, Korean, and Vietnamese populations are two to eleven times higher than those among Caucasians. Tay-Sachs disease is rare among populations other than Ashkenazi Jews (of European descent) and the Cajun population of southern Louisiana. The Pima Indians of Arizona have the highest known diabetes rates in the world. Prostate cancer is nearly twice as common among black men as it is among white men.

Then there's the issue of segregation. The *New York Times* "Room for Debate" section on May 21, 2012, led with, "Jim Crow is dead, segregation lives on. Is it time to bring back busing?" The Civil Rights Project of Harvard University in January 2003 declared that schools are racially segregated and becoming more so, adding "Civil rights goals have not been accomplished. The country has been going backward toward greater segregation in all parts of the country for more than a decade." Six years later, the Civil Rights Project at UCLA reported that "schools in the United States are more segregated today than they have been in more than four decades."

Let's look at segregation. Casual observation of ice hockey games suggests that blacks' attendance is by no means proportional to their numbers in the general population. A similar observation can be made about black attendance at operas, dressage performances, and wine tastings. The population statistics of South Dakota, Iowa, Maine, Montana, Wyoming, and Vermont show that not even one percent of their populations are black. On the other hand, in states such as Georgia, Alabama, and Mississippi, blacks are overrepresented in terms of their percentage in the general population.

Blacks are a bit over 50 percent of the Washington, D.C., population. Reagan National Airport serves the Washington, D.C., area. Like other airports, it has water fountains. At no time has the writer observed anything close to blacks being 50 percent of water fountain users. It is a wild guess, but I speculate that on any day, not more than 10 or 15 percent of the people at water fountains are black. Would anyone suggest that Reagan National Airport water fountains are racially segregated? Would we declare South Dakota, Iowa, Maine, Montana, Wyoming, and Vermont racially segregated? Are ice hockey games, operas, dressage performances, and wine tastings racially segregated? Moreover, would anyone propose busing blacks to South Dakota, Iowa, Maine, Montana, and Wyoming and whites from those states to Georgia, Alabama, and Mississippi to achieve racial balance? What corrective action might be taken to achieve racial integration at ice hockey games, operas, dressage performances, and wine tastings?

When an activity is not racially mixed today, a better term is "racially homogeneous," which does not mean segregated in the historic usage of the term.

A little reflection shows that people give the term "racial segregation" one meaning for water fountains, operas, and ice hockey games, and an entirely different meaning for schools. The sensible test to determine whether Reagan National Airport water fountains are segregated is to see whether a black is free to drink at any fountain. If the answer is affirmative, the fountains are not racially segregated even if no blacks drink at the fountains. The identical test should also be used for schools. Namely, if a black student lives within a particular school district, is he free to attend a particular school? If so, the school is not segregated, even if not a single black attends. When an activity is not racially mixed today, a better term is "racially homogeneous," which does not mean segregated in the historic usage of the term.

I hope that the people who say schools are segregated won't make the same claim about water fountains, states, operas, and ice hockey games. FEE

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