

LIBERTY AT RISK

**The Least Every Citizen Should Know About
Capitalism and its Enemies**

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Foreword

With the break up of the Soviet Union, China's pell-mell switch from central planning to free markets and the rise of competing political parties in all European communist nations, we are told the war between capitalism and communism is over and capitalism has won. This judgment is mistaken. In fact, the war against capitalism rages fiercer than ever.

Defeated in the economic and political sectors, capitalism's detractors now wage a more subtle battle on the all-important cultural front. Their weapons are words, slogans and symbols. Their battlefields are schools, bookstores, theaters, churches, mosques, newspapers, campaign brochures – all that affects one's judgments of what is right and wrong with the world, what is just and what is unjust. If capitalism loses in the cultural arena, its triumphs in the economic and political spheres will also be lost.

What has evolved into the world's most humane and fruitful social system is being turned on its head by people who have just witnessed the failure, in real-world trials over periods up to seventy years, of a rival system they favored. Yet these people believe that same basic system -- with the right rulers -- will out-perform the capitalistic system that seems to have triumphed. They are having considerable success convincing others of their beliefs.

For the past six decades, adherents to the socialist vision of an egalitarian state have done all they can to undermine capitalist culture – pushing for things such as

centralized regulation, politically correct speech, environmental reform and expanded government spending. This ideological attack continues today in legislatures, courtrooms and administrative offices across the country. In practice, government ownership has slowed or stopped economic progress. Yet the notion that federal government intervention is the sole practical avenue toward achieving an ideal society remains intact in the hearts and minds of many intelligent people.

I believe two ideas account for this paradox. The first is a failure of Americans to understand the way the capitalist system works -- not only economically, but also in the vital political and cultural aspects of life. The second idea is a clash between two philosophies of government. On one side is the ancient notion that some well-trained elite knows best and should have virtually untrammelled power to govern. On the other is the belief that ordinary men know what is best for them economically, and in political affairs can be trusted to choose their rulers -- and to replace them when dissatisfied.

American civilization has moved a long way from free-market capitalism toward economic fascism because government has sucked out and converted to its own purposes so much of the substance of private property. At the same time, other nations ruled by self-styled democratic socialists are privatizing and broadening the scope of private enterprises, suggesting that capitalism is not yet dead.

George Will quotes Daniel Patrick Moynihan as saying, "We are experiencing today something without precedent in urban history, broad-scale social regression in the midst of rising prosperity." We need a serious effort to find out why anything like this should have come to pass. The time has come for an intense debate on the basic structure of the nation. Do the Constitutional restraints on the size and function of government, especially the federal government, still serve the people best? Do restrictions that guarantee the liberty of individual citizens serve a useful purpose?

This book provides enough information to allow for informed debate. I hope to make a useful contribution to this discussion, probably the most important one in the coming millenium.

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Author's note

I follow the trail blazed by women on stage who call themselves "actors," not "actresses," by using "he" and "him" in the gender-neutral sense throughout this book.

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CHAPTER ONE

The Essence of Capitalist Civilization

What do Greenpeace, Wells Fargo, General Motors, the Catholic Church, The Salvation Army, Harvard University, the corner grocery store, Bill Cosby, The Wall Street Journal, and the Republican and Socialist parties have in common? Answer: All are private enterprises. *All rest on the same foundation -- the same set of rights.* These rights guarantee individuals the chance to compete for money, elective office, and the minds and hearts of others.

Greenpeace, the Catholic Church, The Salvation Army and Harvard University are among hundreds of organizations that attempt to mend what they see as flaws in American society. All are in the *value judgment* business. Each competes for the support of voters, politicians, judges and economists. The outcome of their efforts defines the moral basis for civilization as a whole. Government support for free enterprise in the value-judgment sector of society is quite new. It rests on acceptance of free speech and a free press, the separation of religion and state, and on three other rights I shall presently describe.

The Republican, Democratic and Socialist parties are among a dozen or so private enterprises that compete for short terms in office in the *political business*. The people who run the parties -- those who write the agendas, find candidates and arrange financing -- are political entrepreneurs. Their objective is to gain political power so their candidates can make, revise and enforce the laws that maintain what the writers of the U.S. Constitution called "domestic

tranquillity." Candidates talk in terms of right and wrong to justify the laws and regulations they put in place. Their concepts of what is "right" and what is "wrong" are culled from the value-judgment sector. Competition among candidates for political office is fierce. Winners must perform well to retain office. Losers accept defeat without violence because the next election, when they can try again, is only two to six years away. Nevertheless, there is an ever-present risk that political authorities will use government power to gain monopoly power over all sectors of public life.

The corner grocery store, Bill Cosby, Wells Fargo, General Motors and the Wall Street Journal are private enterprises competing in the *economic sector*. They intend to make money by creating and selling goods and services to customers who are not compelled to buy. Enterprises in this sector are subject to unrelenting competition that rewards innovation with temporary profits, and tends to drive prices down and quality up.

All civilizations have value-judgment, political and economic sectors (though the latter is sometimes no more than an appendage of the political sector). But capitalist civilization alone clearly separates each from the others. This separation magnifies the influence of ordinary people and injects competition into each of the three sectors. Value-judgment groups compete for members, money and influence. Business people compete for employees, products and customers. Political parties compete for supporters, causes and offices.

The outcome, more or less incidentally, has created the most economically successful civilization in history. But capitalism is far more than an economic system. The institutions that make the capitalist economy productive are the very same ones that secure freedom in the political and moral aspects of American life.

Capitalist civilization rests on three rights

Because all enterprises -- whether in the economic, political or value-judgment sector -- are private, their right to exist rests on the same foundation. It has three parts:

- Free enterprise.

- Private ownership of property.
- The right to contract freely with others (voluntary cooperation).

These ideas are normally associated only with economic life. Few people realize that our democratic institutions, and our freedom to form organizations of all types, could not legally exist without these three key rights. "Private property" has been considered capitalism's foundation ever since Karl Marx gave capitalism its name. I shall use Marx's term when referring to the economy, but I shall refer to the system as a whole as "capitalist civilization," or alternatively as the System of Liberty.

Free enterprise is simply the legal right to exist. In practice, this means that very few activities are illegal. Yet government denies the right to exist to certain enterprises, such as those in the flourishing cocaine trade, that nonetheless are very real. Free enterprise by itself is a worthless right. No one can do much without some assets with which to work -- assets under one's personal control that the owner can use for a wide variety of purposes, and from which he can gain income. This right to use productive assets to earn a personal income is called private property. Like free enterprise, it is an essential right for private businesses, whether in the value-judgment, political or economic sector.

Private property is the right of private individuals to own, buy, sell or rent, and receive income from all types of property. First and foremost one owns his own body and talents. One can also own physical property such as land, buildings and equipment; intellectual property such as patents and copyrights; and financial property such as money, stocks, bonds and bank accounts. Corporations in any of the three sectors, both for-profit and nonprofit, can own property managed by its directors and managers in the interest of the private individuals who own the corporation.

Determining who owns what, and making that ownership secure, is a primary duty of government. The combination of free enterprise and private property provides a firm foundation for capitalism, but is not worth much without the third basic right: free contracting.

Free contracting enormously magnifies the potential power of value-judgment, political and economic enterprises because it lays a firm basis for voluntary cooperation. Relationships in all

three sectors should be voluntary, because no party to a contract will agree to a deal unless that party expects to gain from it. Government will not enforce contracts forged by someone who deliberately misled or threatened another party. Instead the malefactor will be subject to a lawsuit to recover damages, and perhaps in addition to punitive damages. Again government has a vital role to play. It must define a legal contract, find ways to determine whether a particular disputed contract qualifies as a legal one, and determine the penalties if it does not. Contracts with criminal enterprises will not be enforced and can lead to jail time. Yet again, criminal enterprises manage to function without this protection. (This is discussed in more detail in Chapter Three.)

Common people matter

Ordinary people play the key roles in all three sectors of the System of Liberty. In the economic sector people choose the job that is the best of those they know about, buy what they prefer among the goods and services on the market, and save and invest in the amount and form they think best. All this activity is coordinated by an elaborate web of markets that lowers prices, improves quality and stimulates production of new products and services. Many enterprises fail because they do not keep costs down and quality up. In all this they are limited to what can be done legally and by their perception of what is right and wrong.

Ordinary citizens can influence which laws they obey -- or disobey -- by voting, supporting the party or individual candidates of their choice, or by lobbying legislators and political action groups. Those who do none of these things implicitly support what is going on, because at any time they can become active in a capitalist civilization. People who actually make and enforce the laws must win elections, in which ordinary people can vote them out of office if they do not perform as desired. Politicians' main job is to protect the nation from invasion, and to provide a consistent set of laws that makes private planning reliable and inexpensive. How much more they do depends largely on the legitimacy of demands made by activists in the value-judgment sector. Politicians must try to balance these conflicting interests in a way that preserves the nation while accommodating to a degree the more influential value-judgment groups. In a capitalist civilization

this must be done in a way that maintains the separation of the political, economic and value-judgment systems, while promoting competition within each of them.

Limitations on the power of government are an essential element of capitalist civilization. They are needed to prevent the monopolization of the entire society by a particular belief system. The former Soviet Union is a good example of the opposite civilization of capitalism. Its belief system, Marxism-Leninism, monopolized the value-judgment sector, political power and the economy, which was centrally planned by the government.

Each adult living in a capitalist civilization is free to participate at any level in the economic, political and value-judgment activities of choice. The ordinary man's opinion and activity count. How much he works, and at what, is up to him. What he buys, where he lives and the extent to which he participates in politics or religion are also his choices. There are few guarantees; he might fail, but he can try again. It is a system of freedom.

When the Constitution was ratified, members of Congress adopted two slogans that encapsulated what they hoped they had achieved: *Novus Ordo Seclorum* (A New Order of the Ages) and *E. Pluribus Unum* (From Many, One.) Henceforth I shall also refer to capitalist civilization, the System of Liberty, as the *New Order*, and to government-dominated social systems like the former Soviet Union's as the *Old Order*.

CHAPTER TWO

Capitalist Civilization in Practice

Capitalist civilization has produced three revolutionary concepts, and gone so far toward realizing them that they are now taken for granted. These are:

- The idea of progress
- The idea that poverty does not have to be the lot of anyone
- The end of slavery

The first two are primarily the result of economic success. The third idea was initiated by the richest nation in the world during a sustained period of economic growth, when the economic conditions were in place supporting all three sectors that were soon to become firmly established in the American Constitution. An important part of these two successes was the support of the value-judgment sector. First, the economic record.

Unexpected growth

Adam Smith in his 1776 book, *Wealth of Nations*, was the first to reveal that the underlying source of England's growing affluence was the net result of self-interested individuals enjoying secure property rights, working and dealing in lightly regulated markets. He probably did not imagine that the principles he deduced by observing the seeming economic chaos of his day would lead to unprecedented long-term growth in the average family's income.

The classical economists almost immediately found reasons why such growth in income could not last. Most durable is Thomas Malthus' prediction that population would outrun the available food supply. But even their criticisms contained veiled admiration. Seventy-five years after Smith, Karl Marx and Frederick Engels wrote in *The Communist Manifesto* that the "bourgeoisie, during its rule of scarce one hundred years, has created more massive and colossal productive forces than have all preceding generations together." Yet Marx also believed that growth could not continue much longer -- although he did write that it could go on until all the world's economic systems had become what he called "capitalist." He also thought capitalist nations might collapse during his own lifetime because of capitalism's internal "contradictions."

Joseph Schumpeter, in his 1947 book *Capitalism, Socialism and Democracy*, all but predicted the end of capitalism -- but only after noting its remarkable growth. Schumpeter conservatively projected the economic growth per person in the United States from 1878 to 1978. From this, he concluded that if this rate of growth continued until 1978 it "would do away with anything that *according to present standards* could be called poverty, even in the lowest strata of the population." (Emphasis supplied.) Schumpeter went on to emphasize that although the division of monetary income would remain about as unequal as before, the indexes used to measure income differences omit several things most valuable to poorer people. These include shorter time on the job (40 hours per week, down from 60 or more), paid vacations, personal transportation, and the widespread availability of electric power. He noted that capitalist production is *mass* production that requires a mass market and necessarily serves most people, not just the rich.

Stanley Lebergott provided more detail in his 1976 book, *The American Economy*. Lebergott compared the consumption of the *average* American family of 1900 to the "officially poor" families of 1970. Among his findings:

- In 1900 only 15 percent of all families had flush toilets. By 1970, more than 99 percent of all *poor* families had them.
- Only 24 percent of all families had running water in 1890, compared with 92 percent of all poor families in 1970.

- One percent of all families had central heating in 1900; fifty-eight percent of all poor families did by 1970.

- At the turn of the century, 48 percent of all families had one or fewer persons per room. Seventy years later, so did 96 percent of all poor families.

And so it goes for electricity, refrigeration and cars. In addition, 12 years of publicly funded schooling became available for all. Home entertainment in the form of radio and TV, available to no one in 1900, was already common in poor families' homes by 1970. And telephones, available to relatively few in 1900, were commonplace.

All of these benefits were possible because individuals, exercising their property ownership and rights to contract in a moderately regulated economy, found ways to make these things available at low cost to people earning modest incomes, including many on welfare.

Of course, Schumpeter did not expect his projected growth rate to continue until 1978. He expected increasing government regulation and inflation to halt growth in income per capita. But, he wrote, if growth did continue at the pre-1928 rate, "it is easy to see that all of the desiderata that have so far been espoused by any social reformers -- practically without exception, including even the greater part of the cranks -- either would be fulfilled automatically or could be fulfilled *without significant interference with the capitalist process*." (His italics).

In fact, the actual level of income (fully adjusted for inflation) significantly exceeded Schumpeter's supposedly over-optimistic projection for 1978 -- and for a larger population than the one he used in his calculations. Income per *person* has continued to grow at about the same rate, if one takes into account the amount of income received in the form of pension and health benefits. This is in sharp contrast to the frequently published, inflation-adjusted figures that show stagnation of median "*family*" income. This paradox is due largely to the increasing proportion of poor single-parent households in the group called "families." When, for example, a two-adult family earning a lower middle-class income is split by a divorce, the result often creates one, or even two, poor families. Yet the total income of the former pair may remain as high, or even somewhat higher, than before the split.

Robert Samuelson, in his book *The Good Life and its Discontents: 1975-1995*, analyzed the data for that 20-year period and concluded that the most recent studies of the statistical adjustments of income for inflation reveal an understatement of something between 10 and 20 percent -- largely because increases in health care and other benefits paid for by employers are not counted, and because inflation in the prices of consumer goods is overstated. In addition, there are the hard-to-quantify benefits of cleaner air and water, and a continuing flood of goods that were either not available or very costly before 1975 -- things such as VCRs, personal computers, microwave ovens and cable TV. During Samuelson's 20-year study period, travel by air tripled, and the number of adults attending college doubled.

Perhaps all this falls short of our expectations, but it is not evidence of failure. Economic growth continues in western nations, and where private property, free enterprise and free contracting are being introduced in poor nations, unprecedented growth is underway. Although the poor, especially in the United States and Europe, are well-to-do when compared to the poor elsewhere, or to the poor of 1928 or 1970, no one can say we are satisfied. The standards set in the value-judgment sector leave about the same proportion of the population as poor as ever by the standards of 1998. And these are the standards that count. The end of slavery two centuries ago illustrates the power of the value-judgment sector.

Capitalist civilization at work

It is no accident that the document which defined American political aspirations, the Declaration of Independence, appeared in the same year that Adam Smith published *The Wealth of Nations*, the first treatise to describe the workings of a capitalist economy. Nor is it sheer coincidence that only four years earlier, a decision by a judge sensitive to moral pressures brought slavery to an end in England, which was then the most capitalist nation in the world.

The abolition of slavery in England was followed in 1834 by a handful of influential Englishmen who induced the government to ban the use of slaves in the colonies, despite determined opposition from colonial slave owners with profitable properties. With the support of former English slave

owners, fearing ruinous competition from other nations' colonies where slavery was still legal, the English government agreed to order its navy to end ocean transport of slaves. This pressure led to the virtual worldwide elimination of the ages-old practice of slavery -- all in fifty years.

Slavery was very profitable in the colonies at the time of its abolition in England. It would not have come to an end if the economic interests of the rich colonial slave owners had prevailed in parliament. But a large majority of voters were neither rich nor under the thumbs of politicians who supported the slave owners. The politicians had to be responsive to the voters to stay in office. Slavery thus ended in England and its colonies because a small group of people had a legal and economic base that enabled them to elect or reject members of parliament, without fear of retaliation. Their moral judgments, backed by specific information, changed voter opinion. This small group achieved its moral objective without bloodshed in England and without changing the basics of the country's political system. Property rights were reallocated from slave owners to their slaves, but protection of private property rights, free enterprise and free contracting remained intact.

This is an example of the New Order at work. It is part of the English heritage upon which the writers of the Constitution drew when they put on paper the "rules" distilled from extensive readings of the philosophers and their own experience and beliefs.

The U.S. Constitution, ratified in 1787, included a provision to end the importation of slaves within twenty years. America was near the leading edge of this moral fight at the time, and the slave trade *was* abolished in 1808, but basic conditions affecting the value of slaves had changed. The cotton gin, invented in the 1790s, easily separated cottonseeds from their fibers, thereby lowering the cost of cotton. This created a growing market as cotton cloth fell from a luxury to a major item of trade. The value and price of slaves revived, instead of dying out as had once been expected. Slaves were smuggled in, and the natural slave population increased. The United States became a laggard searching in vain to find a peaceful resolution between the political power of the southern states, which opposed the end of slavery and demanded separation, and the northern states' commitment to preserve the union. It took a dreadful war to decide the issue.

More modern examples of the ultimate power of the value-judgment sector include the extension of suffrage to women, the experiment with prohibition of alcoholic beverages, and current responses to concern about the environment.

Destined to implode?

Many experts over the years who have thought about these matters agree that capitalist civilization will either fail outright, or fail to raise everyone out of poverty. Thomas Malthus believed any relief from poverty would be defeated by rising population, a process he incorrectly thought was underway at the time he wrote more than two hundred years ago. His main argument has been picked up by some modern environmentalists, who scorn the idea of private property and believe a more centralized political system -- with less input from ordinary people -- is essential. Chapter 6 is devoted to their arguments.

Marx, as already noted, argued that a civilization based on private property will flourish for a while, but is doomed to fail because of its internal economic "contradictions." At that time an elite group will, if it is ready, take over the economy and run it in ways that favor the workers rather than the capitalists, until the workers are well-enough educated and morally sensitized to run it themselves.

Schumpeter stoutly insisted that he made no predictions, but he clearly expected high taxes and intrusive regulations, both already burdening business in the late 1930s and 1940s, to grow and eventually lead to the displacement of capitalist civilization by a powerful socialist government that would plan the economy. He theorized that economic success would mislead people into believing that growth in per-capita income is automatic, and not related to private property, free enterprise and free contracting rights. Then supporters of capitalist civilization would be defenseless, able neither to withstand the clever arguments of hostile intellectuals nor to silence them. Schumpeter devoted much of his book to constructing a model of an economically efficient, centrally-planned economy that would -- or might be -- compatible with multi-party democracy. He concluded his analysis with these prophetic sentences: "As a matter of practical necessity, socialist democracy

may turn out to be more of a sham than capitalist democracy ever was. In any case, that democracy will not mean increased personal freedom. And, once more, it will not mean a closer approximation to the classical doctrine."

Britain and France, among other nations, were preparing to install central planning when Schumpeter gave his last words on this subject in his presidential address to the American Economic Association in December 1949. Both nations soon discovered that central planning was incompatible with control by an elected parliament and opted for democracy. The idea of progress remained intact. So did the idea that no one should live in poverty.

Poverty remains because we constantly change our definition of what one must have to escape it. A person in poverty today enjoys goods and services that only middle- and higher-income people could afford two generations ago. In this way ending poverty is converted into something closer to equality of income and wealth. Lack of talent or effort is not relevant. If this reasoning is accepted, only the power of the state can hope to end poverty. Use of state power to achieve this goal chips away at the foundations of the System of Liberty. Persistent use of this government power gradually transforms the New Order into some version of the Old.

People Schumpeter tagged "intellectuals" are the key movers of this transformation. They are part of the value-judgment sector, at war with the church and with those who supported private property, free enterprise and free contracting. When Schumpeter wrote, most intellectuals were classical socialists who thought a centrally-planned economy directed by a democratic government would be ideal. Present-day intellectuals find capitalist civilization as repugnant as ever. Yet their power rests on irony. As noted already, their very existence depends on the right to free enterprise, to own property, and to contract freely with other producers. Consider what Schumpeter called "the sociology of the intellectual."

Destructive opinions

Intellectuals inhabit the value-judgment sector of a civilization. They are opinion makers. Their ranks include writers, religious leaders, commentators, some scientists, artists and the like. Not all

are hostile to "capitalism" but the most influential are. In a capitalist civilization they perform invaluable tasks -- finding flaws and proposing and pressing reforms. But they can also be destructive.

Opinion makers are entrepreneurs -- entrepreneurs with ideas to sell. When they succeed they gain fame, influence and money. The greater and more outrageous the flaws they can persuade people to believe they have found, and the more far-reaching the "cures," the greater the influence and wealth a particular intellectual is likely to garner. It pays to exaggerate any flaw, even to make one up, and propose costly correctives. Opinion makers have a virtually unfettered, constitutionally-rooted right to these opportunities in a capitalist world, and a profit incentive to take advantage of them.

Opportunities are reversed in authoritarian states. Opinion makers who attack the foundation of such states risk being denied access to the materials they need to formulate their analysis and proposals, and access to media they need to reach an audience. They may even be put in jail or executed. Their power is eclipsed by the power of the government.

The bald fact is that in a capitalist civilization *opinion makers cannot be disciplined without undermining the foundation upon which the entire System of Liberty rests*. This is inevitable because the dissidents are using their own private property -- their persons and their assets -- as well as their free-enterprise right, when they go into the opinion-making business. The System of Liberty gives them the perfect right to raise money, buy suppliers, and get the cooperation of publishers, radio, TV stations and others needed to make their enterprise successful. Opinion makers cannot be suppressed without creating a legal precedent for the suppression of free enterprise, property rights, rights to contract and the rights to personal safety that businesses and political organizations enjoy.

The practical effectiveness of the First Amendment protection of free speech is firmly rooted in the "economic" institutions of private property, free contracting and free enterprise. It undergirds, for example, the communist party's right to recruit members, publish papers and run

candidates for public office in the United States despite the fact it is avowedly hostile to the U.S. government.

People hoping to improve society by giving more power to government authorities tend to overlook the fact that all people are entrepreneurs trying to make what they consider to be the best choices from among those they know about. This applies to all parties -- those imposing and enforcing the taxes, mandates, and regulations, and those subject to them. Burglars and drug dealers are also entrepreneurs, operating in the best business they know about.

Illegal business also raises a moral question: Can a civilization be a good one if everyone is motivated by self-interest?

CHAPTER THREE

Everyone is an Entrepreneur

Dictionaries define "entrepreneur" as a person who organizes and manages a business, one who assumes risk for the sake of profit. But restricting the concept of entrepreneurs to people who run business enterprises intended to be profitable is too narrow for capitalist civilization. In a capitalist civilization people make entrepreneurial decisions in nonprofit, political, religious and moral and cultural enterprises--most importantly, in their personal lives.

Except for prisoners and the mentally incompetent, no adult in a free society can avoid having to decide how to gain a living -- whether by finding a job, managing a one-person business, becoming an employer, marrying a wealthy spouse, or qualifying for welfare. The enterprise he founds or works for may be a for-profit business, but it can just as well be a church, nonprofit charity, scientific foundation, social or political action group, bird-watchers club or anything else that might spark his interest. We usually think in terms of legal enterprises, yet goods and services outlawed by governments continue to be produced and consumed. Studying this phenomenon illustrates how markets work, giving improved insight into reasons why even the most repressive governments fail to suppress market forces.

Illegal businesses

Government makes a particular business illegal by denying free enterprise to that activity. Businesses in that industry have no right to exist. Property devoted to that business, far from being

protected by law, would be confiscated without compensation. The government will not enforce contracts made with an illegal business. These are called "criminal conspiracies" against the government, punishable by prison sentences and fines.

Yet illegal activities persist. Why? Because people are entrepreneurs who choose the best job from among those they know about. Theft, burglary and robbery, along with murder, dominate the low end. No one wants to be robbed or murdered, and laws against such crimes can be interpreted as efforts to protect the private property rights of the victims. But this rationale becomes strained when there are willing buyers prepared to pay for illegal products or services at the prices set by willing sellers.

People are entrepreneurs who try to get what they want as consumers, and search for opportunities that will produce an income for themselves. In short, both buyers and sellers pursue happiness as *they* define happiness. They are not like chessmen confined to a board, able to move only in certain prescribed, "legal" ways. People have ideas of their own. Failure to take this universal human characteristic into account hampers, even defeats, government efforts intended to frustrate producers and consumers of illegal goods and services.

Thieves as capitalists

Consider first an activity that moral, cultural, political and business groups agree should be illegal: thievery. Thieves take risks that, from their point of view, are no different than those taken by an artist or a person running any other small business. But the social effects are essentially the opposite. The thief gives nothing in return. His activity reduces the rewards others obtain by working at tasks beneficial to society. Thievery also diverts human resources into making locks and prisons, and into insurance companies that spread the losses from the few to the many, most of whom suffer no direct losses to thievery at all but play it safe by buying insurance. A certain amount of thievery exists because taxpayers are not willing, and probably could not spend enough, to eliminate it. Some governments have even gone to the extent of punishing a first offense with the loss of the thief's right hand. Yet thievery persists in all communities.

The fact that thieves and criminal organizations have existed at all times in all nations strongly suggests entrepreneurship is a permanent part of human nature. The same entrepreneurial tenacity is revealed in the non-business sectors of society -- for example, by the "underground" political and church activities in China and the former Soviet Union.

Entrepreneurs running an illegal business, whether a one-person robber or leaders of a multinational drug-smuggling organization, have additional entrepreneurial tasks not burdening legal enterprises. They must devise ways to protect their property against confiscation by government and attacks by competitors. If their enterprise is to survive, they must also find ways to enforce their contracts with others without the help of the law. And they do.

Voluntary 'victims'

Highly organized illegal businesses, such as those in the cocaine trade, are like thievery in some respects but are essentially different, because the cocaine industry provides goods or services that lots of people want and are willing to pay for. They may be victims, but they are voluntary victims. Nobody wants to be robbed, but many are eager to pay for "recreational" drugs or the services of prostitutes. When the production and sale of a particular product or service that many people want is made illegal, it simply raises its costs of production and marketing, and spurs research into less costly or harder-to-detect substitutes.

In 1920, when prohibition banned alcohol in America, entrepreneurs in the alcoholic-beverage business had to provide their own "police" (goon squads) to protect their property and the "turf" where their goods were made, transported and sold. This added to the product's cost. It also changed the nature of the business. Hoodlums replaced more principled entrepreneurs because hoodlums already knew how to operate illegal businesses and were better prepared to become "bootleggers." The successful entrepreneurs did what they could to lower their costs -- including bribes for police officers and judges. The mobsters used strong-arm tactics, including murder, to enforce their contracts and discourage rivals from trying to "muscle in" on their markets. Such activities raise costs. Then there is the risk of being caught, convicted, fined and sent to prison; or

worse, being captured by a rival organization and being shot, strangled or drowned. All of these costs are passed on to the consumers. The customers have risks of their own. They cannot go to court and sue for damages if blinded or poisoned by the contraband they purchase. And they usually cannot get their money back if they are dissatisfied or "ripped off."

The higher price consumers pay for illegal products raises costs and prices some people out of the market, just as higher taxes do on selected legal products such as Tabasco sauce and gasoline. Yet in more relevant ways, making a good illegal is not at all like imposing taxes on it. Making a good or service illegal raises no money for government. Quite the contrary; outlawing a good increases the amount we pay in taxes in a typically unsatisfactory effort to drive the illegal businesses into bankruptcy. The higher costs reduce the number of customers, and to that extent society as a whole is protected. But as long as there are customers willing to pay the price and take the risks, the illegal activities will continue -- and so will the accompanying corruption of business and government officials, the street violence and the declining respect for government.

Regulations hurt

Regulations have the same effect as outright laws making goods and services illegal. For example, upgraded building codes in the city of Seattle required thicker doors and rewiring, which closed a number of cheap hotels that had served people with little income. Regulations on the number of people allowed to share a house or apartment have broken up immigrant families accustomed to even less living space in the homes they had left. Other regulations raised building costs of new housing, reducing the supply of old housing that probably would have become available to lower-income people. This imposition of middle-class sensibilities on the poor does them harm and contributes to hopelessness, drunkenness and homelessness. It reduces opportunities to develop their skills and work their way into the mainstream. It pushes them into welfare dependency. If welfare proves the better way to secure an income, entrepreneurial poor people will find ways to take advantage of the opportunities for which they are eligible. The idea

that welfare is a "right" makes it more acceptable, and makes efforts to curtail access seem harsh and unfeeling. (These matters will be discussed in more detail in Part Two).

Adam Smith saw that everyone is an entrepreneur motivated to get what they want, and to find ways to obtain enough income to pay for it. In *Wealth of Nations* Smith firmly lashed the shining goals of freedom and affluence to the despised motivation of self-interest. This mark of Cain is also fixed on multiparty democracy and on the value judgment sector in the System of Liberty, because the individual people working in those organizations also choose to do what they prefer from the alternatives they know about. Yet is self-interest necessarily selfish? Does self-interest preclude empathy and altruism? Can a society based on altruism work?

CHAPTER FOUR

Motivation in a System of Liberty

Consider Adam Smith's description in *Wealth of Nations* of a "son of a poor man, whom heaven in its anger has visited with ambition:"

"He studies to distinguish himself in some laborious profession. With unrelenting industry he labors night and day to acquire talents superior to all his competitors. He endeavors next to bring those talents into public view, and with equal assiduity solicits every opportunity for employment. With this purpose he makes court to all mankind; he serves those whom he hates, and is obsequious to those he despises. Through the whole of his life he pursues the idea of a certain artificial and elegant repose which he may never arrive at, for which he sacrifices real tranquillity that is at all times within his power . . . But is it well that nature imposes upon us in this manner. It is this deception which rouses and keeps in motion the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and the arts which ennoble and embellish human life."

Notice that the ambitious young man serves others, including those he dislikes, at considerable cost to himself. Smith has the young man driven by what he called self-love, or what we call self-interest. Others use harsh words like selfishness and greed and apply them wholesale, assuming that each of us is driven by selfish desire and cares not at all what happens to others. This idea is

at odds with self-interest, especially when individuals and organizations have repeated contacts with each other.

Suppose Smith's young man is a true altruist seeking to benefit others to the best of his ability. What would he have done differently? Might not he become rich precisely because he succeeded? *An unprejudiced observer would not be able to tell from his actions whether the young man's ambition was to amass wealth and prestige or to serve others as they wish to be served.*

What is crucial is that he be motivated to work for more than enough to simply stay alive. If he is satisfied with little, precious little will be done for others, or to improve the sciences and arts which ennoble and embellish human life. And it is clear he could be neither self-interested, altruistic nor slothful, living on the crumbs and largess of others, if he were not free to choose his lifestyle and determine whether to live on the crumbs and largess of others or to work -- and if so, how hard to work and when to retire. These choices will not be possible unless he is also able to contract with others, to develop and exercise his skills and to find clients.

The unprejudiced observer wanting to know the young man's motivation cannot reach a definitive conclusion from his actions, but he has some clues. An altruist probably would produce legal goods or services. He probably would work harder, and eventually keep working after he had made enough for a comfortable retirement. Alternatively, he might consume little and give much of his income away throughout his life. But these are only clues. Regulations might block the sale of goods the altruist believes are beneficial. If so, he may produce illegal goods. Though altruists might work harder and not retire, misers and other selfish or deranged people might also work longer and harder than normal self-interested people. An altruist might not give to the poor, blind or otherwise disadvantaged, nor to talented people needing a helping hand, because he thinks he can do more good by investing all he can spare to create additional innovative businesses.

So we see it is not easy to distinguish altruists from normal self-interested people. And then there is the final irony: The altruist *wants* to serve others. Doing so advances his own self-love.

It is easy to assume that others are motivated by self-interest because of the need to guard against fraud, burglary, muggings or other loss to predators. But can the same be said with assurance about those who murder, bomb and terrorize other people? Some guilty of such offenses are prepared to die, hoping to realize some noble ideal such as the destruction of a repressive state. From their point of view they are altruists. Many thousands have died to defend or extend their religious faiths.

Other young people, inspired by their questionable conceptions of Marxism, are convinced that virtually all constraints on liberty would become unnecessary once man "outgrows" self-interest and competitiveness to become motivated by cooperation and good will. This kind of thinking has been used to justify communist revolutions in Russia, China, Cambodia and other nations. But totalitarian communism flies in the face of the process Marx described. Marx taught that the proletariat in a democratic state without a capitalist class would take several decades to learn how to govern. The learning process would gradually replace capitalism's competitive, self-interested man with communism's cooperative man. Only after this process was well along would a flourishing economy and social system generally be able to make a reality of the classic socialist slogan, "From each according to his ability, to each according to his needs." The society he had in mind was not something that could be imposed by a dictatorship, with "re-education camps" substituting for real-life experience in a democratic state.

Each altruist will have to choose the type of work in which he will produce the most for others. He needs some guide to the jobs that make the most of his "abilities" so others can be provided according to their "needs." This requires lots of information, presented in an easily understood way to virtually every adult.

Would altruism work?

Adam Smith's young man selected "some laborious profession." How could he know which laborious profession is the right one, either for himself or society? Specialization, an essential part of a productive economy, makes a direct approach unworkable. For example, should too many

altruists choose to serve others by producing eggs and giving them away to anyone who will take them, what thanks can they expect from their beneficiaries when their refrigerators are full of eggs? They would be better served with fewer eggs and more of something else. But what?

Perhaps an altruist notices a lack of Number-2 pencils and decides to produce them. He finds that lots of people want them. Yet this is only a small first step to deciding what he can do in a highly productive economy. By "making Number-2 pencils" he probably means assembling the parts needed to make lots of pencils. But from where are the needed materials to come, and in the right quantities and qualities? Consider where the wood, lead, paint, ink for printing on the side of the pencil, metal eraser-holder and eraser come from. Then consider the various types of machinery used to cut the trees, mix the paint, transport materials and provide fueling power. Consider also the numerous workers who utilized many different skills, the people who financed each of the enterprises, the government officials who regulated and taxed the firms, the lawyers who wrote the contracts and advised the companies, and the police and courts that enforced the laws. Without looking too hard, the altruist will soon find people in every walk of life, scattered throughout the world, involved in the production of a Number-2 pencil.

There is more. The pencils won't help anyone unless they are made available in small packets to people over a wide geographic area, and potential users are alerted as to where they may get them. Distribution and marketing are needed as much as manufacturing.

For all its complexity, this web of interrelationships is the lowest-cost way to produce such a pencil. This complicated web was weaved by individuals who used their properties and freedom to contract with each other and take advantage of the opportunities they perceived to make money doing their particular thing. Each lowered cost or improved quality someplace in the web. A single altruist simply cannot do all the things needed to make a pencil at anything close to the small cost in labor and resources presented by the present process. There is no way he can produce pencils all by himself without wasting some resources that could have been better used elsewhere. He will have to find some niche if he is to do the most for others, either in some aspect of the pencil business or in a job associated with the production of other goods and services.

The values generated spontaneously in a market economy indicate the value to consumers of a bit more or bit less labor in enterprises where productive use of labor is employed. These values are indispensable in an economy, whether people are motivated by self-interest or altruism, because *finding the place where one earns the most is the best single indicator that an altruist has chosen correctly when deciding how he can best serve others' desires*. Inevitably, that choice will also maximize his income. Altruists can be expected to make a higher income than most employees because they will work harder and longer to do more for others, rather than taking it easy and retiring as soon as it's financially feasible.

Working harder at the jobs that pay the most also enables the altruist to do more for the poor or for other causes he thinks are beneficial to society. Just as Adam Smith found the benefits to others to be *unintended* consequences of self-interest, we may find that benefits to others from the work of markets are the *intended* benefits of successful altruists aware of how the market system works.

From a still broader point of view, it seems to matter little whether personal motivation is self-interested or altruistic in a free economy. Either motive will do. What will not do is a lack of ambition and failure to protect a free society. Government policies that make it easy for frustrated, discouraged or mentally ill persons to continue in a state of dependency are inconsistent with altruism, shifting those motivated by self-interest toward sloth.

Any person can refuse work that produces what he considers harmful effects. An altruist may do so. Any person can also choose where to invest his savings. An altruist might invest only in firms that meet his moral criteria. But notice that when a person chooses to take a lower-paying job, invest where the rate of return is low or join with others to enact legislation banning things like drugs and prostitution, he may be doing the right thing, but he is also proclaiming that some people's preferences should not be served. It may be more altruistic to serve these disparaged but desired wants in ways that reduce the bad aspects as much as possible, rather than living with the consequences of trying to suppress them.

A broader, quite objective test for the extent of altruism in a *society* can be had when one considers a nation as a whole. If everyone in a nation were motivated by altruism the nation would be without crime, divorce, child or spouse abuse, bigotry and anything else harmful to others. This is so because, by definition, no altruist would be a party to anything harmful to others. In such a society there would be no need for locks, prisons, handguns, or anything else to protect one's person or property. We would expect to see much less dependency -- in particular fewer dependents on government, since altruists would be aware of their neighbors' problems and would find personal ways to help them.

We need to remember that a person can act altruistically only if he has something of his own to share and if he knows the consequences of his actions -- in particular what other people want. No one can be either altruistic or selfish if he does only what some authority says he must. Nor can he do good, either inadvertently or deliberately, unless there is some ready mechanism that indicates how people rank their desires. Evidently, the altruist impulse has its widest scope in a capitalist society where individual freedom is maximized. "Selfish" self-interest can flourish, but so can altruistic self-interest. The marvel of the market is the extent to which it leads people, whether motivated by self-interest or altruism, to serve others effectively.

Public interest vs. self-interest

One can reasonably question the motivation of people who look down on others, or on a whole society, because they attribute to others a motivation decidedly inferior to the motivation they claim for themselves. Some people perceive themselves as having risen above self-interest, and assert their own devotion to a higher motivation such as the "public interest." These people feel free to ignore or trample the private interests of ordinary people when doing so serves their definition of the public good.

This is an old story that goes back more than two millennia and remains very much alive today. It is the primary motivation claimed by the enemies of capitalist civilization, and is addressed more fully in later chapters but is relevant here. Adam Smith wrote that men are seldom more

innocently employed as when they are seeking wealth. This cannot be said of those pursuing power.

Plato had only scorn for people motivated by self-interest. Take, for example, the ideal rulers he describes in *The Republic*. The best of the five types of rulers he describes have been called "philosopher-kings." They would be imbued with the public interest and have not a shred of self-interest. They would also be wise, just and virtuous. To Plato, ordinary people deserve no respect. All over ten years of age would be sent from the city so the children could be properly trained to be happy, productive members of a well-ordered community. Everyone would be taught to know his place and be happy there. Subsequent rulers would be selected when young and reared by the current rulers in beautiful surroundings. They would be put to severe tests, and the best of them chosen to replace the retiring rulers.

I find it hard to believe that the first ruler, launching what he believes is an ideal society, would fail to feel as much personal satisfaction as one could hope for. Moreover, those who rise to leadership -- having been raised in beautiful surroundings and having won the competition among the chosen few on the path to the top -- seem to be acting to advance their personal self-interest as much or more than the public interest.

Ordinary citizens in this scenario presumably know their places, and are docile and happy. Yet as their own children appear and are put into the right places for them, they would have occasion to wonder about forebears. If they had any memory of their fate, they would have reason to work more out of fear than happiness or a desire to serve society.

Can government mandate altruism?

Many innovative utopian communities have arisen since Plato's time. Few have lasted very long. People in communities that have endured, such as the Pennsylvania Amish, enjoy a simple lifestyle that probably is not what most Americans want for themselves. The successes are small scale. Larger-scale groups dominated by religious leaders who impose their teachings can be considered examples of serious attempts to build large altruist societies. All have been dominated

by elitists who have sometimes used repressive means to enforce their rule. Modern Iran is a case in point.

The past seventy years have seen the rise and fall of whole nations whose powerful leaders made every effort to remake "man" into public-spirited comrades working cooperatively for the common good. Perhaps it is enough to say that it is hard to reconcile what happened with either altruistic leaders or an altruistic citizenry. The leaders' reigns have been characterized by internal repression, "corrective labor camps" where workers were under constant guard, and the slaughter of millions of citizens. All this resulted from government policy officially intended to build a society based on people motivated by the public, rather than private, interest.

Today a self-styled altruist could argue that democratic procedures will protect personal liberty whenever government power overrides private rights to achieve social goals. This belief substitutes a simple faith in Congress, tiers of government agencies and the courts for the altruist's own judgment. Government employees are not gods. They will have to face the complexities alluded to in this chapter (And more fully developed in the next two). The outcome must be a sort of compulsory altruism, if there can be such a thing. It adds a new, intractable dimension to the problem of motivation -- how altruistic should one's neighbor be compelled to be?

People who detest capitalist civilization tend to agree when economists tell them the self-love, selfishness and greed of ordinary people motivate the population. To them it is obvious that wise, just and virtuous people can act in the public interest -- and thereby build a better society. Yet until Lenin had this task thrust upon him by achieving power in Russia, no scheme for running such an economy had ever been prepared. Plato argued that wise, just, virtuous rulers could place people where they would happily do their part to aid the state, but he offered no economic plan the rulers might put into effect. The economic growth that began to change the world more than two centuries ago was not attributed to any kind of planning. Instead the economy was called unplanned, and because poorly understood dislocations and cycles disrupted existing enterprises and peoples' lives, critics called it "chaotic." Many intellectuals became enamored with the belief a rationally planned, government-owned, stable economy could be run in the public interest by

officials chosen by the whole society -- if private property was replaced by public ownership and bureaucratically planned contracts.

This was a political "solution" to an economic problem. No socialist economic plan existed when Lenin came to power in Russia in 1917. The plan he imposed, based on political principles, rapidly ruined the economy. In 1921 he took a step back to what he called "capitalism," and a system of central planning was gradually developed and fully installed seven years later. After a 60-year trial it stands thoroughly discredited, both as an economic plan and as part of a system that replaced self-interest with a higher motive.

CHAPTER FIVE

The Free Market is a Planned Economy

Few today think market economies are planned economies, yet the case can be made that they are meticulously planned. Never mind that they lack a central blueprint concocted and imposed by government officials. A free economy is chock full of mini-central plans made by individuals as well as for-profit, nonprofit and government entities. The plans made in the private sector are coordinated by "the market." Although not recognized as planning, the result is the most complex, effective, forward-looking, adaptable and geographically extensive planning system known to history.

Government has several crucial roles to play in this system. Primary among them are protecting the nation from invasion; maintaining national law and order; protecting free enterprise, free contracting and private property rights; and producing a stable monetary supply. These tasks make mutually beneficial agreements among people and enterprises possible. Throughout the nation, individuals -- as consumers, workers and bosses -- look to their immediate and future needs. Enterprisers search for new products, more economical ways to produce, and methods to accommodate changing conditions. A market economy is rife with mini-central planning, where no enterprise is large compared to the whole system. Because of this lack of a center the system is dubbed "unplanned."

A planned economy gives the government, or one of its agencies, monopoly power over the entire economy. Its structure could be described with an organization chart similar to a large private enterprise, with several divisions producing a variety of products and services. At the top a board of directors sets the primary objectives for a given period of time. Below them executives in

staff organization determine the interrelationships among the declared objectives and convert the general objectives into more specific tasks at the national level. These are broken down into still more specific tasks for particular plants and regions, and eventually emerge as orders -- or planned contracts -- with suppliers of physical necessities, financial institutions and labor-recruitment organizations. It amounts to a complete monopoly of national production. In a centrally planned economy, there is only one plan: the central plan. The divisions may have some autonomy, but they have no legal basis for independent planning. All legal coordination, with trivial exceptions such as street markets and small private agricultural plots (to use the Soviet example) is done through the plan.

Capitalist civilization has no place for centralized planning. Neither government nor any private firm is to have monopoly power in the economy. Private enterprises have a sound basis for independent planning in the three basic institutions: free enterprise, private property and free contracting. Each enterprise makes plans. Free markets coordinate millions of collective individual plans. Each firm does work in-house, but routinely contracts with others for needed equipment and supplies. The economic balance between planned production within a firm and outside contracts with others is constantly changing as conditions warrant. "The market" is actually a host of markets.

Preferences drive plans

Free-market planning starts with individuals' preferences. These include choices from among the opportunities each person knows about -- which job to take, what kind of car to buy, where to invest, and which political causes to support. All these taken together determine the objectives for the nation, and provide the means for reaching these objectives. An ever-changing web of markets coordinates these hundreds of millions of individual plans, turning them into a meticulously planned economy.

Each person plays a role. Some people make careful plans and try to live according to a budget. Others live from day to day; their plans are subconscious. But deliberate or subconscious, these plans determine what and how much of any given product is produced.

Even subconscious plans are rational, because a person's actions reflect the value he places on virtually everything he acquires or sells. Put in a formal way, a dollar spent for anything could have been spent for something else. A person may regret spending a dollar for a cup of espresso when he discovers an unexpected need to feed a parking meter. Nevertheless, at the time of purchase he chose what he preferred. If he didn't get a dollar's worth of value from good A, it will be because he realizes he would have got more value for the same dollar from good B. He made a mistake. Only when he gets the same value per dollar in all things will he feel he made no mistakes. This describes the mathematical test for obtaining a maximum of value.

The same principle holds for working. The last dollar earned should have the same value as the last dollar spent for each consumer good and service. And so it is with savings and investments. The last dollar saved or invested would have the same value as the last dollar used to buy something.

A few people have enormous fortunes and annual income in the millions, but remain active in business. It is hard to believe they work to obtain more income with which to buy things or invest for retirement. Some may simply like to work. More may need the money because they work in the highest level of the market hierarchy, where great wealth is required. Some may like power. The point is that each person is making his own decisions, choosing what he considers best from his own point of view.

The hierarchy of markets

A market is a simple concept, but it obscures a wondrously complex reality. Every market is a feedback mechanism that passes information up the line to overlapping layers of producers, and down the line to a variety of consumers, altering their actions and perceptions. Each of these markets is different, yet all have a family resemblance. The detail in a specific market is repeated

in a very similar, but always somewhat different, way in all markets -- from smallest to largest -- and throughout a whole hierarchy of markets.

A hierarchy of markets exists with many planners in each level. The *consumer market* for final goods determines the goals for all producers. In advanced countries, consumers encounter a bewildering array of products. Each consumer good is produced by some enterprise hoping to find enough buyers to stay in business after paying for raw materials, hired labor, taxes and other items needed to get the product to its chosen market. As a rule, a number of enterprises compete for the favor of consumers, as well as for the goods and services they need to produce what they have to sell.

The next level of markets is a concatenation of *producer markets* -- wholesalers, truckers, railroaders, metal producers and fabricators, paper producers, builders -- every one a consumer of many products and a producer of others. Each is in competition with others and under pressure to do a better job. And each is part of a cooperative network of markets more complex than those involved in producing a wooden pencil. No one in the multi-dimensional web of markets need know much about the whole system. They need to know little more than the prices of what they buy and sell, evolving technology and regulations that are likely to affect them, and some information about the people and competitors with whom they deal.

All firms need financing. Small firms may provide their own money, risking the savings of the entrepreneur. This is the low end of the *financial markets*. Most firms get short-term capital by borrowing from banks. Banks are also private enterprises that gather savings from many sources and make loans to firms they believe capable of paying them back. Firms also raise money (and sometimes managerial expertise) by arranging partnerships and by selling stocks and bonds on capital markets created by still other private enterprises, called stock exchanges.

Investors trade bits of ownership -- stocks -- of the many hundreds of companies that have sold stock to raise money. Investors also trade bits of many companies' and governments' debt-obligations -- their bonds -- in equally well-organized markets. Stock and bond markets have two important functions: 1) They make it possible for individuals to invest without having to risk much of

their savings in the success of any one firm. 2) They provide the managers and boards of directors of each company with a daily evaluation of their success or failure, encapsulated in the current price of each stock or bond. Those prices are a consensus judgment of thousands of investors risking their own money, which they can withdraw at any time. Companies with good records find it easier to get more capital and expand. Others are put on notice. This gives every enterprise an additional incentive for efficiency.

There is a still "higher" level of markets. A few investors and major financial institutions buy and sell whole companies. They search for inefficiencies that can be reduced one way or another - by replacing bungling management, merging smaller firms into larger ones, breaking up firms that have tried to plan too much and "spinning off" parts of them, or by closing down firms that are frittering away valuable liquid assets. In the latter case, the business is essentially already dead. The remaining money is better used by allocating some to management and employees as severance pay, and returning the rest to the stockholders for investment elsewhere. In these circumstances a "hostile takeover" is socially desirable.

Workers at every level need education and training. Some need special clothing and shoes. The public schools and colleges provide a lot of this training, but specialized private schools and technical institutes fill the gaps in apprentice-type and technical skills that make workers more valuable. There is scarcely a trade or profession that does not have privately owned, specialized associations which produce information valuable enough to their clients to make the associations and its publications a profit-making enterprise. In a free economy every nook and cranny where value may be added is investigated over and over by people seeking a niche where they can do something for others that will produce an income for them.

Planning at all these levels goes on day and night in a free-enterprise economy. From this highly condensed description it is clear that the system is dynamic, with many people looking ahead for opportunities that will lower costs, produce new drugs, improve transportation, reduce pollution at lower cost, or serve some need felt somewhere in the hierarchy of markets. Nor is this the end.

Market planning transcends national boundaries

All levels of the hierarchy of markets are international unless blocked by political action. Virtually every purchase made involves international trade, but even beyond that, enterprises domiciled in one nation often have branches in other nations. At the investment level some money from richer nations is invested in less-rich nations (although a little also goes the other direction, especially when law and order has broken down in the needy nation). Typically foreign investment earns a higher return for investors in poorer nations where capital is relatively scarce, and therefore high-yielding investment projects are relatively abundant. If foreign investment is forthcoming, productivity and incomes will rise faster in those nations. It will increase the growth rate in the poorer nations. Overall it is a leveling up process.

This dynamic benefited America in the last century. Foreign investment in U. S. railroads and other industries hastened development here. Although the American population grew rapidly, it did not grow rapidly enough to prevent the persistent growth of the average person's standard of living. Nor did it stop the growth in the nations from which the investment came.

Private enterprises are always trying to protect their domestic markets by inducing their government to impose tariffs or quotas on imports. Trade unions do the same, and generally oppose more immigration. They also try to enact favorable legislation such as minimum-wage laws and laws granting higher wages for government contracts than market wages. Their successes benefit some citizens at the expense of others, but that is not the point here. The point is that obstructions to trade do not keep the market system from being a worldwide planning system. Trade barriers serve only to keep the outcome from meeting economists' tests for optimum efficiency. That is all. This is far less nationalistic than centrally planned systems where the planners' authority stops at the national boundary. When this happens, international trade becomes a crude bartering for items countries cannot produce yet need for emergencies -- like when planning goes awry or bad weather results in the need for imported food.

Decentralized planning is inherently flexible

Decentralized planning is not the conscious product of some political philosopher interested in economic affairs. Like language, it evolved almost unnoticed, becoming more nuanced as the economy grew in scope and complexity. The one hundred and thirty-year record of American agriculture is instructive. During that period population grew rapidly, vast areas of rural land were brought into production, transportation costs plummeted and virtually every element of agriculture adjusted to changes in technology.

At the end of the Civil War approximately sixty percent of the American work force labored on farms. Today it is less than four percent. This exodus from agriculture is the result of the replacement of horses by tractors, better seeds, pest control, irrigation and many other developments that have enormously increased total agricultural production for human consumption. The labor that migrated from agriculture is now employed in everything we associate with modern life, from the production of automobiles and highways to universal schooling, radically expanded college enrollment, and new products such as electronics, marvelous medical equipment, plastics, and improved steels and oils.

Hard times characterized American agriculture throughout this long transition period, but an abundance of food and fiber was produced, as were vastly improved goods and services, including houses with modern plumbing, electricity, central heating and garages. This was in response to changing opportunities, signaled by the price system, that induced and coordinated hundreds of millions of decisions made by millions of free individuals. In the process, hundreds of thousands of jobs were eliminated in agriculture decade after decade. But they were more than matched by different jobs in various industries, many of them brand new and unforeseen. Costs were heavy, but the rewards are astonishing when viewed in perspective.

Suppose farmers had gone to government in 1870 and demanded protection for their industry. Suppose further that economists had told Congress and farmers not to worry, that virtually everyone who was pushed out of farming would soon be employed in "higher-paying jobs." Who would have believed the economists? Who would have had confidence that the farmers and their offspring would be employed in industries unknown at that time -- such as automobiles, electric

refrigerators, curative drugs, telephones, aircraft, construction, and maintenance of a network of roads paved with concrete and petroleum-based blacktop that would stretch from Seattle to Miami? How many farmers would have been prepared then to take the next step and agree that *these things could not happen unless so many moved out of agriculture and drop their demand for protections?*

Is it not more likely that if Congress at that time had possessed the power to act, it would have joined the farmers to laugh in the face of anyone bold, pompous, presumptuous and impractical enough to advance a forecast so transparently speculative as a basis for advising government not to protect this major set of industries that employed more than half the voters? It is probably fortunate that neither federal nor state governments had sufficient power to block market forces in those days.

America's centralized planning

When Japan attacked Pearl Harbor in 1941 and Germany immediately declared war on the United States, the problem was to shift as much production as rapidly as possible from consumer goods to war goods. Everything was mobilized by a hastily constructed system of government controls. The production of automobiles, refrigerators, washing machines and electrical appliances was halted. Price and wage ceilings were imposed to limit inflation. Many products were rationed, including nylon stockings, gasoline, tires and meat. Some items were hard to find even when one had the needed ration coupon or permit. In short, the whole institutional structure was abruptly modified to meet changed conditions. There was no outcry in any way comparable to protests of the Vietnam War, although highly respected people on all sides of the political spectrum spoke at rallies before Pearl Harbor in strong opposition to plunging into war, especially with Germany.

No one put it in these terms. After all, we were at war against fascism and Nazism. Yet American wartime planning was essentially a fascist-type, planned system. Enterprises remained privately owned, but some were thoroughly controlled by a system that allocated materials to them and specified what they would produce. Their workers were, at least on paper, "frozen" to their

jobs, with their wages controlled by government agencies. But in reality they were not frozen to their jobs, because the demand for labor was so great that people who quit one job had little trouble finding another, and very rarely ran into trouble with the authorities.

This type of planning worked quite well. American output contributed immensely to allied victories. Evidently, this type of planning works well when:

- There is an almost universally-accepted first priority. In this case, win the war.
- Virtually everyone believes the experts, in this case the president and joint chiefs of staff, know best how to accomplish that desired goal.
- Nearly everyone knows someone on the front lines or near them, who are making much larger sacrifices than the ones those safe at home are asked to make.
- The situation is temporary. Soon there will be an end to the sacrifices.

None of these conditions are present in times of peace. Market planning fits peacetime and even wartime conditions when the war is small relative to the total economy.

The fast transition to a war economy illustrates the flexibility of a market economy. The transition was facilitated by the still-high level of unemployment that persisted after twelve years of "recovery" from the Great Depression.

The transition back to a peacetime economy immediately after the war provides stronger evidence that the flexibility works both ways. Immediately after World War II the government eliminated most wartime controls and released massive amounts of manpower and other resources to the private sector at a time when it was widely believed, even by economists, that the United States would go back to the high prewar level of unemployment. Nearly half the total output of the American economy had been consumed by the military during the final years of the war. Despite these fears, prices and wages were simply decontrolled, and wartime allocation of materials abandoned shortly after the Japanese surrender.

What happened? Unemployment turned out not to be a problem. Some credit is due the "G.I. Bill," which supported returning servicemen and their families if the veteran chose to go to a college or commercial school. Some credit should also go to the private Committee for Economic

Development. Responsible businessmen attempted to raise the expectations of business people at the local, state and national levels by busily working out detailed estimates of needed capital investment if "full employment" were to be attained, and urging each to do his part.

But probably more important is the fact that no refrigerators, irons, washing machines, automobiles and the like had been produced during the war. Moreover, people had money and good credit -- largely because price ceilings and rationing had made it difficult to spend all their higher wartime wages. Whatever the reason, there was no return to depression. Instead, the decontrolled free market ushered in one of the happiest decades of the century.

CHAPTER SIX

Problems with Market Planning

Economists like to search for "market failures," situations where market economies fail to make the most efficient use of resources. The shortcomings they have found can be classified as **monopolies, excessive unemployment** and "**externalities**," such as the uncompensated costs emissions from coal-burning electric power stations might impose on nearby residents. Externalities include many things that have become prominent federal and state policy issues since the Vietnam War, including overpopulation, resource exhaustion and extinction of species. Some of these are analyzed in this chapter, others in Part Two. Let's consider first the question of monopoly.

Problems with monopoly

True monopoly is rare. Far more common is dominance by two to four firms, with a number of much-smaller enterprises staking out various niches in an industry. Technically this is "oligopoly," but it is routinely called monopoly. Monopoly can arise from economies of scale, where a few large firms are able to produce all that can be sold at lower cost per unit than a number of smaller firms. For example, some experts believe that two firms can produce the worldwide supply of large aircraft at lower cost than three or more firms. In addition, governments can give a firm short-term monopoly power by awarding patent protection to an invention. They can give a group of producers a measure of monopoly power by placing a quota or tariff on

imports from foreign producers, and by imposing regulations large firms can afford but smaller rivals cannot. Money spent trying to get these favors may yield a higher return than other "investments."

Monopoly is a market failure to the extent it makes a capitalist economy inefficient and, in a sense immoral, because the monopolist receives a higher income by not serving willing customers ready to pay more than what it would cost to supply them. A monopolized industry produces *less* than it should so it can charge higher prices. Resources barred from use in the monopolist's industry can still find places elsewhere in the economy, but they produce there less of value to the ultimate consumers. The net loss of value is called "welfare loss." Just how much is lost is a matter of dispute. My own studies found small welfare loss, but this is of secondary interest here. How monopoly fits into working capitalist civilization is much more important.

Calculations of "welfare loss" to monopoly are based on "static" assumptions that define a "competitive" economy. In the idealized competitive model an indefinitely large number of firms produce identical products using known technology and groups of human and non-human resources, of which each unit in each group is identical to the others. Artificial as this may seem, it is a fruitful generator of hypotheses that are tested against objective data. We have learned much using this model, yet it neglects the elements that created capitalist civilization's distinguishing signature: long-term innovation and growth.

Competition as 'creative destruction'

Schumpeter was correct when he compared the type of competition that characterizes standard "static" economics to "Hamlet without the Danish prince." Standard analysis fails to explain the outstanding characteristic of a capitalist economy: persistent growth. Capitalism without its dynamism -- its constant destruction of old ways by better and more abundant products produced with less effort -- leaves out of account what Schumpeter called "the gale of creative destruction," the defining feature of a capitalist economy. This does not mean standard economics is wrong. It does mean that standard theory is only loosely connected to an understanding of how

the economy works as part of capitalist civilization. For convenience of expression I shall continue to use the word "competition" when it refers to "creative destruction." After all, it is closer to what laymen mean by competition.

Substitution of *creative destruction* for *competition* puts the whole economy into a different perspective. For example, monopoly plays a positive rather than a negative role. Innovation gives the innovator a short-term monopoly. This is not a bad thing, because it is central to improved productivity. When the transistor replaced the vacuum tube in radios and TV sets, virtually the whole vacuum tube industry was put out of business because transistors were so much more efficient. Transistors have now been replaced with microprocessors. At each step other innovators worked on ideas that improved and expanded what could be done with transistors and microprocessors, all the time making them smaller, more reliable and more powerful. A few decades later, computers that initially cost millions of dollars and required temperature-controlled rooms were handily outperformed by hand-held, modestly priced models. The opportunity for innovation more than justified any temporary monopoly some of them enjoyed for a time, and may yet enjoy.

Still, won't unbridled capitalism produce one big firm that dominates the whole economy, or at least one big firm in each industry? Is there any natural limit to the economical size of firms?

Firms can be too big

Will some firm grow until it encompasses the whole national economy? The answer is no. The reason is not to be found in anti-trust laws. It is simply because a firm can be too big. Trying to plan too much wastes resources. Soviet experience proves the point.

Even firms in a single industry can -- and do -- reach a size that makes them inefficient, unable to compete with smaller rivals. The situations in different industries are varied enough to require more attention to detail than any single person can manage. Remember, every private business is a mini-central planner. It owns or has effective control over its resources, hires labor to follow its management directives, and plans what it will produce, how much, what quality and how

it will reach consumers. Some companies are active in several industries that could be separate. For example, oil companies own (or lease) land, drill their own wells, run their own refineries, and often own their own pipelines and manage their own service stations. But they do not make their own steel for their platforms, drilling pipes, automobiles and trucks. Why not? Many of the jobs oil companies do, like building their own drilling platforms and towing them on site, are contracted out. Why? At bottom, it is because they find contracting less costly than doing it themselves. There is a natural balance between central in-house planning, contracting with other enterprises, and simply buying items on the market. A good example is the Ford Motor Company.

Years ago Ford made some or all of the steel, glass, and tires needed for the cars it manufactured, rather than buying them from other firms that specialized in the production of steel, glass and tires. General Motors made none of these and was more profitable. Today, Ford sticks to designing, assembling and marketing. Evidently, trying to plan too much raised the cost of producing a car. Ford was too big and too diverse. Need it be pointed out that the Ford Motor Company has always been far smaller and less diverse than the entire United States economy?

A market system allows firms of all sizes to find lowest cost balance between mini-central planning and contracting with others. The size of the firms they buy from ranges from sole proprietorships to multinational corporations.

When private property rights are well-defined and protected, and private contracts enforced by law, market forces will produce an array of different-sized firms that results in an efficient use of resources. Changes in technology, population, location and many other things will affect the sizes of firms over time. The energy, vision and organizing ability of firm leaders is also important. There is no cut-and-dried guide to the most effective size of an enterprise. A firm's best size will be validated by its performance in the market.

Firm sizes will change when their current size becomes more costly than alternatives. Altering the size and structure of their firms is a constant matter of concern for top managers as well as potential investors, who buy and sell businesses when they sense a quick profit can be made by installing fresh management, spinning off parts of a business, or merging it with another enterprise.

Usually a firm discovers it is too big (or too small) when it finds it cannot meet the combination of quality, reliability and service that its rivals offer customers.

Looking ahead, the electronic age will surely affect the balance between inside planning and outside contracting. On the surface it seems obvious that with computers, managers will be able to control more from the center. If so, larger firms will emerge. But computers also increase the ability of individual and small businesses to contract economically. This opens the door for larger companies to "spin off" additional functions to smaller contractors. If this predominates, computers will reduce the size of firms. The government's antitrust suit against Microsoft illustrates this problem.

Unemployment -- failure to use all available resources productively -- is a very different type of market failure. The problem of unemployment has had a tremendous impact on the American economy, especially since the Great Depression.

Unemployment as market failure

Excessive unemployment is intimately entwined with the management of the money supply and its international ramifications (see Chapter Seven). It is enough at this point to assert that some unemployment is an essential part of a dynamic economy.

Until the mid-1930s most economists accepted Say's Law. This held that, with a few short-term exceptions, people who were unemployed did not work because they chose not to accept available jobs on the terms that were offered. In other words, their unemployment was voluntary. To be sure, some jobs, like harvesting and timber cutting, are seasonal, and some jobs are made obsolete by new technology. It takes time to readjust. In addition, some people quit their jobs to look for better ones, a matter of individual freedom. These did not cause Say serious concern.

Unemployment associated with the depression phase of business cycles, sometimes lasting two to four years, was not so acceptable and led to bank and money reforms. The Great Depression of the 1930s shattered whatever confidence most people had in Say's approach and prepared the way for the "Keynesian revolution."

English economist John Maynard Keynes' 1936 book, *A General Theory of Employment, Interest and Money*, persuaded most influential economists that government was the key to greatly reducing -- even solving -- the unemployment problem in a capitalist economy. Keynes' basic argument is government can maintain a high level of employment by investing -- or spending - - whatever is needed to supplement the efforts of the private sector and fund jobs up to the "full employment" level. Unemployment would be reduced only to that needed to accommodate seasonal, technological and personal job-hunting needs. In fact, no periods remotely as distressing as those in the late 1800s or the Great Depression has occurred in the sixty-plus years since Keynes' ideas were adopted *de facto* by President Roosevelt and made part of normal practice by President Eisenhower. President Nixon declared, "We are all Keynesian now." Economics classes in business cycles were replaced by a new subject, macroeconomics, and became a standard undergraduate requirement. So many refinements have been made that macroeconomists refer to themselves as "post-Keynesian." Yet all is not well.

Keynesian economics justifies huge government deficits under certain circumstances, and allows one to think of welfare as a form of investment.

Third-party externalities

A secondary objective of this lengthy section is to show how a free-enterprise economy not only adjusts to opportunities in the market place but also to the output of value-judgment, or moral, enterprises. (This aspect will be treated more intensively in later chapters.)

Until rather recently most economists thought that "third-party effects" kept market economies from being as efficient as they might be. The problem is that the contracts made among producers -- employers and employees, suppliers and manufacturers -- took into account only the costs and benefits to the contracting parties. They ignored the costs or benefits imposed or bestowed upon third parties not involved in contract negotiations. The third parties were "external" to the contracting, hence the term "externalities."

Socialist economists argued public ownership and central planning would solve the externality problem because the planners would take all costs into account, "internalizing" the externalities of a market economy. In practice, central planning did nothing of the kind. Overall efficiency lagged, and third-party effects on the environment have been the worst in the world. But that is another story. What's important at this point is to understand the problem, discover how the American market economy has coped with it, and ponder how it might do better.

Two general types of externalities exist, "positive" ones that benefit third parties, and "negative" ones that harm them.

Positive externalities

Positive externalities present no problem. What were thought to be shortcomings turned out to be simply mistakes in analysis. The interdependence between the production of honey and apples illustrates this point.

Apple growers would harvest more apples if beekeepers would keep their bees in the orchards longer. The beekeepers – who, it was assumed, were not paid by orchard owners -- could garner more honey by moving their bees to alfalfa fields before the apple trees become fully pollinated. This analysis is puzzling, because in standard theory, in which "inputs" are bought on markets, contracting is trivialized as costing nothing in time or money. The economists should have asked why the orchardists did not keep their own bees, and whether they had contracts with beekeepers. Had they done so, they would have discovered that orchardists had elaborate contracts with beekeepers. The presumed inefficiency simply did not exist.

Both parties gained by eliminating what would otherwise have been an inefficiency. That is the way it is with positive externalities. There was in fact a well-developed normal market that the economists who published their papers did not know about and simply assumed did not exist. Yet we need to know a little more to understand why there is a separate market for the services of bees, instead of having orchardists raising their own bees and selling honey as a part of their business.

The problem the bee market solves is this. Orchardists need bees for only a short time in the spring, and their trees produce little honey. It does not pay to make honey production part of the apple business. Because so little honey is produced from fruit trees, orchardists pay bee keepers to place their hives in particular locations in their orchards for a specific period of time. It costs them less than owning their own bees and learning the honey business. Other crops, such as alfalfa, don't need the bees so early, but when they do need them the bees produce lots of honey. For that reason the beekeepers pay the owners of the alfalfa fields to let them keep their bees there longer. Specialization in beekeeping, apple growing and alfalfa farming yields a higher total value of output at lower cost. Everyone benefits, including consumers.

This is simply an example of ordinary specialization that goes on all the time throughout the economy to the mutual advantage of all concerned. Negative externalities are a different story.

Negative externalities

There are three sub-types of negative externalities. *Type One* externalities exist when the production of one valuable good reduces the output of a different valuable good. *Type Two* externalities, often called the "tragedy of the commons," exist when a commercially valuable resource is overused, or even ruined, because no one controls how intensively it is used. *Type Three* externalities exist when a property can be used to produce a commercially valuable good, but such use reduces the amount of wildlife or something else that has or no commercial value but is prized for some other reason, such as the preservation of species.

Type one externalities

Type One externalities have been addressed by tort law for centuries, yet economists began to recognize their relevance only about forty years ago, when Nobel prize-winner Ronald Coase published an article titled "On the Problem of Social Cost." Only now are they becoming a standard part of economic courses.

When the production of one company imposes a cost on other producers the harm is not, like theft, a criminal act against the state punishable by fines or imprisonment. It is a tort, a "wrongful act" that is punished by making the offending party pay compensating damages that make up for the loss -- and perhaps additional punitive damages to further discourage such behavior.

A famous example of a Type One externality involves old-fashioned steam locomotives that cast sparks into the air, which sometimes burned up farmers' crops planted near the tracks. The railroad and its customers benefited because the railroad could ignore the cost it imposed on the farmers. The farmers went to court and successfully sued for damages. They argued the railroad had committed a tort. They won. This effectively gave the farmers the right not to have their crops put at risk from sparks from passing trains.

Now the railroad executives were forced to care about the farmers' crops, because they had to pay for the damages their engines caused. But they still had options. The railroad executives could avoid burning crops in the future by installing spark arrestors, which cost money and reduce the efficiency of the engines. Alternatively, they could contract with farmers and pay them to plant further back from the tracks, or to plant less-flammable crops close to the tracks. The option that costs the railroad the least will be chosen. The joint value of railroad services and farm crops will be maximized. The court decision laid the basis for contracting that minimized the joint cost of railroading and farm production. It did this by clarifying private property rights. This led to a more efficient use of resources.

Upon reflection, it is not so obvious that the tort was perpetrated by the railroad. The court could have decided that the farmers planted flammable crops close to the railroad, hoping to win damages. Suppose the railway had won. Then the farmers would have been able to cut their losses by planting further back, or paying the railroad to install spark arrestors. It turns out that as a general proposition and *from a social point of view* it doesn't matter much which party was deemed the transgressor. But it matters a lot that one party or the other, *either* the farmers *or* the railroad, have the property right so the other can be held responsible. This is a fundamental

function of courts in a System of Liberty. Well-defined property rights provide a non-violent way to reach mutually beneficial agreement.

The point to keep in mind is this: *Markets work best when everything of value is owned by someone.*

Type two externalities

Type Two externalities exist when a valuable resource is used without charge to produce a commercially valuable good. "Free" resources are always and everywhere overused, even destroyed, unless the resource is in fact so abundant that everyone can take as much as he wants without damaging the total. This was the case with ocean fish for centuries, before modern technology made it possible to take so much, and with bison on the Great Plains, when the American Indians simply could not -- even if they had wanted -- have taken enough to put a dent in the numbers of the beasts.

In recent years fish-catching technology took a quantum leap, and some fish stocks fell off precipitously. Yet even as the total catch declined, it still paid each fisherman to expand operations as long as the value of the fish caught per boat was more than the cost of boats, gear, and manpower needed to catch them. So more and more people -- and capital -- went into fisheries, *even after the total number of fish caught was declining*. This happened because the value of the catch was enough higher than the total cost of catching the fish to attract added investment into the industry. *More* money, capital, labor and related resources flowed into the industry to catch *fewer* fish! This is an egregious waste of labor and capital, and it put the whole fishery at risk of ruin for lack of fish. Consumers would have been better off (would have had more and better-quality fish at lower prices) if they could have found a way to pay many fishers not to invest or work in the industry -- even to do no work in any industry. For this to work, some way would have to be found to exclude people with no intention of becoming fishers from lining up and promising not to enter the ocean fishery business just to get the payola.

This "tragedy of the commons" is often blamed on the greed of the fishing industry, but greed is not the problem. The fault lies with the failure of government to find a way to grant ownership rights to a limited number of people. Had this been done, an appropriate price would have been placed on the resource that was being overused, and thus limited its use. Governments failed because the fish lived most of their lives in international waters, where no government has jurisdiction. The American government turned to what was seen as the next best thing: international agreements and restrictions on fishing seasons, plus limitations on the types of fishing gear.

An uncontrolled ocean fishery is much like what cattle ranching would be if anyone could legally slaughter any cow, steer or bull they could find and sell the animal to a slaughterhouse. Were that the case, cattle in open fields or on the range would soon be as scarce as bison. Cattle are abundant because cattle ranchers, with the help of the government, enforce property rights to their cattle. The government does not allow people to take and slaughter ranchers' cattle just because rustlers can afford to pay for the cowboys, trucks and supplies needed to round up the cattle and take them to market. Nearly all of the cattle owned by ranchers go to slaughter, but cattle as a species are in no danger of extinction.

It is the same everywhere. Cattle owned by African tribes are in no danger of extinction. Nor are African elephants at risk of extinction in the seven nations of southern Africa, where they are converted from feared pests into valuable assets (more on that later).

Governments use two very different ways to remedy Type Two externalities. One is to pass special laws requiring specific actions or restraints, and use police power to enforce them. I call this the "political" approach, an example of the Old Order at work. The other way uses the power of government to establish something close to secure ownership of the "free" resource, and lets market traders discover a balance between the value of a resource and the value of its output. This is an example of the New Order approach. Recent experiences with the Pacific Northwest fisheries industry provides an example of both.

A fish tale

In the absence of property rights to ocean fish, bureaucratic regulation has evolved to protect certain species, such as salmon and halibut. In essence, government agencies have asserted ownership rights. The fish are publicly owned. Substantial sums are spent to estimate the numbers of fish from year to year. "Allowable catches" are calculated, and the various fisheries regulated in various ways to limit the actual catch to the allowable amount. Political and administrative devices are used in most fisheries to keep the catch down. The fish are still free, if the limits on time and gear are observed. Breaking the regulations can bring heavy fines.

For decades regulations have become stricter as more boats entered the fisheries. For example, the number boats in the Northwest commercial halibut fisheries rose from a few dozen to more than five thousand, while the number of days they were allowed to fish fell from six months to just two 24-hour periods a year. This regulation conserved the stocks of halibut, but it also increased the death rate among fishermen, who braved dangerous seas when the two open days happened to be stormy.

Other costs ballooned. Shore facilities that processed the fish also had to be too big, and rely on short-term employees, because what once came in over a period of six months now came in over two days. The quality of the fish delivered to consumers was lowered because much more of the catch had to be frozen. Consumer prices soared because of the high cost of so many boats and over-large shore facilities and, of course, due to the diminished supplies of fish. This is a political "solution" for an economic problem. It is better than no controls at all, but it wastes resources and lives.

Regulation by reducing the number of days when people can fish is mandated waste -- *unless this regulatory system is the least-costly feasible way to keep the fish stocks from depleting to near extinction*. Until recently it was the best practical system that had been devised. This is no longer so.

Five years ago the Canadian halibut industry, following the lead of the Australians and New Zealanders, introduced Individual Transferable Quotas (ITQs), and in early 1995 the United States

did likewise for two species of fish in the North Pacific. The limit on the number of days open for fishing was scrapped. Each boat owner who was active in the fishery was given an ITQ, a right to catch a particular weight of fish during a longer season. The size of catch allowed per quota was a certain weight of fish, calculated as a *percent* of the allowable catch for the year. It would rise in subsequent years if the size of the stock increased. This provided an economic incentive not to over-fish.

ITQs are a close substitute for private property rights. The quotas can be bought and sold, and in some cases rented. The more efficient skippers can grow because they will be able to pay more for an additional quota than less efficient skippers can make from going out to sea. Those who choose to sell their quotas get what amounts to severance pay that will tide them over into a different line of work, or help support them in retirement.

This is not so different from the protection of private property rights in land or anything else. It divides the property into parcels, or quotas, and distributes them to many people. ITQs are efficient, and they lower cost, because boat owners don't need to catch their quota in just a few hours. Fish buyers will be able to pay more because they will not need such large plants, can hire workers for longer periods and won't need to freeze so much of the catch. Consumers benefit from cheaper fish, with more of it fresh rather than frozen.

The results so far have been excellent. Supplies of high quality, fresh halibut are up, and prices are down about 20 percent. The price to fishers is up. The number of boats in the industry is expected to fall. People who remain in the industry will have longer, and much safer, jobs.

But this result does not please everyone. Greenpeace, in particular, opposes it because "it is an economic response to a problem." It wants "other ways" to limit access to the fisheries. This is pure ideology. The "others ways" have been tried and have failed. Currently Greenpeace is doing all it can to organize East Coast fishers to oppose ITQs in their fisheries. Alaska fishers also complain that Washington state boat-owners got too many quotas, but they are reportedly buying them up from their southern neighbors.

Alaskan Republicans in Congress, reflecting the unhappiness of their constituents, worry that a number of small boats and their crews will wind up on the beach. This probably will happen, but it is the same sort of worry that American farmers might have voiced in 1870 if told that the number of farmers would eventually fall from 60 percent of the workforce to less than 5 percent. It does not follow that it is a bad outcome, either for them or for the nation as a whole. The displaced fisher will have had no reason to sell his quota unless he can get more for it by selling than he expected to earn by continuing to fish.

So far ITQs exist for only two species of fish in the northwest fisheries, although salmon are a much more valuable industry, and the conflict between Alaska, British Columbia and Washington has become bitter. Something like ITQs is needed to help preserve the industry and reduce political conflict. The advantages of this close substitute for private ownership is realized by establishing what amounts to a set of property rights to the fish that can be rented or sold. Everyone is induced to serve both socially desirable purposes related to fishing -- conservation of the fishery resource and excellent food for lower prices.

I know of no way to establish comparable rights with the "incidental" catch of fish not marketable for one reason or another. Factory ships in some fisheries kill and dump 50 percent or more of the fish they catch, either because they are not permitted to market that species at that time, or because the fish are too small or too large to be economically processed on the factory ships. Regulations are clearly imperfect but may be the best that can be devised at present.

Market incentives to clean the air

Dirty air over American cities is another Type Two externality that has yielded good results when a sound substitute for private property rights has been given a try. Air, like the fish in the ocean, is a common property, a free good because it is owned by no one -- or everyone.

An effective way to establish a good substitute for ownership is to sell "licenses to pollute." They work like this: Any firm wanting to stay in business in a given metropolitan area must have a license that will allow it to emit pollutants. Government agencies set an allowable

amount of air pollution, and then allocates or sells (perhaps at auction) transferable "licenses to pollute" to enterprises that are emitting pollutants. Licensing puts a value on pollution by making processes that dirty the air an unavoidable cost of production. Companies that sully the air in the metropolitan area will have to pay, just as they pay for land, capital equipment and supplies. Air will no longer be a common property that can be used without charge.

Allowing the licenses to be bought and sold minimizes the social cost (the value of the reduction of output of goods and services) needed to lower the pollution to a given level.

Companies that reduce the pollution they emit can sell some of their permits and make some money. Others that cannot cut their emissions enough to meet their allowable amount can stay in business if they can afford to buy additional permits. The price of the "extra" rights can be high. In this way the overall pollution will be held to desired level at minimum cost. Every enterprise is motivated to pollute less so as to have more rights to sell, or fewer to buy. Fewer industries will have to close down or be forced to leave the area. Every firm has a solid "bottom line" reason to find effective, low-cost ways to reduce pollution.

If lower total levels of pollution become feasible later on, the governing municipality can buy up some of the rights, making pollution more expensive and giving everyone an incentive to find more ways to cut pollution. This method of taking the costs of environmental pollution into account minimizes the cost to government, consumers and society generally.

This program could be made inordinately expensive if the clean-air goal is pushed near unattainable levels. The Environmental Protection Agency (EPA) has persuaded President Clinton to propose doing just that in regard to ground-level ozone that is only a little above what occurs naturally in forested regions, such as The Theodore Roosevelt National Park in North Dakota. Another provision of the proposed EPA bill substantially lowers the acceptable standard for very small particles in the air, even though the agency's own science department found no significant benefits from lowering any of the present standards. Opponents of the proposed standards on ground-level ozone say there are actual benefits from low-level ozone. It lowers the risk of getting

cataracts and skin cancer, including melanoma. If the proposed EPA bill becomes law, costs will be hidden in the prices of goods, the relocation of enterprises, lost jobs, greater commuting time and greater reliance on imports of products produced where air quality is lower than in the United States.

Unfortunately, questionable actions like the proposed new EPA standards must be expected when a government regulatory agency is put in charge of virtually anything. The entrepreneurial spirit of the leading bureaucrats will keep them looking for ways to keep the agency alive and growing. The natural, ruthless, creative destruction that purges excesses in the market and lowers the cost of pollution (as long as overall standards are attainable at reasonable costs) tends to be replaced by occasional legislative dueling over the funding of the agencies and extensions of their programs.

Elephants, etc.

The number of African elephants has been declining as human population growth pushes agriculture further into the wild. To villagers the pachyderms are dangerous pests that trample their crops, destroy their houses and from time to time threaten their lives -- not at all the lumbering gentle giants seen on TV screens and Disney movies. They are in this respect like the American bison that made farming and cattle ranching virtually impossible in wide areas of the western United States a century and a half ago. But at present the negative value of the African elephant is more than offset by its commercial value in most nations in southern Africa.

An African organization known as CAMPFIRE (Communal Areas Management Program For Indigenous Resources) gives small villages the right to sell a predetermined number of trophy hunting rights to elephants and other large game. The villagers keep the money, about \$12,000 per elephant. In spite of a ban on the sale of ivory, intended to save elephants by reducing their commercial value, these hunting-rights sales have benefited poor farmers enough to compensate for crops, villages and lives occasionally destroyed by rampaging herds of elephants. Yet American and European wildlife enthusiasts are doing all they can to reduce villagers' income

from the elephants to zero. They added all other elephant parts to the ivory ban and tried to end all pachyderm hunting at a June 1997 conference of the Convention on International Trade in Endangered Species of Wild Flora and Fauna -- mercifully reduced to CITES -- a 135-nation organization. (Surprisingly, the American and French preservationists at the conference failed to override the requests of twelve African states for a limited resumption of the ivory trade to help finance the elephant preservation while alleviating the plight of African farmers.)

The argument against CAMPFIRE is two-fold. First, the program is subsidized. It has not raised much money compared to the amount attributed to tourist trade, which is attracted in large part by the opportunity to see elephants in the wild. Also, hunted elephants learn to stay away from humans and are not readily seen by tourists.

Nevertheless, if experience since 1980 is a guide to the future, increasing the incomes of African villagers from limited elephant harvests is a victory for the elephants as well as the villagers. Reports show the number of elephants killed to protect crops and human lives in Zimbabwe is down since then from 300 to 30. Poaching is sharply down, so that the total elephant population is up by 20,000 -- to 66,000. In a few nations elephants are owned more or less like cattle, and, to the horror of some well-meaning folk, harvested as a source of meat and other products. From an economic point of view this has made the African elephant, a sub-species of elephants that was never captured and trained to do useful work, a valuable asset similar to the more docile Indian elephants, trained to do heavy work and for that reason protected by their owners as valuable private property.

African elephants that roam public lands are dangerous animals, preserved (not very successfully) by politics, laws and rangers. The park rangers hired to protect the elephants from poachers can increase their incomes by making sly deals with poachers, or by becoming poachers themselves. After all, the wildlife employees do not own the properties they are hired to protect. The ban on the international trade in ivory was supposed to save the elephant by markedly reducing poaching. It has not worked well. It has reduced the value of elephants to African farmers who farm in the same regions inhabited by the pachyderms. Asserting a compassion for elephants,

animal rights groups seem either to be oblivious to the consequences of banning international trade in all elephant parts and trophy hunting, or contemptuous of the African villagers and the governments that represent them. By what right do they impose America's endangered species act on the African sub-continent?

CITES' strategy can be described as a determined effort to use the law to convert a Type Two externality into a Type Three externality, in which the same resource can produce a commercially valuable product -- but only if some other things with no commercial value are "sacrificed." Tort law makes Type One negative externalities a normal part of efficient individual planning coordinated by markets. Creating close substitutes for individual property rights does the same thing for Type Two negative externalities. Can something similar be done for Type Three negative externalities?

Type Three externalities

Physical properties such as land are owned because some of their attributes have valuable uses. Yet the land might also have other attributes with no value to the owner (or even negative value) that some people want preserved. For example, swamps and contours of land often have negative value to their owners, as revealed by the fact people spend money to fill swamps and change contours without regard to wildlife that inhabits the land.

Environmentalists perform a valuable function by making us aware of the value of many things and numerous life forms that, at least as yet, have no commercial value and so are treated as if they have no value at all. Although the plants, animals and their habitats are privately owned, they, like bison, might be driven to extinction. *Nevertheless, the conflict is not between man and nature, as some would have you believe.* The conflict is between some Homo Sapiens who call themselves environmentalists and other Homo Sapiens who own the land, using it to house themselves or produce commercially valuable products.

Underlying the conflicting views are irreconcilable visions of a properly ruled society: on one hand, rule by an elite trained to govern; and on the other, the upstart System of Liberty.

Typically environmentalists act as third parties interceding on the side of this or that endangered or threatened plant, bird or animal. With rare exceptions, they do not offer to buy rights to the birds or plants at issue, but assert effective ownership of those rights in the name of "nature," "the earth" or "future generations." Environmentalists ask the government to enforce this claim by making the species in question a public or "social" good, and paying for it not by spreading the losses of commercial values across all of society, but by loading the full cost on the owners of the affected properties. This is a denial of the legitimacy of private property rights.

The Constitution counts

Private owners have sued for compensations, basing their argument on the Fifth Amendment to the United States Constitution: *"No person... shall be deprived of life, liberty or property without due process of law; nor shall private property be taken for a public use without just compensation."* A similar provision in the Fourteenth Amendment imposes the same requirement on the states.

On its face, "just" compensation means the lost market value of the property. Receipt of this amount would make the current owners whole, and an economist could be reasonably content that the property was being put to a better use. The environmental concern would be addressed, the lost commercial value of the owners' diminished property restored. The aggregate values of all properties taken together would have been increased. Compensated "takings" have been used to acquire land for highways and other public purposes. Other takings, such as the banning of billboards and changing zoning laws, are not compensated. The non-payment is justified as part of governments' police power.

Recent acts related to the environment have grossly escalated uncompensated takings. For example, a fourth-generation Rhode Island farmer, based on assessment of "highest and best use," found his taxes raised from the rates for agricultural land to those for industrial land -- more than he could make by farming. Despite this, environmental authorities denied his application for an industrial-use permit because they classified his land as a wetland. No compensation was paid,

leaving the farmer stuck with the high taxes and no way to pay them. Presumably, the land will eventually go to the county or state because of unpaid taxes.

Similar stories abound throughout the country. The losing party is not always a private owner, and the actions accepted by the courts sometimes seem to be an obvious violation of the Constitutional separation of powers between federal and state governments. For example, James City County, Virginia, spent millions of dollars over several decades to develop a water supply that met the standards of the Army Corps of Engineers. Although the court agreed with the county and the engineers that the need existed, and that all viable alternatives had been surveyed, the court upheld an EPA veto of the project because it found that the law giving the EPA veto power was virtually absolute -- an absolute negative property right that overrides state as well as individual rights.

Similar laws and interpretations can have distressing, unintended consequences. They provide a powerful incentive to bribe and accept bribes. A few officials have the power to decide. An adverse decision will be very costly to an enterprise, even whole communities. One can be certain that less-expensive corruption will, in practice, soften the impact of the regulations. Overbearing bureaucratic states everywhere foster corruption, disrespect for government and cynicism.

A few aggrieved property owners have recently won some compensation. This has stimulated alternative ways to take property without payment. One is the "public trust" doctrine. Under this doctrine the federal government has certain responsibilities to protect its citizens' common interests, which it cannot legitimately relinquish no what the Constitution seems to say. According to this doctrine, the federal government should assert its rights regardless of the cost to current owners of affected parcels of property. The owners, of course, do not find any such restrictions in their land titles. The other argument asserts that current owners have an unspoken duty as stewards to protect resources, including wildlife, without compensation.

Mixed signals

The goals of various environmentalists differ. A popular objective is found in the agenda of the National Biographical Survey, whose proponents would extend the public trust doctrine to entire ecosystems through the National Biological Act. While the areas to which the act would apply are unknown at this time, they could include large strips running across several climatic zones in mountainous regions, like some in Costa Rica. The areas could be even more extensive if people like Reed Noss, a Wildlands Project organizer, get their way.

Noss is quoted as saying, "The native ecosystem and collective needs of non-human species must take precedence over the needs and desires of humans." Another person from the same organization put it like this: "Our vision is simple. We live for the day when grizzlies in Chihuahua have an unbroken connection to the grizzlies in Alaska, when the gray wolf population is continuous from New Mexico to Greenland."

Since the proposed National Biological Act would exempt its activities from the Freedom of Information Act, we would never be able to examine the arguments, values or motives that determined why very powerful government functionaries decided to take either individual plots or broad strips of private property out of production.

Valuation: The key problem

The fundamental problem with Type Three negative externalities is the unwillingness of people, such as those devoted to the protection of wildlife, to put a price on the properties they value but which have no commercial value. They refuse to do this even if they personally don't have to pay any price. They probably fear -- rightly so -- that taxpayers would resist paying the huge amounts that would need to be raised. The extremists who want virtually all human activity banned from broad areas would get no revenue from the land, and would pay no rent or taxes. But they also would exclude people from the affected areas who might find some use for the properties. As the director of the Wildlife Project put it: "Relocating people may not be necessary

if they refrain from any use of motors, guns or cows." Revolutionaries of this sort want total exemption from tort law.

What should a judge do if wildlife enthusiasts were to file a lawsuit against cattle ranchers? Once upon a time the judge might have told the wilderness folk they lacked "standing," that they suffered no personal or business loss because of the activities of the cattle ranchers, and so had no right to sue. No longer. Now the case will go to trial. A finding for the wildlife people apparently would result in the expulsion of all people not prepared to live at a primitive level of existence, as well as the end to the satisfaction of many material and recreational wants of current or future generations. A finding for the cattle ranchers would allow the sale of land, or as much of it as wildlife enthusiasts could afford to buy, plus any additional funds the wildlife lovers could persuade government to extract by taxation. Thus, finding for the cattle ranchers provides a basis for the reconciliation of competing values and the maximization of the combined environmental and commercial values. A finding for the wildlife people leads to continuing conflict.

On the surface, at least, environmentalists should be able to buy quite a lot considering their relative affluence, magnificent organization, marvelous publications, presence in the media and influence in Congress. Some steps toward satisfying their preferences have been taken for years. For example, wilderness advocates such as Nature Conservancy and Ducks Unlimited do buy property. By the usual rules, this procedure puts the properties involved to their best use because the preferences of people wanting to put to environmental non-use have paid a little more than the value of the products of the land that will be lost.

CHAPTER SEVEN

Money, inflation, unemployment and the international economy

Money is one of the greatest inventions of mankind. Human life above the most primitive level would be impossible without money. It makes specialization possible, specialization that reveals the diversity and ingenuity of Homo Sapiens. Money makes possible comparison and trade of unlike things. One cannot add apples, oranges, gasoline, the use of trucks, the work of professionals and tons of bricks. But one can add their values, expressed in dollars, francs, pounds or pesos. One cannot plan one's life by storing food, electricity and health care for use in retirement years, but one can store money to buy them decades later. No one can make or grow everything one's family is accustomed to using, but one or more members of a family can specialize in any of thousand less-arduous activities and earn enough money to buy these goods and services from other specialists. In short, modern life could not have evolved and cannot be maintained without money.

Essential as it is, though, money is not perfect. Ideally, money would produce a stable, or nearly stable, price *level*. Individual prices of goods and services would fluctuate according to their relative scarcity, thereby inducing a flow of resources into the production of what is more desired and away from spots resources are over-abundant, but the "average" of all prices would, ideally, be stable.

A stable price level is ideal because it gives all people at work in the economy clear signals that help them choose among their economic opportunities. It also serves them better than

fluctuating price levels when planning their savings for future retirement. Even slowly rising price levels -- inflation -- make choice among money-earning alternatives harder because the money value of all opportunities may be rising, so choice comes down to which is growing faster. Also, if the price level rises, people storing money for retirement will find that their dollars buy less than they thought when they reach retirement age. Wise investments can offset this loss, but fluctuating price levels make it harder to plan. So governments are quite right to try to create a monetary system that will ensure stable prices.

This was the goal of our fledgling Congress when it used its Constitutional power to regulate the value of money by choosing a system based on both gold and silver. In practice it became a gold standard, because the market price for silver was higher than the price the treasury was obliged to sell it for. People bought gold at the mint price, traded it for silver at its mint price and sold silver on the market for a profit.

National leaders understood the disorder that came with inflation. The recent experience of paper-money inflation during the Revolutionary War, when the Continental currency was produced in such abundance that "not worth a continental" became a synonym for worthless, had driven home the point that money has no value unless it is scarce.

The gold standard keeps money scarce because there is not a lot of gold in existence, and mining more is such hard work. Tying the amount of money in circulation to the amount of gold held by the government also forces the national government to raise taxes to pay for what it wants to buy or transfer, meaning that the federal government must do its best to maintain a balanced budget. This combination fits nicely with the idea of a small federal government possessing limited power. So does the fact that the gold standard minimizes government management of money and the economy.

Public support for the gold standard and a balanced budget made peacetime restraints on federal spending something close to a moral imperative for more than a century. But the gold system lost much of its appeal here and abroad since the start of the Great Depression, and was abandoned by the United States and most other nations in a series of steps culminating in 1971.

Since the late 1930s, mild inflation has been justified in the U.S. by an economic theory that claims this increases the level of employment and output.

Although the gold standard is dead, it still provides a useful, easily-grasped model of the relationship between domestic and international price levels that in fact tied all nations on the gold standard together into something close to a world economy.

Gold as international money

The capitalist system is inherently international. People look for opportunities wherever they can find them, not just within their nation's borders. Traders were active centuries before anyone spoke of capitalism. Over the centuries gold became preeminent money, and the basis for a highly refined domestic and international system.

The gold standard welded each nation's currency into a close substitute for a single worldwide currency, and did so better than the U.S. dollar does today. Gold was better because it virtually eliminated "currency risk." Currency risk is the risk of loss (or gain) in the value of an investment in a foreign nation due to unexpected changes in the cost of the other nation's money -- the *exchange rate*. Yet something had to fluctuate to accommodate basic changes that differently affected the economies of trading partners -- changes in such things as resource supplies, technology, population demographics and other characteristics. The gold standard minimized exchange-rate changes, leaving the adjustments to occur in prices, wage levels and perhaps rate of unemployment. But this does not mean that the gold standard is compatible with large changes in domestic price levels. Quite the contrary.

The basic interrelationships are illustrated by a neat, simplified mechanical model, consisting of five "rules" for a gold standard to which a number of nations agree to adhere. If a gold standard is to work, each nation that abides by it must:

1. Set a mint price for gold (so many dollars, francs or pounds, etc., per ounce). Ideally, this price will not be changed.

2. Buy all gold offered at the mint price.
3. Sell all gold demanded in exchange for units of its national currency at the same mint price.
4. Not obstruct in any way the importation or exportation *of gold*. (Tariffs and quotas on other things are allowed.)
5. Maintain a fixed ratio between the amount of its stock of gold and the amount of "money" (including checking accounts) in circulation.

You might think that a country could lose all its gold under this system. You would be mistaken.

Suppose prices in the United States were "too high" compared with prices in other nations. Foreigners would buy less from the United States, and Americans would buy more from abroad. Fewer British pounds, French francs and other currencies would be spent on dollars needed to buy goods produced in the United States. At the same time, more U.S. dollars would be spent on francs, pounds and other currencies needed to pay for goods and services Americans wanted to import from those countries. This reduced supply and increased demand for foreign currencies would increase their prices -- their "exchange rates" -- for Americans. The higher cost of foreign money raises the total price (price of the foreign goods *plus* the cost of the foreign money) Americans must pay. This change in exchange rates moderates the American demand for foreign goods, but perhaps not enough to restore equilibrium. If not, people wanting to buy abroad would find themselves paying so much for foreign money that it would pay them, or specialist bankers, to buy gold from the U.S. Treasury, export the gold and sell it to foreign treasuries to acquire the pounds, francs or other currencies they need.

Notice how this uses the five "rules" of the gold standard. The United States sells gold at its fixed mint price, and people in the other nations buy it at their fixed mint prices. Gold moves freely because there are no tariffs or other obstructions between nations.

Let's review how this affects price levels. The United States has less gold and so, according to Rule Five, it will reduce the money in circulation so the general level of prices in the U.S. will fall. The other nations have more gold, so their money supplies and prices will rise. Before long American prices will no longer be "too high," and the "gold flow" will stop until something new happens that affects international trade. No nation risks losing all its gold.

Very little gold, if any, will actually be shipped. Only the ownership will change. Why pay the costs and take the risks of shipping? Gold may be moved from one vault to another in some very safe depository such as Fort Knox. Exchange rates will change only enough to cover the transfer of ownership of the gold that was "shipped."

Notice what is happening here. *Because* exchange rates among nations are fixed between narrow limits, *adjustments are made by changing the whole level of prices in all the nations linked by the gold standard.*

Flaws in the gold system

The gold system has flaws. Most salient, it is a "fair-weather" system. It breaks down just when it seems needed most -- during wars, when serious inflation is most likely. It has failed to avoid inflation during major wars because the federal government simply *must* increase expenditures faster than it can hope to raise revenues to pay for its expenses. Government can avoid inflation by selling "war bonds" to its citizens. Like taxes, this takes money the citizens could have spent and turns it over to the government. In the last century the only other option has been to print money and simply outbid private citizens for things the government wanted. Too much money chased too few goods and services, driving up prices -- sometimes to a point money became almost worthless.

Central banking, the Federal Reserve System, offers an alternative to printing money: borrowing from the central bank. This is less inflationary, primarily because the cost is hidden and less likely to scare people into spending whatever they earn as fast as they get it, thereby multiplying the inflationary effect. During World War II inflation was further suppressed by

controlling prices, rationing coupons for many consumer goods, ceiling wages, and suspending the production of consumer goods such as cars and appliances. People were paid more than they could legally spend. They got along with what was made available. Higher prices occurred primarily after the war, when consumers could spend what they had been forced to save.

There are other flaws with the system. Rigid adherence to the gold standard caused short-term money crises that led to depressions during the decades after the Civil War. The Federal Reserve System was reduced in 1913 primarily to repair that flaw. This injected professional management over the money supply, yet was deemed by most financial experts and economists at the time to be an improvement of the gold standard, not its abandonment.

At first, the economists seemed to be right. America during the 1920s was exceedingly prosperous by world standards. While it continued an average annual growth rate of 4 percent, dating back at least to 1868, America seemed to have entered a new era. People were even told they had a duty to get rich. A political slogan of the day was "A chicken in every pot, a car in every garage" -- both modest luxuries for most people at the time. Peace seemed assured. All the leading powers had renounced war as an instrument of national policy. Arms control was a reality. The newly constituted League of Nations was in place to settle international disputes without violence. A century of peace and progress seemed at hand.

The basic limitations on interventionist government -- limitations friendly to capitalism -- were in place in the United States. The gold standard gave significant protection against inflation. The relatively new Federal Reserve System (the Fed) was expected to deal with possible crises caused by temporary shortages of money that had led to the short-term depressions of the late 1800s. Government spending was a small part of total spending. Aside from maintenance of public order and enforcement of laws that protected property rights, government's domestic economic tasks were to sustain business confidence and spur growth. The government was to help by balancing its budget, keeping the national debt low and sticking to the gold standard. All three were practically moral duties. Intervention in private businesses was limited primarily to breaking up

monopolies ("trust-busting"), regulation of railway rates and actions to ensure the safety of food and drugs.

By 1930 the dream of progress was fading. By 1932 the Great Depression was underway. Bankrupt investors were leaping from tall buildings. The nation was in despair. When Franklin Roosevelt became president some said he would be either our greatest president or our last. There was no war to justify large government deficits, yet deficits were growing rapidly in a domestic crisis. Prices, especially in agriculture, were in steep decline. What had happened?

Definitive reasons for the sudden debacle remain elusive. The consequences of the Versailles Treaty ending World War I probably played a part. The settlement forced Germany to pay a heavy burden of war debts to the nations it had invaded. This led to horrific and disruptive German inflation during the mid-1920s, and probably opened the door to the rise of Hitler and World War II.

In the late 1920s banks, despite the best efforts of the Fed, were lending to people speculating in real estate and stocks. When real estate and stock prices began to fall, many people desperately wanted to sell, but there were few buyers. Banks saw a drop in the value of the collateral put up to secure the loans. They called for prompt repayment whenever they could, and did not renew loans when they came due. Banks plagued by non-performing loans and bankruptcies of their depositors failed months before the 1929 crash that signaled the beginning of the Great Depression. When a bank fails, it must close. This means that a check drawn on a deposit in that bank cannot be honored. It is no longer part of the money supply.

Many depositors, afraid that their bank might fail, rushed to get their savings out, either in gold or paper money. These "runs" on banks were devastating because there never was enough paper money to pay off all the deposits at once. Hundreds of banks of all sizes failed after the stock market crash, but the day President Roosevelt took office was the worst. His first act was to declare a "holiday" that closed all banks. Those with enough good loans were declared "sound" and allowed to reopen. Many banks never did. I have relatives who never opened a checking account in a bank after that experience.

Today in a similar situation the government can, and probably would, find ways to provide paper money to satisfy depositors' demand for cash. Yet the reserves of the Federal Deposit Insurance Corporation (FDIC), created in the early 1930s to restore confidence in banks, are at best barely adequate. Congress would have to act.

It seems obvious now that something should have been done to stop the falling supply of money. A large number of economists, led by those at the University of Chicago, wrote an open letter to the president urging the government and the Fed to supply the money being demanded by depositors, and thereby encourage investment by keeping interest rates down. But federal leaders took a very different course. They tried to reestablish and maintain a "sound," i.e. gold-backed, money supply. They believed inflating the money supply to regain the 1929 price level was more likely to trigger a runaway inflation, such as the one that had shaken Germany to its roots just a few years before. So instead the Fed did what it could to ensure that the gold reserves backing the money were preserved -- something that required "tight" money, especially because the treasury was losing gold to foreigners and others trying to protect their capital. We were about to learn that too little money and rapidly falling prices can be nearly as distressing as rapid inflation.

What is 'money'?

By far the largest part of every industrialized nation's "money supply" is the *credit* of its citizens and enterprises that borrow from banks. This is as true when a nation is on the gold standard as it is when it is not. This sounds weird to many people, but consider: When one takes out a mortgage to buy a house, gets a loan to pay for a car or uses a credit card, he gets spending power -- "money" -- to exchange in return for his promise to pay off the mortgage, loan or credit card balance (plus interest). The bank, or other financial institution, "stands behind" that promise to pay. Strangers who would not think of accepting your written promise to pay them will accept a check written on a bank. The bank validates your creditworthiness. In effect, it converts your doubtful credit into money that can be spent practically anywhere.

Banks are limited as to how much they may loan. Under the gold standard, the amount of gold to which they had a claim set the limit. Today that limit is set by the Fed. Gold has nothing to do with it.

Money evaporates when one pays off a mortgage, a loan or a credit card debt. One must take money, check or cash and give it to the bank or other financial organization that holds one's loan. That money adds to bank reserves, but is not in circulation buying things until it is loaned out or invested.

Some money is lost because some people do not honor their obligation to pay interest or to repay their loans. Banks have reserves for these non-performing loans. As noted above, when the Great Depression began the number of people failing to pay sparked large numbers of bank failures, because "runs" on banks exhausted their reserves. When a bank runs out of currency needed to pay depositors writing checks on their accounts, the bank is out of business. None of the deposits of its customers can be spent until the bank manages to reopen -- if it can.

The gold standard was intended to assure a stable price level. Presumably no special policy was needed for other social objectives -- specifically, to keep a high rate of employment, or a low level of unemployment (which is not quite the same thing). Theory and practice relied on Say's Law, which seemed to say unemployment is not a problem that should concern government.

Say says

When the Great Depression struck, Say's Law had been the basis for Western employment policy for more than one hundred years. The "law" was published in the 1820s by French economist Jean Baptiste Say. Say's Law holds that unemployment, at least long-term unemployment, cannot exist in a free economy. There can never be insufficient demand for what is produced, because additional goods increase the quantity to be traded, and anything produced has some value in exchange for the others. Put another way, the money paid for wages, materials and other things necessary to produce a product adds to incomes exactly enough to purchase the goods and services it puts on the market.

This seems to leave room for unemployment if savers saved more than borrowers could invest profitably in machinery and other capital goods. But this argument did not persuade. It was argued that people would not save unless rewarded with interest or dividends. Consequently, if people try to save too much, interest rates will fall. This will induce them to save less and buy more consumer goods. On the other hand, if people save too little, interest rates will rise, inducing people to save more. Businesses will borrow less because their owners will be unable to invest as much profitably. Some short-term unemployment may appear, but only the amount needed to re-deploy resources to meet changing needs.

Thus, according to Say, there is no long-lasting lack of demand for labor, no need for a "jobs program." People not at work for any significant period of time are not unemployed. They have chosen not to work at a wage their productivity merits. They are simply out of the labor force.

Say's Law was controversial from the beginning. Yet even Marx -- who rejected Say's Law and offered several conflicting explanations of his own for unemployment in capitalist systems -- found no convincing explanation for longer-term unemployment. Unemployment would be short-term in Marx's analysis because wages would fall enough to restore profits, or reduce "disproportions" -- productive resources out of synch with changed opportunities. He had nothing but scorn for "under-consumption" theories contending that more gets produced than consumers can afford to buy. Marx expected capitalism to collapse because of class conflict based primarily on an ever-widening chasm between workers' and capitalists' income and wealth. No amount of fiddling with money supplies or government taxing, spending and borrowing could save the system.

Schumpeter, like Marx, found unemployment to be short-run and transitional in a capitalist economy. Schumpeter even found positive value in the short-run depressions that a successful program against unemployment would eliminate. Depressions accelerate the transfer of assets from incompetent to more-able managers, who will promptly put the released resources to better uses. Schumpeter held that unemployment compensation could be generous enough to prevent

serious short-term distress of the unemployed without damage to the "capitalist engine" that benefited everyone in the longer run -- if government would allow that engine to work.

Keynes intervenes

John Maynard Keynes effectively demolished Say's Law as a basis for national policy in his 1936 book, *The General Theory of Employment, Interest and Money*. Although many economists found fault with his analysis, it took the lion's share of the academic and advisory portions of the economic world by storm. In 1971 President Nixon said, "We are all Keynesians now" when he "closed the gold window" terminating the purchase and sale of gold at the mint price -- a fundamental part of the gold standard. Post-Keynesians now inhabit the branch of economics devoted to the study of the relationships at the center of the General Theory, called "macroeconomics."

After the triumph of Keynes' theory, Schumpeter added inflation to the list of conditions he surmised, but refused to predict, would finish off capitalist civilization. Schumpeter thought inflation an inevitable consequence of the Keynesian prescription.

Keynes argued that when employment was too low the necessary balance between saving and investment would be established -- not by a fall in interest rates, as Say maintained, but by a *decline in the nation's output and employment*. Earned income and saving would fall until saving (the amount of income not spent for consumer goods) matched the amount businesses found profitable to invest in new buildings, equipment and research. In short, the free market could stabilize while leaving a large number of people unemployed for an indefinitely long time. Employment and real income would be lost forever. This analysis seemed to fit the situation in the United States during the Great Depression. It also justified the budget deficits that had proved unavoidable since the last half of the Hoover administration in 1931 and '32. It is easy to forget that one of Franklin Roosevelt's election promises was to balance the budget.

Any practical politician in a situation like the chronic depression of the 1930s would have welcomed Keynes' analysis. Government could save the day, and make the capitalist system work

better. It would only have to borrow enough from banks to start a process that would bring investment up to the point where all voluntary savings were invested and full employment achieved. Government would not have to fill the whole gap, because increased production would increase consumption and private investment opportunity. Almost any kind of government spending could be called "investment," because the newly employed person's spending would add to what the government spent, enlarging the demand for goods and services of all kinds.

If this scheme is to work, the money government spends must not be taxed away from households or businesses. The added spending must be paid with new money borrowed from banks. The banks will be able to buy the government securities because the Fed can give them larger reserves if necessary. The government could, in principle, print money for this purpose, but this is shunned as crude and likely to waken destabilizing fears of "runaway" inflation. Borrowing has the advantage of being hidden from public concern. Yet then it takes the form of a deficit -- a rising national debt -- upon which interest must be paid.

With costs mostly hidden, restraints are needed against over-borrowing. The Fed provides some restraint. Another is the need of government to pay interest on its debt. These interest payments have become a major part of the national budget, and an important factor in the current drive to at least balance the budget, thereby halting the increase in interest costs.

A worrisome inflation can be snuffed out by throwing the whole process into reverse. To date, inflation has become chronic. At times it has exceeded 10 percent a year. But budget surpluses have never been brought to bear to contain it. Instead, economists have searched for a low or moderate rate of inflation that will boost the employment rate to something higher than it would be with zero inflation.

The unemployment rate is not the opposite of the employment rate because the labor force consists of people who either have a job or are willing, able and actively seeking to work. Quite a large number -- college students during the school year, for example -- neither have jobs nor are looking for any. They simply are not part of the labor force. Come spring, employment may rise when college students start looking for work.

Can small chronic inflation lower the unemployment rate? Economists disagree. Those who think it can summarize their work with the "Phillips Curve," which originally showed a nice curved line that indicated the lower the unemployment rate, the higher the rate of inflation. It seemed obvious that it is better to have a little inflation and a lower unemployment rate. Unfortunately, the curve did not remain static. Pretty soon it shifted in a way that implied a higher rate of inflation was needed to keep unemployment down. My own research suggests an *unexpected* inflation lowered the unemployment rate. Business people did better than expected, and increased their hiring and investment. But they soon discovered the market could not bear so much. When some inflation rate, such as 3 or 4 percent, became expected it had little effect. But if the rate fell to 2 percent business owners would observe an unanticipated loss, and reduce hiring and investment.

Yet the search goes on for what is now called the Non-Accelerating Inflation Rate of Unemployment (NAIRU). This is some figure, such as 3 percent, that will stay put while the unemployment rate is held below what it would have been if the inflation rate were zero. NAIRU is frequently confused with the "natural rate of unemployment." They differ fundamentally. The natural rate is based on real, rather than monetary, matters. It is related to such things as the rate of technological change, investment in productive enterprises, better-skilled workers and reduced barriers to trade. Stable and predictable prices, regulations and relations with government agencies and labor facilitate these changes. Lack of stability in these areas, especially in regulations, probably accounts for the declining U.S. growth in real wages -- to little more than half its rate in the century preceding 1968.

Although changes in price levels needed to minimize currency risk may be small, no national government or central bank nowadays is prepared to accept this mode of adjustment. The Fed, in conjunction with Congressional "fiscal policy," tries to manage the price level and exchange rates. The United States, like nearly every nation since the Great Depression, gives highest priority to full employment, which is typically associated with faster growth. This has resulted in both chronic peacetime inflation and fluctuating exchange rates.

Yes, the gold standard is a fair-weather system, and gold did not increase in proportion to the growth of economic activity. Yet the current managed system has not done much better. Efforts to stabilize exchange rates have failed. Now exchange rates are determined by supply and demand, and are said to "float." From time to time central banks intervene to keep them from falling "too far," usually losing money in the effort. Governments sometimes devalue their currencies, if they have allowed inflation or some other condition to make this move necessary or profitable. This currency risk makes international investment more risky than it should have to be.

All this management may not be such a good idea. Consider the reality of the United States' economy.

U.S. example

The relationships among the fifty states that comprise America is closely analogous to the relationships among sovereign nations on the full gold standard. Economically speaking, the American economy is the largest free-trade area in the world. Each state exports and imports a great deal to and from other states. We are scarcely aware of the fact that price and wage levels differ from state to state, and are constantly rising or falling to make the required adjustments. These adjustments are made in prices and wages because we have a common currency.

If each state were a national government, all trade across state lines would be international trade. Each of the fifty states would have its own money, along with the problem of trying to reconcile stable prices within each state with stable exchange rates in each of the other states. Each state would be tempted to enact tariffs or impose quotas on imports to protect its domestic industries and trade unions.

One of the factors that produced the United States Constitution was a need to reverse protectionist tendencies that were developing in several former colonies. The Constitution gave the federal government full and exclusive power to create and regulate a common money to be used in all states, and denied the states the option of imposing tariffs and other restrictions on trade and migration among the states.

Making every state use the U.S. dollar as its currency is the perfect manifestation of fixed exchange rates among the fifty states. A New York dollar is identical to an Arizona or Alaska dollar. It removes all need to exchange currency as one goes from state to state, or to have a complicated system of making each currency equal to a certain amount of gold. *Because there is no way for the price of one state's money to change relative to any other state's money, all adjustments needed to maintain a balance between the state's domestic imports and exports will involve changes in price levels, wage levels, investments and migration across state lines.*

The free movement of people and capital across states lines results in a pervasive tendency *toward* the equalization of wages and prices in the fifty states. Yet neither price levels nor incomes are, or will be, equal. Price and income levels differ significantly among states, especially because of the immobility of such things as real estate and housing. In fact, the median household income in the richest state is double that of the poorest. This discrepancy does not mean that people in low-income states are worse off. They are free to move. Investors are free to invest where they believe low-cost labor resides. One cannot lightly assume that he would be better off living someplace else and earning higher incomes there.

No state plans its price level or changes its supply of money to maintain full employment, because the size of its money supply is beyond its control. Prices have been rising at rather erratic rates because of what the federal government and the Fed have done. From a state's point of view, it's much like being on a gold-standard system at a time when bonanza discoveries of gold were inflating prices everywhere. States suffer, or perhaps benefit, from an inflation that is beyond their control.

Is it possible that the situation applying to the fifty states within the U.S. will come to include foreign nations? Argentina's recent history shows how that might come about, without surrendering national currency or sovereignty.

Argentina as the 51st state

In April 1991, Argentina's Currency Board "pegged" the Argentine peso to the U.S. dollar at a one-to-one ratio, and has stuck to it. This act strictly limits the quantity of Argentine pesos that will circulate there. This is similar to the gold standard for the domestic economy. It differs only in that an Argentinean can get one dollar for each peso presented for exchange, rather than a certain amount of gold. Since this action was taken, inflation in Argentina has become the lowest in Latin America. Internationally, this greatly reduces currency risk -- as long as foreign dealers believe Argentina will stick with it. In fact, business growth has been excellent.

The Argentine policy proved effective when the 1995 Mexican debacle upset currency markets, especially those in Latin America. Money managers expected Argentina, like other Latin American nations, to devalue its currency, but it did not. After an initial period of tight money (high interest, caused by a speculative flight of capital), Argentina is recovering nicely. It seems that the monetary discipline imposed by this substitute for the gold standard is paying off. Perhaps it can become a pattern, especially because in many nations the U.S. dollar circulates alongside the local currency, and is sometimes the currency of choice because of its relative stability. The dollar circulates even in communist Cuba.

The American dollar may be a pretty good substitute for gold as a basis for an international currency, but for nearly fifty years it has resulted in inflation, sometimes mild, sometimes not so mild -- more erratic than it should have been. Milton Friedman, a Nobel Prize-winning economist, has been one of the most severe critics of the Federal Reserve's management of the dollar. He argues that attempts to use highly rationalized, managed changes in the money supply to engineer full employment and price stability create perpetual uncertainty and instability that slows long-term growth. The tasks of Congress and the Fed in trying to engineer stable growth require several steps that inevitably take time and make matters worse.

First, one needs to make a forecast of the conditions to be left alone or altered by one device or another. Even the most up-to-date data are about the recent past, and are frequently revised. It takes some time to work out projections of the future and figure out what should be done. The Fed can take quick action. Changing tax collections or government spending takes longer. Either way,

more time elapses before the planned changes take hold. By that time the economy is often rather different than predicted. Actions intended to increase employment may take effect after "natural" responses in the economy have already made a recovery, creating undesirable inflation. Likewise, actions intended to stifle inflation may become operative when the economy is already in a downturn, making it worse.

The record is mixed. Nothing comparable to the Great Depression has plagued us for more than forty years. The determination to keep unemployment low may have given us chronic inflation, but apparently at the cost of a slower growth rate -- despite a rising proportion of married women with children employed in money-making jobs. What is needed is a policy that induces stable growth, not one that focuses attention on what the Fed, Congress or president are going to do next. Decades ago, Friedman presented one program that seems likely to keep businesspeople focused on stable growth. Its time may be at hand.

Friedman's proposal

Friedman suggested a simple rule for monetary authorities, such as the Fed, that would tend to keep domestic prices stable and facilitate international trade. The rule intertwines a modicum of management with more dependence on "rules." It would get rid of the nonsensical link between price levels and gold production. In place of the gold standard's five rules, Friedman would instruct the Fed to grow the money supply at some constant rate, say 4 percent annually, regardless of month-to-month or year-to-year fluctuations in economic activity.

This should stabilize domestic prices and maintain "full" employment reasonably well. If the rate of growth of production slowed down, money would become more abundant relative to the available output. This should perk up profits, production and prices. If the economy begins to grow fast enough to cause inflation, the relative shortage of money would diminish profits, production and prices. The pressures would always be toward stable growth. The decade-to-decade growth of the money supply would be stable and predictable -- a definite plus. If the growth of the money exactly matched the growth of the economy the price level would also stabilize.

This focus on maintaining stable conditions favorable to growth within the United States means that adjustments with other nations' economies would most likely be made by fluctuations in exchange rates set on currency markets. Prices of foreign currencies would "float," as in fact they do today. If other nations pegged their currency to the dollar, as Argentina did, their price and wage levels would have to fluctuate as those of the various American states today. But like the prices and wages in the American states, the fluctuations would not be large enough to be distressing.

A world currency?

The experience of a single currency for the fifty United States suggests that all nations of the world would benefit if all used the same currency. It is not politically feasible today, but its day may come. A nation's money is too entwined with its national sovereignty to let one nation or association of nations have the power to issue its money. How, for example, could it pay for what it needs if invaded?

The gold standard was accepted partly because gold has no nationality. Every nation acquired gold by buying it. The total was limited by the high cost of mining it. A nation could go off the gold standard and create money to finance a war, subsidize certain groups without raising taxes, and institute wage and price controls; or to plan while trying to seal off opportunities for firms to export or face competition from abroad by currency controls, barter agreements and the like. A nation that ties its currency to the dollar or some other nation's currency retains these options. A nation that agrees to replace its money with one managed by a supranational authority does not.

The nation cannot affect the exchange rates between its nation and the others within that group. Overissue of money will cause inflation for all in the group; underissue will cause lower prices and, in the short run at least, loser activity. There are other problems that affect sovereignty. Nevertheless, the nations that belong to the European Community are taking pretty firm steps toward a single currency, the ECU. It is scheduled to go into circulation January 1, 1999. If it

works out, each nation will be roughly in the position of a U.S. state. It will be forced to make adjustments by allowing its price level, wage level and immigration/emigration level make the necessary adjustments to changing events, rather than trying to push the costs on others by fiddling with exchange rates or adopting policies that deliberately try to engineer full employment or price stability.

PART TWO

Enemies of Capitalist Civilization

Introduction to Part Two

Even former communists agree that capitalism has prevailed in the long battle versus communism. The victory has been won on two fronts. Markets have defeated central planning, and democracy has defeated authoritarianism. But capitalist civilization is still taking a beating on the crucial value-judgment, or moral, front.

Battles are lost on the economic and political fronts without losing the war. Wars are won or lost on the value-judgment front, because it is there that what is right and wrong, and what is worth fighting for, are decided. Capitalism as practiced in Western Europe, America and a few other economically advanced nations remains under siege by a determined adversary that claims the moral high ground. No better example of the importance of the loss of moral support can be offered than the events in the former Soviet Union after Mikhail Gorbachev tried to make socialism, as he called it, work in a kinder way.

The moral basis that under girds America's economic and political systems labors under the same kind of pressures that led to the implosion of the former Soviet Union. A western collapse, if it occurs, will lack a blueprint for reform such as the one the West provided formerly communist nations that were once part of the Soviet Empire.

The genius of capitalist civilization has been its ability to correct shortcomings. This has been possible because speech is free and political organization open to competing parties of all types, including those directed to political and value-judgment objectives. With the separation and division of political power, the cacophony of confusing voices and an economy thought by some to resemble chaos, the ship of state is not a speedy craft. Instead, in the eyes of impatient skippers bewitched with visions of an ideal state, it seems ugly, ungainly and slow. Yet unlike sleeker craft it

is hard to sink, and over the years has set distance and weight-carrying records unequaled in world history. Perhaps citizens were always more aware of its shortcomings than its quiet triumphs precisely because it is so open to criticism, and so ready to see if there might be some way to correct asserted flaws that does not incur more cost than the potential gain. Whatever the case, capitalist civilization always looks rather ugly -- never as beautiful as the sparkling, glamorous utopian craft built for speed but vulnerable to the delusions of dashing skippers and foul weather.

For more than half a century America and Western Europe have been remodeling the ugly ship to make it resemble the sleek ship designed to sail rapidly into a much nicer world envisioned by philosophers and politicians. They have dominated the debate by finding scores of shortcomings, which they have persuaded majorities of voters to believe only a powerful federal government can fix.

The following chapters investigate the origin, issues and consequences of the more-critical actions by the witting and unwitting enemies of capitalist civilization.

CHAPTER EIGHT

Is Democracy an Achilles Heel?

Prior to the Great Depression the federal government spent next to nothing for welfare, pensions and health care -- the things we call entitlements today. Nor did the government require firms to provide these things for employees. At the time the Constitution was written, and for a century thereafter, great numbers of voters owned small farms and businesses. They had a high personal stake in protection of their property, freedom to contract and the ability to enter their business of choice. Income tax, passed as a wartime measure during the Civil War, had been declared unconstitutional by the Supreme Court. Reinstated after the ratification of the Sixteenth Amendment in 1913, it has grown from a light tax on the wealthy and corporations to include people with below-average incomes. Before the Great Depression, localities paid for most public education, and welfare depended much more on private charity, support from other family members and help from counties -- sometimes in the form of "poor farms," where destitute people raised crops to help pay for their care. People did not organize to demand help from government because neither federal nor state government could do much; state constitutions had provisions similar to those in the federal constitution that limited their powers.

Neither benefits from social security nor welfare were called "rights" or "entitlements" in the 1930s. This changed abruptly in 1944.

The second Bill of Rights

In his 1944 inaugural address, delivered shortly before his death, President Franklin Roosevelt proclaimed a "second bill of rights" for all Americans. Each citizen, said the president, has a right to:

- A useful and remunerative job.
- Adequate food, clothing and recreation.
- A good education.
- A decent home.
- A decent income for farmers.
- Adequate medical care.
- Freedom from the economic fears associated with old age, sickness, accident and unemployment.

Roosevelt entreated Congress to make sure that all citizens enjoyed each right on the list as soon as practical. This set the agenda for America's half-century march into a welfare state.

It is worth noting that the items Roosevelt outlined are traditional socialist goals, minus the call to replace private property with public ownership and central planning. Roosevelt said he favored capitalism; he only wanted to improve it to achieve these objectives. Since then the essentially capitalist nations of America and Western Europe have tried hard to do just that -- with considerable, but by no means enough, success to quiet their critics.

The conception of the ordinary citizen underlying the Second Bill of Rights could scarcely be further from the conception that lies behind the First Bill of Rights -- the first ten amendments to the Constitution. These amendments were necessary because some states wanted to clarify and strengthen *limits* the Constitution placed on the power of the federal government. The amendments emphasized protection of the liberty of individual citizens, and the limitation of federal government to the relatively few powers it's granted in the Constitution. *Individuals were presumed able to take care of themselves.* This perception of the normal adult citizen is the

foundation upon which rests the idea of liberty in the political, economic and value-judgment sectors of American life.

In contrast, the ordinary person postulated by the Second Bill of Rights seems to be a weak, dependent person who cannot be trusted to take care of himself without care from a government nanny.

Moonwalk toward welfare

The political appeal of the goals Roosevelt enunciated in the Second Bill of Rights has led, step by step, to a form of government barely compatible with the original bill. Like an astronaut walking on the moon, we have taken two steps back for every step we have tried to move forward. Twenty years after Roosevelt proclaimed the Second Bill of Rights, President Lyndon Johnson added some provisions of the same general type -- notably Medicare for retired workers, paid for by a payroll tax, and Medicaid for people of all ages who qualify for welfare.

Aid for housing was increased, and food stamps were revived and enlarged. Equal-opportunity and anti-discrimination legislation was soon converted to equal-rights legislation by a judicial interpretation of an unchanged law, and applied to Hispanics, women, disabled and other groups in addition to blacks. A variety of job-training programs, intended to prepare young people with few skills and poor work habits for good jobs, were tried in a disappointing attempt to find one that worked. The poverty line, actually a set of "poverty lines" based primarily on size of household, was invented to keep track of expected progress toward the hoped-for elimination of poverty in the United States.

These programs grew rapidly in the Nixon administration and continue expanding to this day. More recently the Americans With Disabilities Act has been added, and there is growing pressure to install a government-dominated, egalitarian health-care system for all U.S. citizens and legal aliens. Defeated in President Clinton's first term, this system is now being implemented piece by piece, sometimes by threatened vetoes of major budget legislation -- which, if not agreed to by Congress, will be publicized as an effort to halt government operations.

Virtually every item in President Roosevelt's Second Bill, including the programs initiated in the 1930s, has been favored by a majority of the voting population. Voter support is strong even today, when social security, Medicare, Medicaid and other forms of welfare seem headed for disaster.

Evidently, many of the "economic fears associated with old age, sickness accident and unemployment" no longer exist. Yet despite the rise in federal and state assistance from very small amounts to a large percentage of state budgets, readers of the press could have little trouble believing that no progress at all has been made toward providing "adequate food, clothing and shelter" to everyone. We are told that millions of the "one third of the people" Roosevelt tagged "ill-fed" in the Great Depression are now "hungry," despite the availability of food stamps, free school lunches, welfare payments and unemployment compensation. We are told that people once called bums (who refuse to work) and hobos (who are willing to work), far from having a "decent home," are now "homeless."

Though many programs have attempted to provide a "useful and remunerative job" for all, full-employment fiscal policies have failed to do so. Medical care of a quality unimagined in 1944 is provided for retirees and the Medicaid poor, but a substantial number of the working poor are not covered by their employers at any given time because premium costs are too high.

Delivering these rights, once expected to repair the failures of capitalist civilization, has, instead, gone a long way toward transforming the System of Liberty -- based on the self-reliance of ordinary citizens -- into a system based on the power of a bureaucracy that shapes the nation's productive activities and allocates benefits to individuals and selected enterprises during hard times. It turns America away from the New Order that was the handiwork of the authors of the Constitution toward a modernized version of the Old Order, where some elite rules.

The fact that people are entrepreneurs who will exercise their skills in the political and value-judgment sectors to benefit themselves seems to have been forgotten or ignored in the moonwalk toward a welfare state. People respond to the opportunities they know about. The increasing power of government to provide favors for specific groups opened up a host of new

opportunities for individuals, potential leaders of groups that might qualify for benefits, and for career bureaucrats and politicians. Attention to interest-group agendas tended to displace attention to the common framework that protects the basic rights of all organizations.

This process of destruction feeds on itself. Special groups have more to gain by influencing laws and regulatory decisions than by producing for the markets, so serious money is "invested" in politicians and their campaigns. The political system becomes ever more vulnerable to corruption, and ever more estranged from ordinary people. When a law confers a benefit, it comes with a built-in constituency dedicated to the preservation and expansion of the benefit conferred. Thus individual objectives continue to garner support at the polls. Well-organized retirees resist any impairment to social security and Medicare.

Everyone, including members of the supposedly advantaged group, becomes a victim. The unifying perception of a common citizenship and a linked destiny is submerged in a frustrating effort to improve the fortunes of one's special group in a continuing fight for one's share of government largess. Lawsuits asserting unfair losses have given judges crucial roles. Elaborate, hair-splitting logic has succeeded in making Second Bill objectives constitutionally required.

Value-judgment groups and the politicians who serve them may be, and probably are, convinced their work makes capitalist civilization better. They might be right -- so far. But their actions might, quite unintentionally, soon rip the fabric of capitalist civilization and lead to a new form of age-old authoritarian civilization. Once government power, especially federal power, has grown to the point where government can offer or withhold valuable favors to private groups, citizens quite naturally will seek favors and be less interested in protecting the basic rights that encourage competition. Put more bluntly, *when government is large people will use the democratic process to advance their private, anti-competitive interests rather than to support institutions that serve the public interest by encouraging freedom to innovate and compete*. Big government may yet convert democracy into capitalist civilization's Achilles heel.

The welfare state vs. the System of Liberty

Social insurance and welfare are major steps toward big government and away from the System of Liberty. We now have more than sixty years' experience with these innovations. They have become hot political issues as their costs threaten to become unmanageable, and their effectiveness questionable.

The three sectors of the U.S. welfare state can be best described by how they differ from those in the System of Liberty. Private insurance and saving is increasingly replaced with social insurance, or *mandated prudence*. Reliance on family, church and other private charity is pushed aside by tax-funded *compulsory charity*. Private efforts to open opportunities and fellowship among people of diverse cultures are overwhelmed by formal equality among officially defined groups, or *equality by the number*. These partial transformations have changed the nature of American politics.

The American system of welfare has three parts. Part one is *social insurance*, notably social security and Medicare, in which beneficiaries "contribute" via a payroll tax during their working years to qualify for benefits when they retire. Part two is *welfare*, in which persons receive a transfer of income from taxpayers, if they qualify by passing a "means test." Part three is *special treatment* of certain individuals because they are members of some officially defined minority group.

The welfare state has been built one item at a time, as entrepreneurial people in the value-judgment sector publicized one perceived flaw after another in the System of Liberty. The result is an elaborate set of "safety nets" that still fails to catch everyone in need. This failure creates a need for an additional safety net. The result: thick books of laws and regulations, backed by large federal, state and local bureaucracies needed to manage these programs. Many parts of the American welfare system are presently running into economic and political trouble. I'll focus attention on some of them in this chapter.

The contrast between the image of the ordinary person's ability to manage and the image that ordinary adults cannot or will not manage for themselves and their families is evident in all social insurance and welfare programs. I will examine only social security and health-care

insurance for retirees and working people, Medicaid, a few other welfare programs for the certified poor, and the effects of the anti-discrimination laws and programs.

Before social security, people could save money and buy annuities, but more typically they relied on assistance from family members, churches, fraternal associations and, as a last resort, local charities and county governments. They were expected to be prudent and make some provision for their retirement years. No federal program existed except for veterans.

The Great Depression severely shook the faith in the capacity of individuals and their families to manage for themselves. President Roosevelt tried many types of emergency programs in trying to get the United States out of the Depression. They included the National Recovery Act - which, among other things, encouraged competitors to get together and establish price-fixing codes -- and various make-work schemes such as the Works Progress Administration (WPA) for adults and the Civilian Conservation Corps (CCC) for youths. These did some useful work, but the Depression continued until American entry into World War II. Many people, economists included, expected depression rates of unemployment to return after the war. They were wrong. Work programs were dropped, and antitrust laws against price-fixing agreements resumed with new force. But social security and federally funded welfare remained and flourished.

Three battlefields

Social insurance, welfare and anti-discrimination provide three instructive battle fronts in the war between the New Order and the Old.

Social security substitutes *mandatory prudence* for individual prudence. Starting in 1936, workers were compelled to pay a payroll tax, a special trust fund invested solely in U.S. government securities, which entitled them to a pension of varying amount. This was expected to provide a minimum retirement income, which individuals could supplement if they chose to save and invest more. It was not egalitarian. The people who paid more in taxes received larger benefits. But there was a welfare twist: Those who had paid in the least got proportionately more.

Recently, social security has become still more like welfare. Social security benefits received by people with higher adjusted gross incomes are taxed at a 25-percent rate. Looked at objectively, mandatory prudence is scarcely prudence at all. Failure to "contribute" makes one a law-breaker. Social security pensions now take more than ten percent of earnings (employer contributions included) off the top, and invests all that is not needed to pay current benefits in government securities, presumably to earn interest and be available so one can buy a lifetime annuity at the time of retirement.

Social security is a fully government-owned and operated pension enterprise funded by a compulsory payroll tax. This is an excellent example of a socialist enterprise that is not a part of a central planning system. Few suspected social security would ever go bankrupt. Yet major reforms, the last only fourteen years ago, were needed to stave off bankruptcy, and additional major reforms are needed to prevent the system's collapse about twenty-five years hence.

Welfare substitutes *compulsory charity* for reliance on individual savings, family, religious organizations, fraternal associations and private charity. Because it is financed by general taxation, it is scarcely charity at all. Because it has no trust fund it cannot go bankrupt. But it has become so expensive, and seems to have had so many distressing unanticipated consequences, that reforms said to have "changed welfare as we know it" are getting a trial at the state level.

President Lyndon Johnson's Civil Rights Act was intended to make America more sensitive and fair to minorities by outlawing discrimination against them. This can be called *mandated fellowship*. First focused on equal opportunity for blacks, it is still expanding to other definable sub-groups of Americans, and tends to divide the American people more than ever before into separated, hostile factions.

Social insurance, welfare and anti-discrimination legislation share common problems. Each has generated a list of targets with separate sets of rules that determine who is eligible for their programs and who is not, and just what benefits a qualifying person may receive. This presents two management problems that tend to disable the system as a whole. Each program has a built-in propensity to expand. This runs into taxpayer resistance, because increasing numbers of voters

believe they are paying too much for too little. It also creates incentives to develop additional special-interest groups seeking special treatment of one kind or another on the basis of "fairness." This tends to divide the community into hostile, even fighting, groups. Liberty becomes the right to be in your face, to try and use government power to take from some and hand it over to others, to have their values the only ones permitted in public schools, etc.

CHAPTER NINE

Witting Enemies of Capitalist Civilization

A classical refrain

Classical socialists have been a potent, declared enemy of capitalist civilization for at least a century and a half. Classical socialists believe social (i.e. government) ownership of land and other non-human productive resources, coordinated by central planning, would at least maintain output per capita and allow major changes in the distribution of income, therefore abolishing poverty and increasing harmony in social life. They are strong believers in democracy. With voter control of government, socialist ownership is extended voter control over the economy, adding "economic democracy" to political democracy. The time seemed to be ripe for the triumph of classical socialism as the Great Depression dragged on. In the middle years of the Depression, high school students were taught that the transition from capitalism to socialism was inevitable.

At that time, unprecedented long-term unemployment persisted. This contrasted sharply with reports from the only socialist/communist nation, the Soviet Union. It claimed to have ended unemployment in 1930. It had a high growth rate, and newly installed universal education, pensions and health care made sure no one was left behind. Few knew about the terror and undemocratic conditions there, and those who did excused them as the unavoidable result of the backwardness of the population. Universal education would overcome the problem. There was a common belief that international conflicts would be peacefully adjudicated by the newly installed League of Nations and World Court. Virtually all nations had signed a pact renouncing war as an instrument

of national policy. It was easy to believe a new day had dawned, making centrally planned socialist states the natural replacement of capitalist civilization.

The classical socialist vision shined even brighter after World War II. Central planning seemed to be the wave of the future. France, Britain and other national governments acquired key industries, the "commanding heights," and began programs expected to lead to central planning. Before long books appeared with titles such as *Freedom Under Planning* and *Are These Hardships Necessary?* Worse, it became clear the interrelationships within central plans were far too complex to be worked out by elected officials. They required a lot of full-time work by people with specialized training. Parliaments could do little more than choose among growth rates. In France, plans laboriously worked out by "technocrats" to meet the objectives set by commissions representing private and public stakeholders turned out to be inappropriate to the conditions when they were finally set to be implemented. Some never were. They were not binding, and even government agencies ignored them. Worse, from the viewpoint of classical socialists, nations such as Germany, which had restored a market economy, were doing much better. So was the United States, which dropped its wartime controls promptly after the war. Depression levels of unemployment did not reappear in the U.S. or elsewhere. Quite the contrary. Instead, the 1950s were perhaps the happiest decade of the century. The appeal of classical socialism receded.

American capitalism, meanwhile, certainly showed no sign of collapse. Deliberate use of the federal government's power to manipulate total national spending helped avoid the once-predicted continuing series of devastating depressions. Social legislation instituted before the war and expanded after was reducing poverty, and workers were generally benefiting from rising productivity.

In 1958, John Kenneth Galbraith published *The Affluent Society*, in which he declared that Americans so well-off the remaining problems related to the poor were small and easily manageable. This meant that poverty could be eliminated, with money left over for "public investments" ranging from infrastructure to public amenities to the arts. Four years later, Michael

Harrington's *The Other America* demonstrated that the problems associated with poverty were much more extensive than Galbraith indicated. Harrington had a point. Yet the differences between Galbraith's and Harrington's perspectives are easily exaggerated. Both were confident the situation would be improved if the federal government developed more programs and spent more money to improve the lot of poor and dysfunctional people.

Two years after the publication of Harrington's book, President Johnson declared "War on Poverty" as the major platform of his "New Society" program. "Poverty lines" soon became one of our regularly calculated statistics, with the expectation that poverty soon would be virtually eliminated. Although this goal was intended to improve American capitalism, the thrust of the New Society program was in line with a strategy suggested by Japanese economist Shigeto Tsuru, who wrote a small book, published in 1961, entitled *Has Capitalism Changed?*

Tsuru called on a number of left-leaning economists for their evaluations of the prospects for capitalism, and after careful analysis, decided capitalism had not changed. He said it would eventually fail because of the internal economic "contradictions" predicted by Marx a hundred years earlier. Tsuru also shrewdly opined that socialist goals could be achieved more easily if productive property were left in private hands, and government appropriated the "surplus" income - the sum of interest, dividends, rent and, presumably, capital gains -- a bit at a time. Part of the revenues would be distributed to poorer people in various ways, with the rest devoted to social investment such as schools, adult education, roads, parks and arts. Eventually property would be only technically in private hands. After all, Tsuru reasoned, as owners lose the income from their property its market value would fall. If the entire "surplus" were taken, the value of the property that produces the income should fall to zero. Tsuru was proposing a backdoor approach to the expropriation of productive private property. The objective goals of growth in per-capita income and political democracy remained intact. Only the economic organization required change.

Most of what Tsuru proposed has come to pass in the United States during the three decades since his book appeared. Taxes now absorb forty percent of Gross Domestic Product, according to some estimates, but the value of real property is far from zero. On the other hand, a

host of regulations has resulted in a sort of negative planning. Individuals and enterprises propose; government functionaries dispose. A person owns land. Government regulates what he is allowed to do with it. This describes a "fascist" economy. Unlike Spanish, Italian or German fascism, it is a liberal-democratic form associated with multi-party democracy.

But democracy in such a system has an Achilles' heel. Each party's right to private property, to contract and to form political parties is insecure. Multi-party democracy flourishes, perhaps with diminishing force as voters become more cynical about government, because interest groups contend for favors from governments at all levels, and because some groups are favored for ideological reasons. Liberal-democratic fascism cannot be secure in its power as long as competition among ideas is free in the value-judgment sector. This is why liberals have been attempting to choke off competitors, even to the extent of dictating what words people are permitted to speak without fines and imprisonment.

Socialist resurgence

The happy decade of the 1950s came to an abrupt end with the escalation of the Vietnam War, inherited from President Kennedy by President Johnson. The war came just after an unsatisfying truce (which continues to this day) ended the active phase of the United Nations-approved intervention in the Korean War. China had saved the communist regime in North Korea from total defeat. College students were now being drafted to serve in the Vietnam War. Many of them protested by loudly supporting the leaders of North Vietnam. Chants such as "Ho, Ho, Ho, Western Civ has got to go" spread across campuses -- the "Hos" referring to the leader of the communist North Vietnamese, Ho Chi Minh. Some promoted Mao's communist China as a model for America. Mao claimed rapid growth, equally shared so no one was left behind.

These vigorous, intelligent young people took their clues from old Marxists, and added to their anti-war protests deliberate assaults against many of the cultural supports of capitalist civilization. Among these assaults: the sexual revolution, the recreational use of drugs, the quick conversion of equal-employment legislation into affirmative action, the anti-nuclear movement, an

acceleration of environmental concerns, and a rejection or trivialization of religion and religion-based values. In short, an ideological war was launched, intended to capture the hearts and minds of people with influence. It continues today in legislatures, courts and administrative agencies.

Meanwhile, the economy continued to grow even as many of the formerly radical ideas became settled law and practice. The classical socialist belief that the capitalist economy would collapse of its own weight seemed more remote than ever. Still, one could point to the apparent success of central planning in the Soviet Union, which had recovered from World War II's devastation and also continued to grow. American economists, using the best data available, expected Soviet income to surpass America's well before the end of the century -- with less inequality, no unemployment and a comprehensive welfare state. Internal protesters thought America could do as well or better, if only "western civilization" could be pushed out of the way or transformed into socialist organization.

This whole line of thinking suddenly became obsolete in the mid-1980s with the collapse of the Soviet Union. "Capitalism" stood vindicated. It became the role model for aspiring nations around the globe whose citizens thirsted for democracy and the affluence enjoyed by the people of Western Europe and North America. It was a near total defeat of the value judgments believed to be the wave of the future less than fifty years before.

Virtually every element that supported socialist civilization stood refuted by history. Only the vision of an ideal egalitarian state remains. Yet that vision is as fresh and powerful as ever. True believers, faced by a combination of vibrant capitalist society and the failure of their working models of a centrally planned economy, have become frenzied in their attacks on capitalist civilization. They work to convert capitalism's market-dominated economy into one dominated by government. Some of the most scholarly among them are the ecologists and environmentalists.

Ecological attack

The ecological argument against capitalist civilization reinterprets the system's two greatest successes: democracy (in the sense of one person, one vote) and persistent long-term

growth in output per capita. These are converted into bad things, the first because greatest power must go to people with insight, the second because it gobbles up scarce resources that must be conserved. Growth has suddenly become not a blessing but a menace. People holding this view build their case on forecasts based on what they consider solid scientific research, but their animus runs deeper. For example, Judi Bari, a leader in the radical environmental group Earth First!, wrote: "I think that if we do not overthrow capitalism, we don't have a chance of saving the world's ecology. I think it is possible to have an ecologically sound society under socialism." Yet the environmental record of actual socialist/communist nations is the worst in the world. But then, Stalin and other socialist leaders pressed hard for economic growth. Perhaps it would be different if ecologists were in power.

The key battle is for the hearts and minds of voters. Environmental entrepreneurs are perhaps the most entrepreneurial set of people in the western world, trying to change minds as well as government policies. Like others, they seek satisfaction, income, power and fame by doing "good" as they understand the definition of the word. What can be more worthwhile than purifying the air and water, and protecting species that dwell in the seas and on the earth from themselves? Believers think they hold the moral high ground. In their eyes this belief puts their desires on a higher moral plane than those they conceive to be self-interested consumers and business people who use resources to meet consumers' unthinking desire for more.

Environmentalist concerns employ many scientists, outdoors people, writers, sophisticates, photographers, teachers, legislators, administrators and producers of mass communications. Together, these people have created the first popular movement spawned by modern Western Civilization that assigns low priority to increasing material wealth and income.

Efforts to bring the world's growing population to the consumption level of the developed nations fills many ecologists with something bordering on terror. They believe rapid growth will exhaust the earth's resources and more quickly burden air and water with dangerous pollutants. Much of the world's population will succumb to starvation and disease. They hope ways can be found to stabilize world population and ensure a lower, but reasonably high and more equal, level

of affluence for all. Some ecologists believe capitalism is incompatible with limiting population growth or stopping the overuse of natural resources.

Malthus redux

In their 1987 textbook, *Ecology and the Politics of Scarcity Revisited: The Unraveling of the American Dream*, William Ophuls and A. Stephen Boyan, Jr. consider the kind of society needed to attain a "steady state," in which a stable world population lives in reasonable comfort. Ophuls is a former United States foreign-service officer who is well-read in ecology and political philosophy. His book won several awards when it was published in 1977. Boyan is a professor who updated the book in 1992.

I will compare their analysis to Gregg Easterbrook's thick, well-researched 1995 book, *A Moment on Earth: The Coming Age of Environmental Optimism*. Easterbrook is a self-described liberal who says he hates capitalism, yet believes environmentalists' objectives will be attained through the natural adaptations of capitalist civilization.

Ophuls' and Boyan's favorite economist is Thomas Malthus. His *Essay on Population*, published in 1798, argued that although the fruitfulness of the earth can be increased, the age-old checks to population growth -- starvation, disease and war -- will inevitably reduce most people to poverty in the long run. Now, after two hundred years of rising population and output per person, Malthus' vision is as fresh as ever to most environmentalists. His analysis was on target, they say. He just got the date wrong. Mainstream ecologists believe that what are broadly defined as "technological fixes" will soon be overwhelmed by shortages of practically everything -- food, metals, power, places for waste disposal -- and by the limited capacity of air and water to absorb pollutants, the inevitable byproduct of an advanced technological civilization.

Most leaders of environmental organizations hold "capitalism" responsible for the predicted threat of resource exhaustion, loss of species and present misery of the poor. Yet Plato, writing two thousand years before the advent of capitalism, penned the following passage (as quoted by James Burke and Robert Ornstein in their book, *The Axemakers Gift*):

"What now remains of the once rich land is the skeleton of a sick man. All the fat and soft earth having been wasted away, only the bare framework is left. Formerly, many of the present mountains were arable hills, the present marshes were plains full of rich soil; hills were once covered with forests and produced boundless pasturage that now produce only food for bees. Moreover, the land was enriched by yearly rains which were not lost, as now by flowing from the bare land to the sea."

Ophuls and Boyan assemble impressive data from many sources to buttress their idea of "ecological scarcity." They see ecology as a worldwide problem where international, or even supranational (world government), solutions are appropriate. Ultimately, they say what is needed is a collective "change of heart." But they do not leave it at that. The pair surveyed many nations and drew up a nine-point list of what should, and perhaps can, be done.

Remarkably, their international comparisons discovered the deformed offspring of classical socialism that were the Soviet Union and Eastern Europe had the worst pollution and environmental degradation in the world -- much worse than in the democratic countries of Western Europe, the United States and Japan. Yet they fail to consider the obvious conclusion. Where capitalist civilization holds sway, value-judgment organizations are more influential, because they have the right and means to exist as independent organizations. In such nations governments are more likely to respond to their citizens' concerns. Laws are more likely to be self-enforcing because they have widespread popular support.

Instead, the authors contend that, "Ecological scarcity obliges us to abandon most basic modern values in favor of ones that resemble pre-modern values." However, they also note: "the very success of the industrial stage of civilizational succession has created conditions under which (it is possible to) avoid a simple relapse to pre-modern conditions." But only if we act soon enough.

Ophuls and Boyan set a "steady state" society as the necessary goal, and search the thoughts of great minds in politics, philosophy and economics in an admirable effort to discover the best form of government to make the steady state as pleasant a reality as possible. The authors do

not recommend any specific blueprint. Instead, they offer a set of characteristics that an ecologically sound policy must possess if it is to engineer a "steady state" -- a sustainable level of production for a stable human population.

These characteristics can be summarized as follows:

- A move from individualism to communalism.
- A move from liberty to authority.
- A movement from "egalitarian democracy" (one adult, one vote) toward following a leader with political competence and status (an aristocracy of some kind). As they see it, future political theorists will have to discover how to "legislate virtue and temperance," after "the basis for political values has become something other than personal self-interest."
- A move to effect basic principles in a planned or designed fashion.
- A move away from "economic man" to "sufficiency, frugality and stewardship."
- A move from getting more material possessions to appreciation of spiritual, cultural and scientific matters.
- A move from scientific reductionism to holism.
- A move from enlightened self-interest to "genuine" morality -- something that requires "a change of heart."

This list rules out capitalist civilization on all counts. Most explicit and comprehensive is the necessary move from liberty to authority. Close runners-up are putting principles into practice by "planning" or "design," and trying to legislate virtue and tolerance.

Ophuls and Boyan specifically state their opposition to intrusive, detailed planning associated with the former Soviet Union and China. They hope "design" can be used rather than "planning." Design sets boundaries, which people will automatically take into account and adjust to in their own ways. A specific example would be to set speed limits at 15 to 25 miles per hour. Transferable baby licenses are another example. This would prohibit births without a license. A specific number of licenses would be issued. Those wanting more than their share can purchase licenses from others wanting fewer or none. Ophuls and Boyan see this kind of design as similar

to the provisions in the Constitution that produced a design for growth at a time when resources were abundant. Yet by calling for either planning or design, the authors leave the door wide open to precisely the type of planning engaged in by Soviet authorities, who held a monopoly of political power and also believed that authority should replace liberty for ordinary people.

The authors think these goals cannot be attained by popular vote. That is why "egalitarian democracy" is out. Egalitarian democracy will elect officials bound to serve the wishes of ordinary people and business people not interested in having themselves reformed. Nor in Ophuls' and Boyans' opinion can "technological fixes" solve ecological problems. Rewards for increased efficiency are absent from the nine-point list.

Ophuls' and Boyan's list requires a return to a new version of the Old Order, where an elite governs ordinary people. They are confident proper leaders can draw up an "environmental contract" to govern the production of goods and services that are inconsistent with "*micro* freedoms for people" (emphasis supplied) -- something they say will produce a "true" democracy. Micro freedoms include such things as choice among products allowed on markets. "True" democracy is what people should want and will want after their hearts have been properly changed. Left unclear is with whom the leaders will contract, how the leaders will be chosen, and how they will be replaced. Consent of the governed will certainly be limited.

The Ophuls-Boyan list has no clear place for rival political parties, for a free investigative press, or for contending value-judgment enterprises. The economic basis for political, moral/cultural and scientific groups is gone, making insecure inquiry and publication of results that are hostile to the ruling regime. It is hard to believe that forthright critics of the steady state will be allowed to operate freely, much less organize politically.

Ophuls' and Boyans' fundamental thinking bears comparison with that advanced by Plato two and a third millennia ago in *The Republic*. Plato was sure that some small group must rule. The key to a good state involved empowering the right people. Business people, "oligarchs" in Plato's terminology, are not fit to rule because they are motivated by self-interest -- they are "for making money, and are as indifferent as the pauper to the cultivation of virtue." As rulers they use

power for personal advantage. Plato called democracy "a charming form of government, full of variety and disorder, and dispensing a sort of equality to equals and unequals alike." But he predicted democratic disorder must eventually be fatal because, in effect, nobody rules. Essential differences of status between young and old, freemen and slaves, men and women would be lost. A democracy would scant critical protection of the state from foreign enemies and would fail to contain internal disorder.

In Plato's view an ideal state would be ruled by the best philosophers. In his opinion this ideal state could arise at any time. The initial rulers would be public-spirited, wise and virtuous, without a shred of self-interest, and would use their power freely to clear the decks for the ideal state. As Plato describes it:

"They will begin by sending into the country all the inhabitants who are more than 10 years old, and will take possession of their children, who will be unaffected by the habits of their parents; these they will train in their own habits and ways, I mean in the laws which we have given them: and in this way the State and the constitution of which we were speaking will soonest and most easily attain happiness, and the nation which has such a constitution will gain most."

The procedure is far from democratic in the usual meaning of the term, but the outcome supposedly is in the best interest of all succeeding generations, and is in this sense democratic. The perpetuation of the ideal state involves careful training of selected young people. Some of the best among the most promising young scholars, schooled in beautiful surroundings and tested in many ways, will eventually be anointed into leadership by retiring rulers.

Neither American liberals nor European democratic socialists favor rule by an absolutist Platonic aristocracy. Yet strong rule by a powerful elite is implied by Ophuls' and Boyan's list. According to them, people get what they should want -- not what they, in their child-like way, think they want.

Easterbrook breaks rank

Gregg Easterbrook takes quite a different tack in his book, *A Moment on Earth: The Coming Age of Environmental Optimism*. Easterbrook broke ranks with virtually all environmentalists when he concluded, "capitalism is good for the environment." In his words: "There is one thing that capitalism does infuriatingly well, that is producing anything that it is asked to produce. Now that capitalism is asked to produce environmental protection, lots is coming."

He is worried that liberals will discredit themselves if they continue to wield the environmental club thinking it will kill capitalism -- and he is a dedicated liberal who wants capitalism dead. Easterbrook writes:

"Much to the same extent that some current sentiments of environmentalism spring from the twentieth-century intellectual desire to disprove God, some sentiments of environmentalists spring from intellectual dislike of capitalism. This is not, as the right wing has charged, because environmentalists are closet Marxists. It is rather because most environmentalists, like me, are liberal. And the liberal tradition carries with it an abiding yearning to stand astride the corpse of capitalism and proclaim the words, 'I told you so!'"

Easterbrook made an exhaustive review of the evidence. Apparently he wishes he had found overwhelming support for Ophuls' and Boyan's vision, but he did not. A summary of his findings reveals why.

Take, for instance, his chapter entitled "The Infuriatingly Clean Car." Easterbrook finds that the car makers and oil-refining industries by 1995 had reduced pollution to less than one percent of that produced by pre-1970 cars. The reduction is so great that a diesel-powered busload of commuters puts out more pollution than would be emitted if each passenger drove his own new car alone to work. What accounts for this improvement? Innovations such as the catalytic converter, cars that get more miles to the gallon and reformulated gasoline. Why is this outcome "infuriating?" Apparently because the intention was to use pollution and low miles to the gallon to drive people out of their cars and many cars off the streets. It was intended to push

people into mass transit for the good of the environment and the discomfiture of car companies and oil producers.

Few environmentalists seem willing to acknowledge progress toward meeting environmental goals. For example, at the very time air pollution in the Puget Sound region surrounding Seattle improved to a point ethanol no longer legally had to be added to gasoline, the local pollution-control agency ran misleading radio ads implying the air was so dirty that 14,000-foot landmark Mount Rainier could no longer be seen from downtown Seattle.

It is refreshing to read that Easterbrook expects parents will soon have trouble explaining to their children what smog was, but he is still a pretty demanding environmentalist. For example, he thinks it is desirable to ban gasoline-driven lawnmowers, which are used only a few hours each year. Also, while favoring cost-benefit analysis, he is as squishy as a slug in its application. Easterbrook speculates that projects, when examined *retrospectively*, will be found to have been bargains -- even when cost-benefit analysis made beforehand fails to justify them.

Scientists who report data honestly sometimes bear a high emotional cost. Easterbrook quotes a scientist who was "furious" about air pollution because he was unable to determine for certain whether acid rain is damaging trees in the Blue Ridge Mountains. It turned out some acid in rain is normal, and many plants and trees have adapted to it. Additional man-made acid in the rain may or may not have been more than plants and trees can stand. Direct evidence is mixed. One mountaintop has many dead trees, but a nearby mountain, clear cut and left for dead more than a century ago, is now vibrant. Moreover, at the time in the 1970s when the demise of the eastern forests was trumpeted across the nation, the affected forests the man was studying were in fact expanding.

Curiously, knowing this does not keep Easterbrook from advocating *tighter* standards for acid rain. He calls the added costs acceptable as a reasonable compromise between what "should be done and what is economically bearable."

Ecorealistic vision

Easterbrook is much less worried about the population "explosion" than typical environmentalists. He recognizes the unbroken list of failed forecasts epitomized by Paul Erlich in his **19??** book, *The Population Bomb*. Easterbrook notes a close study of the data reveals that an inflection point was reached about 1968 which presaged a falling population in the United States, Canada and Western Europe, while other populations responded with an enormous decline in infant mortality in second- and even third-world nations. Individual couples responded to this large drop in infant mortality by having fewer children. Better child immunization and nutrition may thus more effectively reduce population growth than draconian efforts such as China's one-child-per-couple policy, cooked up by powerful elites attempting to impose their will on millions of ordinary folk.

Easterbrook praises the federal Endangered Species Act, signed by President Nixon "before it was politically expedient to do so." Easterbrook says it is the broadest and most tightly enforced act of this type of in the world. Nevertheless, he sees serious flaws. Among them: the provision that gives species preservation absolute precedence over private or social cost; the failure to protect hybrids; the arbitrary distinctions about what is indigenous and to be preserved at all costs versus what is not and probably should be destroyed; and the refusal to recognize that some species might be a nuisance or hazard that should be controlled.

Easterbrook argues that species-centered regulations should be replaced by habitat preservation, within which the competition for survival could proceed as it has since life appeared on earth. Unlike conventional environmentalists, Easterbrook does not think the cost of habitat creation should be borne primarily by whomever happens to be the current owner of the sequestered properties. Species preservation is a social good that benefits society generally, and should be paid for by taxpayers or private parties with an interest in wildlife preservation. This would reduce any loss of species or habitat to arbitrary actions of outraged present owners trying to salvage what value they can from their property.

Ecorealism has much the same message for environmentalists when it comes to CFCs (chlorofluorocarbons) as related to ozone holes in the atmosphere, and to power generation, including that by nuclear plants. With regard to the "ozone holes," environmentalists told us that ultraviolet rays passing through the "holes" were blinding animals in South America. They predicted it would cause widespread skin cancer in the United States. Vice President Al Gore declared the ozone holes to be "the greatest crisis humanity has ever faced." Well, it turned out they were crying wolf! Perhaps a real wolf will show up, but it has yet to be established.

The production of CFC -- especially freon, the standard refrigerant used in air conditioners, freezers and refrigerators for many years -- has been banned, but not before some time was granted to permit the development of substitutes. Easterbrook cites studies that tell us the risks of CFCs, if present at all, were grossly exaggerated. The size of the "ozone holes" fluctuates, and may be no larger than before CFCs appeared on the market. Whatever the size of the holes, there is little reason to blame them on CFCs. Yet once again, after telling us all this, Easterbrook concludes that "the case for strict regulation of CFCs was sound." Just why this enviro position trumps what seems to be ecorealism is left unexplained.

Easterbrook makes an excellent case for large dams, including China's controversial Three Gorges dam on the Yangtze River. In poor nations, he says, dams will reduce flooding that kills many thousands of people from time to time. They will also improve health, by replacing lethal pollution from fires used to cook meals with clean heat and electricity. These gains are virtually ignored by environmentalists, who are opposed in principle to "technological fixes" and do not worry much about pollution that slows population growth in poor nations.

Another example described by Easterbrook is the James Bay hydroelectric project in northern Quebec. Designed to be virtually invisible, power stations and power lines lie below ground where they cannot disturb wildlife. Zero emissions come from the plant, which produces low-cost power that can replace some plants burning fossil fuel. Yet the James Bay project is despised by organizations such as the Audubon Society, which says producing power this way is as bad as burning the tropical rain forests. The Society has attempted to get Congress to ban

purchase of power from this plant. Greenpeace calls it "genocide," and attempted to organize a tourist boycott of Quebec.

Nuclear power also pits Easterbrook's ecorealism against environmentalists' fanaticism. No one can make a sensible case that nuclear plants kill people. Even comparatively ramshackle plants in the third world have an exemplary record compared to coal, oil and even wind power in the United States. New reactors have been tested that shut themselves down when all coolants are shut off. The new bogeyman is waste disposal. The best solutions take little land, and are safe by any reasonable standards -- standards Easterbrook spells out in some detail. Yet nuclear power is blocked by emotionally charged environmental protests and scare mongers. The apparent strategy is to keep wastes comparatively poorly stored near existing plants where problems are magnified, and for that reason provide a better basis for additional years of scare tactics.

Power companies have devised a reasonable second-best procedure, called casking. It seems to be working satisfactorily. Yet one result of all this is to speed the use of oil and coal. These sources put more pollution into the atmosphere, *including more radiation*, than would nuclear power -- pollutants that in other circumstances would outrage environmentalists.

One can argue that for a time it is less costly to use power more efficiently rather than build new power plants, even if the new ones meet far higher ecological standards than the ones they would displace. But it is hard to believe that environmentalists care much about efficiency. Even if they care, their argument is weak in first-world nations and nonsense in the third world, where environmental protestors are as adamant as anywhere.

Environmental imperialism is more toxic to native people than political imperialism ever was. Environmentalism shows in environmentalist's attitude toward "the natives." Easterbrook tells us that the indigenous peoples have been expelled from the lands on which their forbears had lived for centuries in relative harmony with the indigenous wild animals. The idea is to create wildlife preserves. This has happened in India, South Africa, Nepal and Kenya. Some preserves allow natives to return to their former homes for a few days a year to gather thatch for their huts, and perhaps gather a little wood. If found there on other days, the native might be killed on sight

by the local army. All this is in keeping with environmentalists' logic and advice. The natives have not been compensated, are begrudged the thatch and wood, and generally are worse off than before. Yet visiting environmentalists, who arrive by jet to stay in comfortable quarters on the "wrong" day are incensed to see the poor natives cutting their allotments and carrying their burdens out of the preserve.

It is easy to understand why mainline environmentalists gagged when they found Easterbrook's analysis on their plate.

Easterbrook departs from the standard environmentalist fixation in a practical, ecorealistic way. He says petroleum- and coal-powered generation of electricity and fuel for automobiles, trucks and buses is much needed for a few more decades while cleaner power is developed and brought to market. But can any argument like this persuade a person like Jeremy Rifkin, a prominent environmentalist who, according to Easterbrook, asserts that clean energy in unlimited supplies would be "the worst thing that could happen to our planet"?

Yet Easterbrook's conclusion that capitalism is good for the environment does not mean he likes capitalism. In fact, he says he hates it. Easterbrook is not at all ready to relax his efforts as a self-styled liberal environmentalist. He just thinks that pressing a scare-mongering environmental agenda will hurt the environmental movement rather than undermine capitalism. So will an emotional rejection of effective arrangements that induce voluntary environmentally sound behavior. Ecorealism is simply a more effective tactic.

Will anybody listen?

Response to Easterbrook's book suggests that the acceptance of the environmental community will be a very hard sell. It is reported that his book was "blistered" by those he calls "enviros." Easterbrook claims his personal popularity has plummeted.

Enviros, like other intellectual crusaders, are prepared to silence or vilify people with whom they disagree. It is significant that Easterbrook is essentially a writer, one of The Atlantic Monthly's contributing editors. Probably no professional ecologist or environmentalist employed by

a university or government bureaucracy could afford to take the risk of writing a book like this, even if he believed every word. An outsider's risks, high as they are, are modest compared to the risks run by a person whose reputation among his colleagues is put at risk. The experience of Edith Efron, described shortly, suggests why few people in any discipline infused with moral or political passion write books like Easterbrook's.

It is not because all experts -- environmentalists in this instance -- do not know what Easterbrook knows, or think his interpretations wrong. In virtually every specialty, whether it be history, literature, microbiology or ecology, some ideas become "interesting" and receive funding that might lead to prestigious employment and awards. Those who find serious fault with projects bringing in the money that builds reputations are expelled, if possible, or else discredited and shunned.

Bright, knowledgeable outsiders like Easterbrook and Efron provide another check on the extremism of "in-groups" of experts, especially when they have access to experts who are suppressed or inhibited by the groups to which they belong.

In 1984, Efron published *The Apocalypitics*. Her book focused on the research and regulations that welded cancer to manufactured food additives – research that totally ignored the implications of far greater amounts of cancer-causing substances that occur naturally in food yet are touted as safe because they are "natural." Easterbrook's animus against large private enterprises also surfaces here. I do not know whether Efron suffered personally or professionally because she published her lengthy, detailed, closely researched book. It is noteworthy, however, that the experts who carefully reviewed and approved what she wrote agreed that she could describe their attainments, but only in general terms, and refused to let her give their names because they feared "persecution," "environmental McCarthyism," "destruction of reputation" and "Lysenkoism."

Matters may have improved since then. Aside from "friends, colleagues, editors and his wife," Easterbrook cites fifteen reviewers from universities, government research groups and environmental groups who provided valuable assistance with his book. Nevertheless, his

plummeting personal popularity in liberal circles indicates that reasoned criticism of environmentalism is an unpopular idea in the politically powerful, intellectual government complex where environmentalists rule.

In Easterbrook's opinion, the same feedback mechanism that makes capitalism good for the environment does not work to benefit people. He claims that either capitalism has not been asked to produce the right social conditions, or that it is simply unable to do so.

Easterbrook may not think of himself as a "closet Marxist," but he definitely is a liberal. He quite clearly thinks Marx's reasoning for the collapse of capitalist civilization is mistaken. The gist of his book is that ecological problems will not destroy capitalism either. Easterbrook is not prepared to predict what will ultimately bring capitalism down, or even to propose, as Ophuls and Boyan do, what the characteristics of a proper government must be. Still, he hopes for major changes. He puts it this way:

"Capitalism certainly needs work: I hope that someday it is replaced with a more just and less-stressful system of production and distribution. Stepping over the homeless on subway grates, taking detours to avoid parts of town where schoolchildren die in drug shoot-outs...Americans are dreaming if they think that capitalism is anything other than a transitional phase in pursuit of some method of economic organization that insures the well-being of all members of society."

Capitalism is still seen as a transitional civilization, but the once-confident socialist belief that government ownership and operation of the nation's productive resources would realize these goals is replaced by a vague hope that "some method of economic organization" will insure "a more just and less-stressful system."

Remarkably, the specific horrors to which Easterbrook refers -- such as homeless people sleeping on subway grates and neighborhoods where schoolchildren die in drug shoot-outs -- have become far more serious problems quite recently, after a large chunk of capitalism had already

been displaced by a host of government and other programs intended to make life less stressful and more equal.

Looked at pragmatically, ecologist/environmentalist hostility toward capitalist civilization is an attack on its economic base; namely free enterprise, private property and free contracting. Few environmentalists understand that multi-party democracy and the legal existence of their own value-judgment groups rests precisely on these three rights.

Perhaps they do not care. The fact that most environmentalists dismiss or go to considerable efforts to reject evidence that finds capitalist civilization responsive to environmental concerns suggests the environmental problems are secondary to an underlying desire to overthrow the System of Liberty. Easterbrook says the hostility is rooted in "intellectual dislike," comparable to liberal intellectuals' ardent desire in the last century to "disprove the existence of God." What seems to be involved here is a new proselytizing faith that has replaced God with science. Darwin, Freud, Malthus and Marx are among its prophets. They favor concentrating political power over the economy in the hands of environmentalists. This is a reversion to a new subtype of the Old Order. The leaders are to install the laws and administrative rules they think necessary to build a proper, long-lasting social system that does not degrade the environment. It has no patience with the limitations and dispersal of power that characterizes the New Order.

CHAPTER TEN

Political Correctness: Our New Religion

Despite all the attacks against the New Order established by the Declaration of Independence and the Constitution, the words "political correctness" were rarely, if ever, heard before the fall of the Soviet Union. Modern political correctness originated in the USSR as a critical part of the communist party's effort to construct a "New Man," a nation of comrades. The party's central committee coordinated the economy, but the cohesiveness of society rested on building a common perception of personal duty. In cruder form, it was known as the "party line." The more detailed philosophy, Marxism-Leninism, was assiduously taught and reinforced throughout the country in every way possible. At every point traditional religion was ignored or derided, replaced by Marxist-Leninist humanistic rationality.

Political correctness is all that is left of the former Soviet Union. Its top-down control of political life is gone with the advent of elections. Its central planning of the economy is discredited and gone. What is left is Marx' theory of history. This dwells on the shortcomings of capitalism and promises a more complete welfare state based on cooperation, not competition. The true believers, left with only Cuba and North Korea as living examples, are working overtime to preserve this vision and attract fresh recruits to their side. Their tenacious faith is the taproot of political correctness. Remember, Marx predicted the revolution would come first to highly advanced nations, not a relatively undeveloped one such as Russia.

Political correctness is a misnomer. At bottom it is *moral* correctness. Political-moral correctness separates what may be discussed and done from what may not be discussed and done. It sets standards of right and wrong in personal, business and political life. It is the unifying thread of liberal thinking today. Political correctness is in essence a secular religion. Its devotees assert it is based on science or reason, and they stigmatize opponents' beliefs as rooted in error and myth.

Granted, the religious part of the conservatives' banner does have serious shortcomings. On the surface, at least, it excludes Muslims and other believers. Its cosmology cannot be reconciled with science. Protracted bloody wars have been fought between sects of the same religion and between religions. Mainline religions have not been particularly friendly to any kind of democracy, and, like the liberals, see a need to construct a "new man" who is unselfish and cooperative. But unlike liberals, conservatives believe individuals will be transformed by faith rather than alteration of the personal environment engineered by government in schools, the media, workplaces and elsewhere.

Basic rules for personal life have provided the foundation for the most successful nations on earth. The outreach of Christian churches, and the attitudes they inculcate, has carried education, medical care and the notions of individual worth and equality before God to the most remote parts of the globe. The Muslims and Jews have done much the same. Despite many exceptions, tolerance for other faiths as embodied in the First Amendment belongs on the conservatives' banner. This is compatible with the System of Liberty.

Actions of governments marching under the liberal banner have not destroyed the System of Liberty, but the worsening social decline – especially over the past thirty years -- shows that they may yet succeed. The System of Liberty is vulnerable to a religion that loudly asserts its hostility to religion, does all it can to extirpate religious references from public properties, and also tries to make everyone think alike, use certain words, act in "right" ways and shame those who resist. Such a religion is all the more influential if it has no church and no official clergy.

PC in the USA

The power of political correctness is felt in the United States today more strongly than ever before. As noted above, the U.S., like other western nations, once relied on personal codes of conduct drawn from religious sources to guide behavior in schools, business and government. The codes were based on practical beliefs found in all great religions -- but more specifically in the Judeo-Christian Ten Commandments and the Christian Golden Rule.

The Ten Commandments -- or at least seven of them -- were virtually universally taken for granted thirty years ago. The acceptable seven, in the vernacular, are: honor your father and mother, don't kill people, don't commit adultery, don't steal, don't bear false witness, don't swear, and don't covet your neighbors' house, wife, servant, or livestock (to which might be added land). Also universally accepted was "do unto others as you would have them do unto you" -- Christianity's Golden Rule. Government officials were expected to follow the same code.

But over the past three decades, the formerly acceptable commandments have become *politically* suspect or incorrect -- and by that token, morally incorrect or suspect as well. Government authorities effectively teach a disobedient child who receives a parental swat that his parent is not to be honored. Swearing at a parent, police officer or other authority figure is politically correct, or at least not incorrect. Killing someone who once "abused" or hurt you is understandable, and not necessarily punishable. But it is politically incorrect for the state to kill a person no matter what his offense may have been. The prohibition on adultery becomes a joke unless universally acknowledged. Yet cover-up, even when used to hide conventional sexual behavior, *is* politically incorrect. Stealing is OK if you're hungry or need a fix. Bearing false witness is usually wrong, but can be defensible -- even heroic -- in important cases where a person holding politically incorrect opinions could be removed from, or denied, power. And of course, coveting another's wife, husband or material possessions is too normal to deplore.

Thought control, in the form of "politically correct" speech, is now the order of the day. It permeates all human action, conveying a sense of righteousness to those who conform, and guilt -- even shame, to those who don't. Called "brainwashing" by the Chinese communists and "re-

education" in the former Soviet Union, political correctness sets the agenda of what can and what cannot be discussed or done. It is the kind of control Plato considered essential when he wrote that Homer, although first among poets, could have no place in the ideal state.

Liberals seem to be foisting on us a politically correct language of the type Big Brother constructed in George Orwell's famous novel, *1984*. Big Brother had a "useful story" to tell. His objective: total control over the citizenry. To tell the story, and keep it told, Big Brother employed "newspeak," a reformation of the language that rendered it impossible to think in ways that could uncover anything from the past that did not confirm his story. The liberals pressing "political correctness" on us are doing the same thing to advance their ends, which are not so different from Big Brother's.

Political correct theorists hold that there are no "true" stories, only (politically) "useful" ones. So far as I know, Lenin was the first to promote this idea. To him, truth was whatever was needed to break the grip of capitalism and create an ideal state. Truth was also whatever it takes to keep full control once established in power. The perception of truth, the "party line," became the "useful story." This perception of truth was taught from the center to communists everywhere. It seems to have its new home in West Europe and North America.

At the present stage of political correctness in the United States, there is no truth separate from one's race, sex, age, or disability group. One conception is as valid as any other -- except, of course, for politically correct phrases, which in time will make it impossible to think in any other way.

Political correctness serves as an exquisite weapon that penetrates the consciousness of everyone who reads, listens to the radio or views TV. Breaching its norms can result in humiliating and debasing treatment, the psychological equivalent of putting a miscreant in stocks for public ridicule. Politically correct cultural relativism denies any special virtue to highly productive, open societies. More than that, it acts as a banner that coordinates the activities of people in government and special-interest groups everywhere. All of this lubricates the emergence of a

presumably egalitarian world managed by a politically correct elite. Political power and moral certitude are a dangerous social explosive.

Although assertedly rational to the core, proponents of political correctness fear untrammelled rational inquiry because they are also committed to an environmental view of "man." The notion that environmental conditions, "society," determine what each person does and thinks is the underlying myth of liberalism. It is the foundation for the belief that a "new man" can be constructed by exercising unified control over schools, speech and other activities that affect the way people think and act. This belief is supposed to be accepted, not investigated as a refutable hypothesis.

Free inquiry is as dangerous to this faith as it is to all others based on current science. The Roman Catholic Church found that out when Gallileo's investigation proved Aristotle's astronomy, then part of church dogma, to be in error. The hierarchy's reaction was to make Gallileo recant, so as to save the souls of those who had believed the church.

PC and politics

The Civil Rights Act of 1964, generally known as the Equal Opportunity Act, was intended to require hiring without regard to race or other personal characteristics not relevant to job performance. This, along with "equal-pay-for-equal-work" legislation, was expected to equalize incomes by curtailing discrimination. The charge was, and still is (on paper), that *equally productive* workers belonging to certain minority groups receive lower pay than white males because employers profit by discriminating against them in hiring, salary and promotion.

The clear intention of Congress was to make the economic treatment of people "colorblind." Proponents of the legislation, such as then-Senator Hubert Humphrey, went to great lengths to assure doubters that the law did not allow quotas or preferential hiring. At the University of Washington, small photographs of students previously attached to their folders were removed, and places calling for race on applications for fellowships and the like disappeared. (Since that time I have always filled out forms asking for race with "human," something that is

both factually and politically correct from my point of view.) Equal opportunity legislation is consistent with the System of Liberty.

The key presumption upon which the case for anti-discrimination law rests is that *equally productive* workers are paid less because of their race, gender or other personal characteristic. This quite illogically assumes that firms enhance their profits by hiring "minorities" at low wages because they are equally productive workers and will work for less. This sounds great but makes no sense.

Think about it. People are hired in business enterprises to help make something of value that can be sold at a price that will leave something -- a profit -- for the owners. If a firm is going to have profits, or even stay in business, it has to keep costs down. So a very natural question to ask is, why would an employer, trying to maximize profits, ever pay some people *more* just because they belong to some particular racial group, say white or Japanese? Or, to put it another way, why hire anyone who is *not* a "minority"?

Minority workers taken as a group may or may not be as productive as others when on the job, but that is not the whole story. Labor costs are also affected by turnover rates, training expenses, worker tardiness and absenteeism, and the amount of mysterious disappearance of inventory that seems to be associated with the group to which a person belongs. It makes sense to employ people from groups with different total labor costs only if these differences are offset by differences in wages paid.

A quick glance at a resume will give a good idea of a person's age, gender, race and probable strength. Experience will tell an employer which ethnic group is more likely to have a larger proportion of reliable, honest workers. It makes economic sense to hire from two or more groups only if the employer can offset the higher labor costs of some groups by paying them less. Wage differences that balance the costs of having to replace more workers and cover the costs of higher rates of absenteeism and theft are necessary if members from different groups are going to be hired. But this does not mean that equal opportunity legislation is a bad idea.

Equal opportunity: What went wrong?

Under equal opportunity law, employers could no longer pay wages in accordance with the racial group to which an applicant belonged. They had to give "equal pay for equal work." In practice, this meant that employers had to go to the added expense of finding out how much work *individual* employees performed, or were likely to perform, and how reliable and honest they were likely to be. Employers could no longer save hiring costs by paying people according to the group to which they belonged. Instead they were forced to isolate the poorer performers of every race from the better ones, so as to pay according to individualized productivity.

Good workers of every race would get the same higher pay good workers earn. Poorer workers of every race would earn and receive less. No free riders would burden the better workers. Employers' hiring costs would rise, but the desirable goal of fairness would be achieved, and in the long run overall improvement would be probable as poorer workers, no longer able to get a free ride on the backs of the better employees in their group, shaped up. All this is consistent with the System of Liberty.

The problem was, *average* wages of blacks and whites did not converge. This should have been expected, because it takes time for people to respond to changed conditions. Nevertheless, political activists, the courts and the press seized upon the failure of the converging averages as proof that equal opportunity had failed. The perceived failure was assumed to justify "affirmative action," direct action to achieve the desired statistical result: equal pay among races. Judicial interpretation of an unchanged act intended to require colorblind, equal opportunity converted the Equal Opportunity Act into a color-conscious insistence on equal outcomes. This divisive change, and the way it was imposed, is political correctness in action. It is neither scientific, rational nor just.

With equal-opportunity legislation, employers must pay equal salaries to everyone in the same job class. The better workers in all groups benefit, but the better workers in the group with the largest number of poor workers benefit the most. When employers must go to the expense of discovering the better workers, the "sheep" are separated from the "goats" and each is paid

accordingly. The better workers get more and the poorer workers get less. But *the average wage -- good workers and not-so-good in each racial group, taken together -- may not change at all*. Really poor workers may not even be able to find. Totally effective equal opportunity would be pronounced a failure by this irrelevant test.

Later studies indicated that equal opportunity had worked. Better workers did better. Over time, the changed incentives might have induced the poorer workers of every race to shape up. But affirmative action replaced equal opportunity before these incentives could take hold.

Affirmative action reversed the incentives built into the Equal Opportunity Act. It placed political forces in opposition to market realities, and has created and prolonged racist problems. Good intentions are an extraordinarily poor substitute for logical analysis. Affirmative action actually reinstituted hiring by group characteristics. Free-ridership was institutionalized by requiring hiring from credentialed pools of workers, often falsely asserted to be equally desirable employees. This tended to benefit the better workers. Workers with the least to offer, especially youngsters looking for their first job, have had a harder time. This has been evident since the mid-1960s in employment data for younger people.

It would have been reasonable to expect young black males to suffer from equal-opportunity legislation, because it is popularly supposed that they, on average, had poorer work habits than young white males in the 1960s. Perhaps they did, and got paid less. In any case, in 1960 the rates of participation and employment for black male teenagers in the labor force were close, actually a little higher than for white teenagers. This was before either equal opportunity or affirmative action became public policy. Now, with affirmative action in place, the rates for black teenagers fall far below white teenagers' participation and employment rates. It is hard to find anything positive in this. Whatever the reason, the decline in black teenage participation rates began about the time affirmative action took hold, and remains low today.

Affirmative action is typically judged by very broad comparisons, such as annual incomes by race. The differences reflect another set of distortions. Look, for example, at the years of experience in the labor force, something crudely measured by the average age of persons in

various groups. Average age differs significantly from group to group. No one expects a 20-year-old to earn the same as a 40-year-old, yet the lower average age of blacks is not noted when comparing black incomes vs. white incomes. Marriage, likewise, affects discrepancies in male-female incomes. Studies show that never-married men earn less than never-married women, but married men earn more than married women. How does "discrimination" fit these data? It is simply illogical to treat the averages as decisive evidence of discrimination, much less as evidence of the amount of discrimination. But the leaders of special-interest groups spawned by affirmative action and its related judicial interpretations have good reason to deny or conceal these statistical flaws. Their influence and incomes depend on it.

Affirmative action's most serious shortcoming is not economic. It is political, and, in a deeper sense, moral. It creates hostile interest groups and tends to pit the more-able against the less-able in a particular group. For example, black racist political leaders seeking a power base sometimes denigrate successful blacks as "Uncle Toms" (deferential to whites) or "Oreos" (black on the outside, white on the inside). Affirmative action does less than nothing to promote goodwill and harmony among Americans.

Fortunately, affirmative action is already under concerted attack. Many blacks as well as whites are pleased with recent Supreme Court decisions that move affirmative action a giant step toward equal opportunity. The Board of Regents at the University of California-Berkeley has removed affirmative action from its criteria for admission, and a California initiative to remove affirmative action statewide passed at the 1995 polls. This may mark a turning point in the battle between the age-old conception of the ideal state and the System of Liberty.

PC and the Constitution

At the time of the American Revolution, the colonies of Massachusetts, Connecticut and New Hampshire supported the Congregational Church. The Southern coastal states supported the Episcopal Church. Elsewhere, support was less specific. In some places a person had to be

Protestant to hold office. In other places a belief in God sufficed. Such restrictions continued for decades after passage of the First Amendment to the Constitution, which states:

"Congress shall make no law respecting the establishment of religion or prohibiting the free exercise thereof, or abridging the freedom of speech, or of the press, or the right of the people peaceably to assemble, and to petition the government for a redress of grievances."

The day after the First Amendment was ratified, the House of Representatives passed a resolution that read, "We acknowledge with grateful hearts the many signal favors of Almighty God..." The House called on George Washington to designate a day for national prayer and thanksgiving. The president responded, in part: "It is the duty of all nations to acknowledge the providence of Almighty God, to obey His will, be grateful for His benefits, and humbly to implore His favor and protection." Thus both Congress and the president were in immediate, flagrant violation of the First Amendment as interpreted by modern courts. How could this be? What could have been the purpose of the First Amendment?

Modern scholarship provides an answer. The First Amendment was a significant part of valiant efforts to get the Constitution ratified -- efforts that might have proved necessary for ratification. The First Amendment bars the *federal* government from establishing an official church. It renounces all rights to give public support and special privileges -- to "establish"-- any *specific* religion or denomination, to avoid conflict with established state churches. Belief in God and inclusive public prayer were not proscribed. Tolerance of religious diversity at the national level was embedded in the Constitution.

Protestants' hard-won tolerance of Jews and Catholics was not finally cemented until John F. Kennedy met with Protestant leaders in 1960 as part of his campaign for the presidency. Today, many people apparently find no acceptable moral basis for conventional religions in either personal or national life. Their intolerance is a potentially serious threat to the viability of the System of Liberty.

The "religious right" is the *bête noire* of political correctness. References to the religious right evoke sneers and rolled eyes in some quarters, even venomous responses, or so it struck me when a person on national TV said of a prominent political figure: "He is a *Baptist*! He goes to *church*! He *prays*!" (emphasis very evident in the tone of voice).

Religious differences have welded individuals into groups and separated one group from another probably since the beginning of human life. Every tribe has its God or gods that give meaning to the individual tribe-member's existence. Political correctness is another such deity.

The state cannot escape a close relationship with religion of some sort, because the state by itself cannot supply a moral basis for the laws and protections it must provide. The weakness of political authority standing alone explains the efforts of absolute rulers, from the Egyptian pharaohs to comrade Stalin, to reach for God-like stature. The typical European government made one church its official church, paying its bills and often turning over the education of its young to the church's schools. Wars tended to become religious wars because each side had religious sanction from its ecclesiastical authorities.

PC: Our new religion

If it is correct to characterize as a religion a systematic set of beliefs, conduct, code of ethics and philosophy that defines a group and sets its members apart from others, then political correctness is a religion. It is far less political than it is moral, and indeed holds the moral high ground in many influential circles in the United States. Its adherents have successfully displaced or eliminated conventional religion in schools and public exercises. Like traditional religions, it intends to remake "man." Many of its activities are government-funded, and it uses some of those funds to belittle and limit the influence of more conventional religions it fails to infiltrate. In that sense, at least, it has become the *de facto* established religion of the United States.

"Science" is the moral base for political correctness. Nature is God, and scientists the high priests who dictate duties to ordinary citizens. With Plato, "wisdom" and "virtue" were God, and philosophers were the high priests who managed the ordinary citizens. For Marx, Engles and

Lenin, history was God and Marxist-Leninist philosophers were the high priests who reshaped the ordinary citizens and assigned to each his duty. The common denominator is the key role of a few men and women who possess the "truth" and enjoy legitimate authority to manage the lives of the rest of the people. This contrasts sharply with the New Order.

The science that produced the atom and hydrogen bombs drew attention to the power of science. The fear engendered by the atom and H-bombs have made it the Lucifer science, associated with war and possible domestic disaster from power plant explosions and long-lived radiation. Life sciences became the good gods of health and the environmental movement. With the appearance of Rachel Carson's 1962 book, *Silent Spring*, man-made carcinogens became the devil. The environmental movement, developed a few years later, provided the anti-Vietnam protesters of the day a wonderful new wrecking bar with which to attack many businesses and governments. Of course, it was not just a wrecking bar. It performed a substantial and useful service by more forcefully drawing attention to the environmental costs of human activity. Nevertheless, it has been used primarily as a wrecking bar. Businesses are attacked as if they were evil personified. Governments that did not immediately come up with "solutions" promulgated by "concerned" groups were accomplices. A group of sciences related to carcinogens became the God of Health.

Devotees of political correctness regularly call for application of government power to force sacrifices by the whole population to the nature-gods it identifies. These nature-gods range from ozone holes in the atmosphere to the growing number of species granted sacred status by secular priests' readings of science. The sacrifices they call for are supposed to save our offspring from some sort of hell. Obedience to their dictates brings the satisfaction and comfort of faithfully doing what we are told is right. Disobedience entails a sense of guilt, costly lawsuits, loss of property values, sometimes even heavy fines and jail time. In his inequity, sinful man must be made to serve these gods that compose the environment he shares with them.

Political correctness, like the Christian and Muslim religions, has a missionary vision and is active worldwide. But individual adherents have humble daily work to do that strengthens the

moral foundation of the religion. Individuals help "save the environment" by purchasing "green" products, recycling, bicycling, eating the right foods, using the correct fertilizers, raising children without ever swatting them and, of course, using politically correct language. Daily practice of political correctness is nothing new to organized religious. Islam has strict and comprehensive moral rules. Its leaders point out that only a tenth of the Koran relates to religion proper; the rest relates to right action in virtually every human activity. The Jewish and Christian faiths, especially in their more conservative versions, have similar, if less comprehensive, rules.

Political correctness does not call itself a religion. This makes it possible to be America's *de facto* established church. Vice President Al Gore certified this sentiment in 1993, when he assembled Protestant, Catholic and Jewish leaders to form a National Partnership for the Environment. A precursor to this partnership agreed that environmental integrity must occupy a position of "utmost priority" for people of faith.

Herein lies the greatest danger to the System of Liberty. In marked contrast to the First Amendment, which bars federal support of religion, the establishment of political correctness introduces intolerance that has already led to irreconcilable conflicts in areas such as environmental law enforcement, species protection, abortion and free speech.

At the time of the American Revolution "religion" included only the several varieties of Christianity. Today recognized non-Christian religions and sects are accommodated rather easily. None have a claim on the public purse, although some friction exists with regard to taxation of church property. But this conflict is small potatoes compared with the conflicts sparked by political correctness, backed by the power of government. There can be no doubt that political correctness is a threat to the "inalienable right to liberty." It curbs the "pursuit of happiness" and, despite its claims to the contrary, even "life."

PC and free speech

Political correctness is, of course, incompatible with free speech. The list of taboo words and ideas is already lengthy and growing. It has long been agreed that a person who falsely shouts

"fire" in a crowded theater is not protected by the right to free speech. Recently this ban has been extended to a college student who offended women outside his dorm by calling them "buffalo." In sharp contrast, deliberately offensive members of groups such as ACT UP, flaunting their "lifestyle" in speech and actions that offended onlookers, were only exercising their constitutionally approved right to free speech. When free speech collides with the civil rights of minorities, women and gays (as in the "buffalo" case), speech is not free. It can be quite expensive. But others are supposed to have thick skins and take it.

In another George Orwell book, *Animal Farm*, all animals were equal but some were "more equal" than others. In America today speech is a lot freer for officially recognized minority special-interest groups and their supporters than it is for others. This has even become official policy for at least one government agency whose minions do not like opposition talk. In 1994 a local branch of the federal Housing and Urban Development (HUD) offices filed a lawsuit against private parties for protesting the conversion of a motel in their neighborhood to a homeless shelter that would have housed some officially-classified "differently abled" persons. The argument was that the protest abused the civil rights of the homeless. This suit was dropped, but only after publicity raised the issue to the Cabinet level. A press report says revised HUD rules now require its agents to "carefully tailor" investigations of opponents into their work, so as to "not *unduly* chill the exercise of free speech" of protesters (emphasis supplied). Opponents will still be investigated, and had better watch what they say. Lawsuits are expensive.

The censoring of what may be put in a classified advertisement when trying to rent or sell one's home is another example of the use of government power to enforce political correctness. The idea seems to be that perceptions can be changed by altering language, and that changed perceptions will change reality. Speech that questions or denigrates politically correct ideas does not have a right to be heard. Slander can properly be punished, but certainly not an honest description of a house for sale, describing its location near a church and lack of ease of access. These are among the many rules, regulations and pressures that unduly curtail liberty and impede the pursuit of happiness.

PC and the right to life

It has become increasingly difficult to define "life," and when it begins or ends. Both questions have become politicized, largely because governments have made it public business by paying for the consequences of personal decisions relating to birth and death. Consequently, both issues have become flash points in the contest between people who take their alternative religions seriously.

Laws that made abortion illegal have been repealed, to the dismay of many devotees of some conventional religious groups. Some members of these groups have gone well beyond their constitutional right to peaceably assemble and petition government for the redress of their grievances. Their objection to the use of tax money to fund abortions has not been addressed, but perhaps their aggressive, sometimes violent actions against private institutions and doctors would have happened even if no tax money were involved. Those favoring abortion are just as strident and self-righteous, and presently have the law on their side. The extremes to which it is being carried illustrates their zeal, and how far they are from the traditional view of a child as a gift from God.

The abortion conflict is confounded by different views of what constitutes murder, something opposed in general by both sides. It is argued in terms of when a fertilized egg becomes a person, but it comes down to whether the life of a partially formed baby outweighs the pursuit of happiness by the prospective mother. It is hard to see how the state can avoid defining what constitutes murder. And that puts the state in the middle of what, in essence, is a religious conflict between two intolerant organizations, or sets of organizations, each working to get the government to impose their conception of right and wrong on the other and everyone else.

This matter cannot be resolved by science. Science has improved contraception. It has made abortion physically safer and less painful. It tends to demystify the reproductive process and make life seem mechanical, hydraulic, chemical and electrical. But that is all. Science does not

deal with certainties. It doubts and retests its findings. The most common conclusion of scientific investigation is a call for more research.

Like prostitution and drug use, abortions occur even when they're illegal. Making them illegal again will not end the practice. Women's lives will be endangered. Making abortion legal, but not funded by government or government-mandated programs, should be an acceptable resolution. An abortion is vastly less expensive than raising a child, and contraception is even less costly. If an abortion is too expensive for the woman rejecting motherhood, charitable money can be found. It follows that the cost of an abortion should be a small matter for the prospective mother. The conflict exists because each side wants this bit of religion, this dogma, "established" politically.

It was a mistake to criminalize abortion in the first place, because doing so politicized a religious issue that could, like religion itself, better be left "to the states or to the people" -- in this case, to the people. Then government funding would not thrust the state into this arena. It does not help that the state may save medical and welfare costs by encouraging abortion. Taxation is, after all, a tyrannical extraction of money from all citizens. Tax revenues should not be used to pay for services that are only tenuously related to the primary duties of government and are anathema to many taxpayers.

To insist on government involvement when fundamental conflicts about matters of right and wrong are at issue is to strike at the foundations of democratic government, because it puts on the table issues that cannot be satisfactorily decided by a majority vote. The founding fathers' decision to keep federal hands off religious organizations, doing no more than protecting their property and right to exist, was wise. It needs to be extended to states and applied to the *de facto* religion masquerading as political correctness.

PC on the deathbed

With the demise of the once-nearly universal acceptance of a baby as a gift from God, the value of life in its last stages has also become a significant political, moral and economic problem.

The value of prolonging the lives of retirees, for example -- especially the deathly sick among them -- must be weighed against other uses of revenues in and out of the health-care field, such as more child care or highway improvements.

The source of funding once again is the root of the problem. If government were not responsible for individual citizens' health care, people could choose from a wide variety of options. People with similar incomes would make quite different choices. Charitable gifts would help some poor. Extended families would have reason to keep in touch and give mutual support. Some would do all they could to extend their lives; others would not. Things are quite different when government asserts its power, either directly or indirectly, by mandating employer coverage. In doing so government pushes aside family and individual choice. Instead government officials decide how much to take from citizens' incomes and determine how it shall be spent. Christian scientists who avoid medical costs as a matter of religion are thrown into the same pool as hypochondriacs of the same age. Once again it is rule by a philosophical-political elite, Plato's ideal state versus The System of Liberty. The United States has not quite reached this level, but President Clinton's proposed health-care plan set the stage for it (Although it hid most of the costs in employer mandates.)

Politically correct thinking clearly sides with Plato. Congress, aided by ethicists, *should* weigh "society's" interest against individual interests and determine which has the higher priority in each set of cases. But the ethicists have a tremendous problem. To do this, Congress must compare unlike things. This can be accomplished only by assigning values using some common denominator, such as money -- a necessity that is evaded by every semantic device to be found. Whether public or private, administrators must pay attention to how much health care they can provide from the premium paid, or tax collected. The ethicists cannot avoid having some philosophy, some set of moral values, that will determine what will be provided and what will not.

At least two common practices put implicit dollar values on elderly lives. Nationalized health care rations services in two ways. First, it makes rules that determine when a particular procedure is justified. For example, people who are over a certain age may be denied certain

treatments, such as a liver transplant. It seems obvious that older people's lives are worth less because they probably will have fewer productive years and may never earn as much as the cost of the operation. But this calculation is rarely, if ever, made explicit.

Another cost-saving practice prioritizes those deemed eligible for treatment. Those not desperately sick simply wait their turn for help. A few die while waiting. More get well enough to get out of the queue. Here too, some third-party bill payer deems the value of the lives lost and the discomfort of those waiting as less valuable than the costs of spending more money. Queues and denial of service to certain categories of people are deliberate limitations of supply. Individuals from groups most likely to make future contributions to society are assigned (probably unconsciously) higher priority.

Recently, living wills have become popular. It is now acceptable for an individual to sign a notarized statement that asks doctors to avoid heroic, or even fairly routine, measures intended to prevent death when the alternative seems to be protracted time on life support with little chance of recovery. This is a soft form of legalized suicide that personally involves the patient's physician. Honoring a living will may require the removal of life support from unconscious patients. The American Medical Association (AMA) goes further to include patients without living wills. It has revised its "ethical rules" to fit the practices of an increasing number of physicians and the courts. A 1994 statement by the AMA reads: "Even if the patient is not terminally ill or permanently unconscious, it is not unethical to discontinue all means of life-sustaining medical treatment in accordance with a proper substituted-judgment or best interest analysis." Despite the pussyfooting around the issue, killing is clearly involved here, and there is no need for a conditioned suicidal request from the patient. Killing seems to require violation of the Hippocratic Oath, which includes doing no harm. But some doctors see the act as merciful and quite the opposite of harmful.

"Helping" a person die is most questionable when health care is financed by government, a private Health Maintenance Organization (HMO) or an insurance company. Money is saved when a death is prompt. Living wills at least put the individual's own estimate of the value of his

life against the circumstances he imagines. They also ease the problem faced by ethicists. But living wills too have their problems.

As everyone knows, a law permitting doctor-assisted suicide for people who are reasonably healthy and apparently able to make their own decisions is on the table for judicial action. A few people choose comfortable suicide now, rather than face the painful alternatives they anticipate down the road. This issue, while lively, has not evoked passions close to those energizing the abortion battles. Many doctors oppose physician-assisted suicide because depression is common but temporary, and depressed people are often suicidal for a while only to return to healthy vigorous lives. As long as physician-assisted suicide is illegal, the patient will have to pay black-market prices for this service or turn it into a do-it-yourself project.

"Helping" people die muddles the distinction between compassion and murder. Withdrawal of life support, especially from one "not terminally ill or permanently unconscious," and the assisted suicide of depressed people are especially questionable when the sick person has assets that will be distributed to heirs.

Devotees of political correctness want a government monopoly on health care. If they get their way, federal authority cannot avoid making life-and-death decisions that balance these very personal matters against quite-different desires that government also funds from tax sources. Bureaucratized health care cannot pay much attention to personal preferences or the diverse moral judgments of various citizens. When individual citizens pay their way, differences in the amount spent on health care would be no more a public concern than the enormous differences in what people spend for their homes, vehicles, travel or other goods and services.

Perhaps people should be paid to sign a living will. This might work better than "substituted judgments" or "best interest analysis." At least it would lessen the burden on doctors and ethicists, and perhaps lower the cost of health care. The burden could also be reduced if a person confronted with a choice between an early death and costly and painful treatment were offered some compensation to forego the latter.

Like abortion, continuation of laws denying the right to die will not end the practice of assisted suicide. It will deny it to people not in a position to kill themselves, and could gradually slip over to active pruning of the population to achieve the dreams of a power elite. This is directly at odds with the idea of liberty and the pursuit of happiness. The System of Liberty gives choice to the people directly involved, not third parties.

The war between the System of Liberty and political-moral correctness is a chronic contest between conflicting ideologies. On one side is the idea that government is the servant of the people -- that the people are the "boss." On the other is the notion that government is the people's shepherd -- a basically kind and wise, but also stern, boss. As de Tocqueville put it, one philosophy puts "comfort" first. The other gives priority to "security."

Some people felt relieved when 1984 passed and the vision described in Orwell's novel had not become a reality. Yet much continues to be done to change our speech and what we may think about. It is easy to forget that Orwell did not foresee completion of the shift to newspeak until the year 2050.

CHAPTER ELEVEN

Western Civilization: Reprise and Prospects

The 1960s radicals who railed against the Vietnam War, welcomed a Vietnamese victory and hailed Chinese communism under Mao's leadership may have thought they were rebelling against Western Civilization. Actually, they were rallying to a variant of Western Civilization that had penetrated China from Europe. Capitalism, communism, socialism, liberalism and fascism are all manifestations of Western Civilization. All emerged politically from Greek and Roman roots and have their moral basis in Judeo-Christian teachings. All believe mankind can better its position. They share the same ultimate objectives -- a society without poverty, unemployment, social discord or war. All except capitalism require a powerful central authority.

Karl Marx might not agree that capitalism is an exception. To him business power, although hidden, dominates political and cultural aspects of society as much as it does economic affairs. Business dominance of government is revealed in its enforcement of private ownership of property, which is the foundation for the whole "superstructure" of capitalist civilization. To Marx, private property is the key institution that makes capitalism work so well as the creator of wealth and income, but also frustrates sharing the bounty with workers. This and other internal "contradictions" would, he thought, eventually doom the system. Marx and his disciples believed public ownership of the means of production would be the ultimate liberating solution.

Marx was right to classify capitalism as a civilization that extended to all dimensions of social life. He was wrong to link public ownership of the means of production to something close to a free and utopian civilization.

Three of five fail

Experience with government ownership in practice has demolished the economic foundation upon which the Marxian structure rests. Yet the notion that federal government intervention is the sole practical avenue toward the achievement of our utopian aspirations remains intact in the minds and hearts of many intelligent people. They have not learned how well free markets and private contracting direct resources and adjust the size of enterprises to changing conditions.

Totalitarian fascist societies have utterly failed. Although "The Axis" -- Germany, Japan and Italy -- came close to winning World War II, their social systems are history, and virtually no one holds them up as examples to be emulated. But the basic idea of a government-dominated, privately owned economy is alive and well -- especially in the United States, where the power of government rests on social, rather than military, objectives.

Classical socialism has also failed. It called for government ownership and central planning, as well as a state monopoly of the business sector, but with political rulers chosen by popular vote from among rival candidates competing for short terms of office. When after World War II it became evident that actual planning required expert functionaries operating almost independently of elected officials, modern democratic socialists turned out to be more devoted to multi-party democracy than to centralized economic planning. They presently favor a highly regulated capitalist economy, heavily taxed to fund a welfare state. American liberals differ little from European social democrats. They favor "industrial policies" -- manipulation of taxes to encourage some activities and discourage others -- and all kinds of regulations that induce or simulate traditional socialist outcomes.

The combination of socialist goals and fascist economic organization is the prime contender facing the System of Liberty today. The United States has moonwalked a considerable distance toward that type of western civilization during the past 60 years.

Regulation: procedure over substance

The framers of the Constitution worked hard to bar the path of "factions" seeking control of government power. The framers did this by dividing power between federal and state governments -- and within each, among legislative, judicial and administrative branches. In addition, they enumerated the powers of the federal and state governments. The Tenth Amendment "reserved to the states or to the people" the powers neither specifically "delegated" nor prohibited by the Constitution. The Ninth Amendment declared: "The enumeration in the Constitution of certain rights shall not be construed to deny or disparage others retained by the people." Most of these constraints on federal power have been eroded away or circumvented during the past six decades.

The separation of powers -- what Abraham Lincoln called an experiment in government that might "perish from the Earth" -- worked rather well until the 1930s, when the federal government grossly widened the paths through and around the limitations of the enumerated powers without amending the Constitution. The foundation for these reinterpretations was laid 50 years earlier by judicial reinterpretation of the Constitution's commerce clause.

The commerce clause was supposed to outlaw trade barriers between states. It reserved for the states control over commerce *within* states, but gave the federal government power to control commerce *among* states. But just what is "commerce"? By court interpretation, it has come to mean anything that "affects interstate trade." Just how significant the effects must be to make it appropriate for federal regulation (including price control) is unclear. But a famous case helps illustrate the point.

A farmer had an allotment (a right to harvest and sell) 222 bushels of wheat. He harvested 461 bushels, sold 222 and consumed the remaining 239 bushels on his farm to feed his

family and livestock. Yet he had to pay a penalty because that excess 239 bushels "affected commerce." Our earlier example of what it takes to manufacture a wooden pencil illustrates how extensive government regulation can be, given so broad a definition of what affects commerce.

Something close to this extreme was the law of the land until May 1995, when the U.S. Supreme Court decided (5 to 4) that under the Tenth Amendment only states, not the federal government, could ban guns in or near schools. A dissenting judge argued that this could be regulated under the commerce clause, because a gun near or in a school could raise insurance rates and contribute to a perception of danger that would induce people to travel less. When a justice pressed the government's attorney to name some activities that could not be regulated by the federal government under the commerce clause, the attorney could not think of a single example.

Today federal power overrides state power virtually at will. Legislatures pass bills packed with benefits for special-interest "factions." Remarkable interpretations that "have the force of law" are made by unelected bureaucrats interpreting laws considerably less explicit than the commerce clause. What federal legislator intended, for example, that adding sex discrimination to the civil rights bill would result in banning father-son banquets at local schools?

This process imposes costly regulations of dubious value on us all. Courts have mandated expensive programs that legislatures have been unwilling or unable to pass, such as the shift from equal opportunity laws to *de facto* racial quotas. They have also imposed local taxes to fund schools, something long thought to be the prerogative of state legislatures and local school districts. One little-heard objection to a constitutional amendment requiring a balanced federal budget was that courts could override Congress by ordering higher taxes (or specific spending cuts) in response to lawsuits based on a constitutional requirement to balance the federal budget.

The connection between the voters -- even legislators -- and the laws, decrees and regulations to which citizens must conform has become so weak and so remote from government of, by, and for the people that it is becoming inaccurate to call our system either "democratic" or "republican." A more accurate designation is "liberal-fascist." The regulatory power of government

manages, or requires mismanagement, of an increasing amount of private activity -- not by saying how a given property must be used, but by decreeing that it may not be used for some particular purpose. This is a particularly costly and high-handed procedure. Likewise, to use a previous example, we are told not what one must say when advertising a house for rent, but some of the things that we must *not* say in order to avoid criminal prosecution.

Unfortunately, even if the Tenth Amendment were respected citizens would be vulnerable to state and local governments, both of which have adopted many liberal policies that place procedure above substance. Consider the case of Teen Challenge of San Antonio, a religious-based drug rehabilitation organization with 180 chapters in the United States and 300 abroad, staffed largely with ex-addicts and reformed alcoholics at a cost to customers as low as \$25 a day. It has one of the best, if not the best, long-term track records, with cure rates ranging from 67 to 85 percent. The San Antonio Teen Challenge takes no money from government and economizes on paperwork. In 1994 a university professor found it the best of the 300 programs he studied, as well as the least expensive. This included comparison with \$300-a-day centers funded by government and run by credentialed professionals.

So what was the response of the Compliance Division of the State of Texas Commission on Drug and Alcohol Abuse? It threatened program organizers with a Class A misdemeanor – up to a year in jail, plus a \$4,000-a-day fine -- unless they became licensed, which requires lots of paperwork and the hiring people with credentials the state will accept (which apparently would not include Teen Challenge's present workers).

This is a triumph of procedure over substance. It is also part of political-moral correctness. It involves a government enterprise overriding private enterprise, a government cartel freezing out a competitor. It is "science" quashing religion. It is the kind of action that must be expected as credentialed workers in the poverty industry fight for their jobs.

Government is key

Capitalist governments have essential roles to play in a System of Liberty. They must provide a stable currency, contain crime, provide for public health, pay for the education of children, care for the destitute, enact and enforce private-property rights, enforce contracts and protect the nation from foreign invasion. Some of these roles are better filled by state and local governments. Governments in a System of Liberty will not attempt to provide cradle-to-grave security above a low level, and will not try to manage the economy.

Capitalist, free-market economies can and do exist in authoritarian states, but unlike the communist, socialist and liberal economies, the basic institutions of free-market economies are friendly to democracy and inherently international in outlook.

The concept of rights also distinguishes the System of Liberty from democratic socialist or liberal-fascist societies. In a System of Liberty no one has a right to any particular good or service. Each has the right to "life, liberty and the pursuit of happiness." In contrast, communists, socialists, fascists and liberals emphasize a citizen's "right" to goods, services and jobs. Always in the background is the idea that these should in some sense be "equal."

President Franklin Roosevelt set the goal for government rights to goods and services when he declared that the time had come to go beyond life, liberty and the pursuit of happiness to the "rights" for food, clothing, adequate housing and a job. Less than three decades later, the United States took major steps toward establishing these rights during President Johnson's "War on Poverty" -- which included Medicare, Medicaid, massive job-training programs, equal-opportunity legislation, expanded welfare programs and more. In 1993 President Clinton tried hard to take a giant step further that would have given everyone a right to middle-income health care (and perhaps limit everyone's care to that amount). It would have been paid for directly by various taxes, and indirectly by employer tax breaks that boil down to a combinations of a tax on wages and increased consumer prices.

Calling these desirable material items "rights" to be provided in approximately equal amounts throws into sharp relief the chasm that exists between communist, socialist, fascist and liberal branches of Western Civilization, and the one upon which traditional American democracy

rests. As noted previously, medical care, food, raiment, shelter and a job are “rights” slave-owners provided their slaves. Slave masters had a keen personal interest in their workers' health so that the slaves could do the work laid out for them. In 1850, the typical small white farmer in the North who had no one "caring" for him was not much better off than many southern slaves in terms of food, clothing, shelter or medical attention. What the slaves lacked was freedom.

The difference between masters and slaves on a plantation in the Antebellum American South and the nomenklatura and worker families in centrally planned communist states is primarily a matter of scale. The relationship is also similar to the one between officers and soldiers in a modern army. These are not attractive models for the civil lives of most Americans. Nevertheless, they are the models toward which we have been drifting.

The System of Liberty is different. The right to the “pursuit of happiness” validates the individual's incentive to make the most of his life. “Liberty” includes ownership and control of oneself and productive property. “Life” means security from arbitrary actions by government. “Life” in the sense of some minimum level of income, food, shelter, raiment, health care or job -- even for persons unable to care for themselves -- was not a duty of government. It was left to the people.

Flirtations with facism

The United States has flirted with liberal fascism for sixty years, sometimes in response to pleas from business (especially big business), sometimes in response to legions of other interest groups seeking protection and favors.

The first large step occurred when the U.S. Congress established an essentially democratic-fascist scheme to fight the Great Depression in the last part of President Herbert Hoover's Republic an administration and the first months of President Franklin Roosevelt's Democratic administration. This is nicely described in both Paul Johnson's book *Modern Times* and Robert Higgs' *Leviathan*. The traditional effort to protect domestic industries with tariffs produced the extreme and notorious Smoot-Hawley tariff, which tried with great and predicted

failure to protect everyone. The tariff was supplemented by the first government efforts to directly reduce the production of certain crops in an effort to raise their prices, and the first acts to bail out large companies considered too important to be allowed to fail. The former was financed through the Department of Agriculture, and the latter by the government-funded Reconstruction Finance Corporation (supplemented with moral pressures on business owners not to cut wages and to continue producing to maintain wage income -- and with it a stronger demand for goods and services).

These actions were overshadowed during President Franklin Roosevelt's first term by the National Recovery Act (NRA), symbolized by "the blue eagle." The NRA organized businesses into associations that were specifically exempted from anti-trust prosecution. The hope was that businesspeople, relieved from the cost-cutting pressures of competition, would manage their markets so as to restore profits, increase hiring and get us out of the Depression. The Supreme Court found the act unconstitutional, provoking Roosevelt's effort to "pack" the Court with his appointees -- who then would make the "right" decisions that would give the president and Congress greater powers to intervene and manage the economy. Although the president failed to pack the Court, it soon made a series of decisions that allowed more-carefully drawn laws to pass muster, according to the Constitution as reinterpreted.

An example of America's affair with a more extreme form of democratic fascism is the elaborate system of controls imposed under special war powers acts during World War II. The wartime emergency induced practically everyone to accept the president and his top military commanders as the most competent available decision-makers. People were prepared to make the relatively small sacrifices asked of them because most people on the "home front" had sons or husbands in the service prepared to risk their lives for them. The sacrifices seemed especially small at the time, because the chronic high unemployment that the New Deal had not been able to eliminate promptly turned into a labor shortage. Most important, the wartime controls were accepted because the *situation was universally considered temporary*.

Most controls were abandoned promptly after the war. But in 1970 President Nixon, acceding to pressures from labor unions, big business and Congress, imposed price and wage controls. The intent was to suppress an anticipated inflation generated by an effort to achieve full employment. The controls were popular with voters in the short run, and contributed to Nixon's subsequent sweeping victory at the polls. But the controls never amounted to much economically and were soon abandoned.

Nevertheless, the imposition of price controls for domestic purposes in a time of peace is significant, because it reveals the liberal-fascist impulse in a Republican president who said on many occasions that controls do not work and cannot be exercised equitably. More important, this episode demonstrated the popular appeal of controls when the electorate believes a crisis exists. Crises often have political consequences -- new laws and regulations, additional or expanded agencies to write and enforce the laws that breed inefficiency -- that do far more harm than good. President Carter's energy policies in response to the oil crisis is a case in point. It matters little whether the original crisis is real or contrived. Perhaps that is why we hear so much about "crises" from activist political candidates and elected officials.

The fact that so many problems are called crises suggests that the problem of the day is merely cover to a thrust for power. One problem after another followed the lead of the "war" on poverty. "Wars" now rage on crises ranging from drugs to global warming. Some such wars have even been waged under the command of a "czar," of all things. And so far they have produced not one victory! President Clinton signed a crime bill sent to his desk with bipartisan support in September 1994. Remarkably, no one claimed that it would do much to stop crime.

We have no victories in these reformist wars, partly because none can ever be decisively won. There is no foe able to surrender, unconditionally or otherwise. Anyway, nothing can *eliminate* drug use, crime or discrimination. It is not possible to preserve every species. But tradeoffs that lead to overall improvement are possible. Most objectives, like "poverty," are relative concepts. Others, like "income equality," can scarcely be given an operational definition but are nevertheless constantly used to imply unfair treatment.

Take, for example, the inequality of women's incomes as compared to men's. Two conditions account for much of the disparity: the amount of experience as indicated by years of service in the paid labor force, and the diversion of effort as indicated by marital status. Length of service on the job is a rough measure of productivity. Women taken as a group have fewer years of full-time participation in the labor force. The responsibilities and costs of raising children also make a difference. The latter helps explain why married men have higher incomes than married women. How, then, can we account for data that show never-married women earning higher incomes than never-married men? What is the meaning of "equal incomes" by gender in the light of the fundamental facts of marriage, child raising and years of experience in the labor force?

Government efforts to equalize incomes and the conditions of life have pernicious effects. The War on Poverty seems to mark the starting point, or at least the acceleration point, for the multi-faceted social breakdown that worries us today. Efforts to reduce poverty seem to have encouraged sloth, weakened family structures and facilitated teenage motherhood, while failing to reduce poverty as conventionally measured. The published poverty index reached its all-time low point in 1969 and its next-lowest point in 1979. Certainly child abuse and homelessness are worse today than when President Eisenhower left office. The seriousness of the drug problem is elevated, and the numbers of what were for centuries called bastard children are higher than ever.

Black male teenage (18- and 19-year-old) "participation" (employment plus unemployment rates) in the labor force is equally dismal, falling from 76 percent (higher than teenage whites) to 56 percent between 1965 and 1980. During that same period, participation by white teenagers of the same age group rose from 72 to 76 percent. Black males' total employment dropped from 66 percent (again higher than whites) to 36 percent during the same 15 years, while the employment for white teenagers remained stable at 65 percent. Even when real improvement has occurred, as with air quality, we are so practiced at thinking in terms of failure that we find reasons to believe the quality has worsened.

Our thirty-year drift toward a liberal-fascist society has not turned out well. Its chronic failures in these domestic wars have prompted a large and increasing portion of the electorate to

question the ability of government to do much of anything right. Government effectiveness in every area suffers as citizen support erodes.

What do we want?

Classical socialists believed that government ownership and central planning were the best avenues to a just society. As they lost this faith they moved, perhaps unconsciously, toward an economy where private enterprises are accepted when tightly regulated by government. This also concentrates power in the hands of government, where a class of people, trained to rule, can manipulate the economy. It puts government officials and those Schumpeter had in mind when he described "the sociology of the intellectuals" in a position to blame the shortcomings of the system on businesspersons' cupidity, stupidity, greed, inefficiency, or simple reluctance to obey the laws. This is the fundamental dynamic that moves us toward a liberal form of fascism.

Aside from the huge areas of public lands, primarily in Western states, wealth is not socialized in the United States, but more than 40 percent of the gross domestic product is. This is far more than all the rents, interest and profits of private owners of non-human private property. The range of things an owner can do with his physical properties is so reduced or hampered by all sorts of federal, state and local restrictions that making an improvement is often not worth the effort. The cost in money and time is substantial. For example, one permit for land-use reclassification, which an owner was advised would take at most ninety days, took five years and cost more than \$100,000 for an improvement that improved nothing but satisfied a rule interpreted by a cautious official who felt impelled to put the strictest construction on a vague law. Unfortunately, this is no longer exceptional as often-conflicting federal, state and country rules are piled one on top of the other.

We are misgoverned by a sort of headless collectivism operated by pleasant functionaries, each with limited but seemingly absolute veto power over the proposals directed to their niches in a convoluted system of federal, state and local governments. They may shake their heads sympathetically, but they "do their jobs."

Perhaps this is what the voting public wants. It is the product of American multi--party democracy. Perhaps multi-party democracy is the Achilles heel of the System of Liberty. But perhaps not.

CHAPTER TWELVE

The System of Liberty: Will it Endure?

For sixty years American democracy has been dominated by popularly elected governments that expanded government power and eroded the institutions that secure the basis for liberty in the economy, cultural enterprises and government itself. Multi-party democracy increasingly seems likely to be the Achilles heel of the System of Liberty, as it gradually replaces freedom with a sort of benevolent democratic fascism that might or might not continue to be benevolent once the base for liberty is gone.

Plato's adverse judgment of democracy begins to look accurate as social disorder leads to calls for enhanced government power to make our streets and neighborhoods safe, and hostility toward police begins to make the news. It not unreasonable to imagine that the stage is being set for the emergence of a tyrant (hopefully a wise and benevolent one) to set things straight. Schumpeter certainly thought so. He viewed capitalist civilization as a sort of island in the stream of history – an island which, because of its very successes, would favor government policies that would undermine the foundation for its successes. He predicted rule by some sort of aristocracy would return.

Schumpeter may be right. Politically, American civilization is democratic by most tests. It has the support of freely elected legislators and presidents. It is liberal because its domestic policy goals have been socialist (at least until 1994) -- to wit, centralized power used to provide economic

security, engineer high levels of employment and more-equal shares of opportunities and income, and to construct a new cooperative "man." American civilization has moved a long way from free-market capitalism toward economic fascism because government has sucked out and converted to its own purposes so much of the substance of private property, leaving not much more than the formal appearance of private property intact.

Democracy, in the sense of government *by* the people and decision by majority rule, has, like private property, also become something like an empty shell. Never-elected, long-term civil servants and the never-elected, long-term judiciary are increasingly becoming the lawmakers in fact. We can already describe American democracy as democratic, liberal, neo-fascism rather than a System of Liberty.

This civilization, whatever one calls it, is failing. The increase in crime, family dissolution, drug use and suicide, along with the decline in educational attainment, seem highly correlated with increased spending intended to engineer the opposite results. The policies supposedly intended to heal divisions between racial, ethnic, gender and other groups seem instead to have spawned contentious political action groups -- groups whose leaders depend on drawing ever-sharper lines and building ever-higher fences to corral their followers and strengthen their bargaining power.

Nevertheless, the 60-year old trend is beginning to wobble a bit, and there are signs of a major swing toward a superior form of the System of Liberty. Multi-party capitalist democracy may not self-destruct. Government *by* the people may yet survive and flourish, because majority support for the intrusive liberal establishment has waned. This shows up in a variety of ways. One is increased resistance to the multiple permitting required for land use and construction. Another is resistance to heavy taxes and using the federal deficit to help pay for the dubious benefits -- commonly called "pork" -- of special interest groups.

In fact, pork may not be the political asset it once was. Tom Foley, former speaker of the House, apparently lost more votes than he gained in his losing re-election campaign when he pointed to all the good things he had won for his district. Most voters apparently were aware these

good things had not come free. They realized they had paid their share (or more) of the costs of goodies that the other 535 and senators had garnered for their home districts or states.

A pork-laden bill passed to help those who suffered losses in the 1994 California earthquake provides an example of how these favors get enacted. The rules of the House of Representatives require a minimum of two hours for representatives to review legislation before they vote, but this requirement is sometimes waived. Congressman Don Manzullo (R-Ill.) reports that after strenuous efforts he was able to get the earthquake-relief bill out only 20 minutes before the vote. He found the bill embellished with paper-clipped sections and post-it notes stuck to some pages. In addition to help for the earthquake victims, the bill included "riders" that provided money for the renovation of New York's Penn Station, the development of two sugar mills in Hawaii, a joint Russian-U. S. space project and an FBI fingerprinting system in West Virginia.

One is entitled to wonder a bit about the principal provision of the bill itself. Is it right to tax people all over the United States, including poor farmers in Mississippi, to assist a few thousand residents and local governments in the richest state of the union, all of whom could have purchased earthquake insurance? Even if it is, why should it be possible to attach obviously irrelevant "riders" to emergency legislation like this? It has all the earmarks of deliberate deception motivated by a desire to reward particular constituencies and impress voters in several states with their representative's power to grant favors.

This clear-sightedness may not last. But for the moment the electorate seems to have decided that it may be better not to have to compete for handouts from a sugar daddy, under pressure to hand out sugar ("pork") to 50 states and hundreds of congressional districts, when one has to supply daddy with the sugar. Nearly everyone has been caught in the position of a diner in a large restaurant where each person orders individually and the bill is split equally among all present. The only way to "win" is to order a high-priced entrée, extra drinks, a desert, after-dinner liqueurs and cigars. Ordering the most expensive items is the surest way to be above average. This is very expensive. Those who have done it a few times learn to avoid it when they can opt out without too much embarrassment.

President Clinton rode into office in 1992 promising change. Elected as a "new" Democrat, he quickly assumed Lyndon Johnson's posture and pressed hard to install an updated version of The Great Society -- this time unencumbered by an inherited, domestically divisive war. Less than two years later, the changes he so eloquently advocated as a candidate seem to have been closer to the electorate's heart than his effort to expand the Great Society. The liberal coalition seems less solid at the polls than anytime in the past 50 years. Why?

On the surface the reasons appear to be simple resistance to higher taxes. Far more important is the perception that higher taxes have not bought the promised improvements. President Johnson's Great Society reforms, a major extension of Franklin Roosevelt's New Deal, simply have not produced anything like a Great Society. Virtually every social indicator shows a worsening trend that accelerated about the time the Great Society was put in place.

Additionally, "talk radio" has made millions of people aware of some tricks Congressmen use to deceive the voters. One such practice is "baseline budgeting." This automatically sets the next year's budget request 10 to 12 percent higher than current expenditures, and then labels as "cuts" any appropriation falling short of that goal. Thus actual spending rises despite the "cuts." Another deception is the "discharge petition." This allows representatives to vote in favor of legislation at an early stage, certain that it will never make it to the floor for a decisive vote.

Hopefully, some new version of the line-item veto -- approved by Congress in 1996 but overturned by the Supreme Court in June 1998 -- will sharply reduce the number of irrelevant, last-minute riders festooned to bills that are likely to pass. It not only will give the president the power to veto the riders without having to veto the whole bill, but also will publicize the questionable items. This is one part of the "Republican revolution" that encourages me to believe in the continued vitality of American democracy and its ability to repair itself. But to date no alternative version has been approved.

For the past 60 years voter support for government projects and regulations has diminished the scope of private property rights and free contracting. President Clinton's greatest effort during his first two years would have continued this trend by reorganizing and regulating

health care on a grand scale. The opposition it provoked shelved this mammoth restructuring, at least for the moment.

The 1994 elections may have brought us to a showdown between the System of Liberty and political correctness. But the competition between the neo-fascist concept of "caring" and the System of Liberty's concept of "freedom" remains lively. It is too early to perceive a break in the trend, but there are some straws in the wind.

Straws in the wind

The 1995-96 legislature embarked on an ambitious program to open government and prevent time-honored delay tactics and subterfuges. This can bring Congress closer to the people and speed the legislative process. Fewer committees with shorter-term chairpersons are expected to speed bills to the floor of the House. Some Constitutionally acceptable version of a line-item veto may yet still pass. Other promising items include term limits for congressional office, just struck down by the Supreme Court (five-to-four) but likely to become an amendment to the Constitution. This is intended to attract more people into active politics and limit cozy relationships that benefit special interests. A balanced-budget amendment, designed to stiffen legislators' backs when appropriating money, failed to pass but will be back. Baseline budgeting is supposedly on the way out. So are "static" forecasts of revenue that assume people do not alter their behavior in response to changes of taxes. Some of these may be stopped in the Senate, or vetoed by the president and be killed by too few votes to override his veto. Nevertheless, they suggest a change in the 60-year moonwalk from the System of Liberty. And there are more straws in the wind.

Longer-standing changes have helped slow the growth of the bureaucratic state. The arbitrary power of government officials is now limited by the Freedom of Information Act, coupled with advances in communications that enhance citizens' ability to react quickly via computer, telephone and fax. Embarrassing deals more frequently see the light of day. For six decades the pendulum has swung away from the System of Liberty as ever-more complicated programs, rulings and regulations proliferated. Now that their pernicious effects are better understood, and

the massive costs are more evident, there is reason to expect a swing back toward the System of Liberty.

The fact that in 1995 President Clinton attempted to claim as his own key ideas upon which the Republicans capitalized the previous November offers hope that the trend toward liberal economic fascism is being reversed. More hope comes from a Supreme Court ruling that substantially narrowed the base used to justify affirmative action, as well as votes in California and Washington state to eliminate race and gender considerations in government hiring and contracting.

Political parties are private enterprises that rest on a capitalist foundation. They lose money and good candidates when they lose favor. They must adapt to changing public judgments. Party leaders are political entrepreneurs. Each party must respond to the preferences of those who fund their campaigns as well as the voters. When, as now, a new national vision emerges, both parties try to make that vision a part of their platforms. Bureaucracies can be abolished, transformed or created, legislation rewritten and the Constitution amended to redirect judicial decisions that offend the electorate's sense of fairness.

The Twentieth Century has witnessed wholesale, virtually worldwide experimentation with the centralization of power by national governments. Several countries put the dreams of the communists and the classical socialists to the test of practice. The highly centralized communist experiments have failed and collapsed in peacetime. Totalitarian fascism and Nazism died in wars. Centralized planning in democratic Britain was gradually abandoned when its difficulties and anti-democratic nature became evident. The welfare state in a basically capitalist economy took its place.

Hardcore adherents to the socialist dream have for thirty years or more done all they could to undermine the System of Liberty in America, by pushing centralized regulation and expanded government spending that saps the substance of private property and government *by* the people. Today their system is in serious trouble. Other nations ruled by self-styled democratic

socialists are privatizing and broadening the scope of private enterprise. These changes suggest that the System of Liberty may be becoming better understood and more popular.

The abject failure of the American regulatory system, especially as related to crime, drugs, welfare and education, has reduced confidence in "Washington." There is a rediscovery of the importance of parents -- mothers *and* fathers -- and their superiority over schools and social agencies for development of a common moral understanding needed as a basis for the education of children and for civil life as adults.

War never ends

If continued, recent actions by Congress and the Supreme Court to repair and strengthen the foundation for a government *by* the people will restore the System of Liberty. But the war never can be completely won. The idea that a workable government can get along with circumscribed powers under the control of relative amateurs running for short terms of office will always be regarded as bordering on the outlandish by some very able people. These people can get followers by offering a cause that promises the benefits a monopoly on government power can bring to those in favor. Their chances will be enhanced by very real problems that will plague the shift toward the System of Liberty.

Take term limits for an example. A strong short-run argument can be made against them. Term-limit legislation would put a cap on the number of years an elected official could remain continuously in office. Yet, unless the scope of government is promptly reduced, the power of the permanent bureaucracy may become greater than ever because relatively green elected officials will be forced out just about the time that they learn the ropes.

An increasing number of conservative academics and writers are gaining wider respectability and influence. They lead the intellectual resistance to public programs that take private property without full compensation, and to public programs that tolerate, even foster, destructive habits. They do this not only by illuminating failures, but also by demonstrating how increased freedoms within neutral laws have induced beneficial change.

John Maynard Keynes once wrote, "The ideas of economic and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves to some defunct economist."

For a hundred and fifty years that economist has been Karl Marx. For 70 years his ideas were put to severe tests in several nations, none of which conformed to his expectations of the right place to start. Public ownership displaced private ownership of property, and cooperation displaced competition. The tests of Marxian thinking were more tentative and less intrusive in economically advanced nations. The ownership of banks and key industries such as steel and oil production were taken over by government, and some sort of planning given a try.

Mainline western intellectuals explained away the harsh means used in the Soviet Union as necessitated by the low productivity of the Russian economy at the time of the revolution. After World War II the leaders of highly developed nations, notably France and the United Kingdom, tried hard to build a democratic socialist nation. They held tenaciously to their hope that a virtual egalitarian, peaceful utopia would emerge, Phoenix-like, from the overlooked awfulness of the revolutionary process in the Soviet Union. America was not exempt from this idea. For the past thirty years American liberals have worked hard toward the same end, substituting taxation and regulation for government ownership. All western nations pursued one version or another of the Marxian prescription -- use of government power to ultimately build a virtually risk-free more nearly egalitarian society.

Which economist or political philosopher will succeed Marx? For a time it seemed Keynes was the heir apparent. His ideas about using government fiscal policy (power to spend, tax and run deficits if necessary) to maintain high-level employment in a capitalist society did strike a balance, with a large place for an economy based on private property. Nevertheless, Keynes' thinking did a lot to facilitate state intervention into economic affairs, a practice we call liberalism. But liberalism is failing, and in any case Keynes' work is too narrow for the purpose. Someone in the long line from Edmund Burke to Adam Smith to Friedrich Hayek to Milton Friedman is more

likely. But whomever it may turn out to be, the basis for democracy as rule *by* the people is still intact, and will, I hope, be used to strengthen the System of Liberty. But the System of Liberty will not long survive unless it is better understood. The war between democracy and rule by an elite is chronic.

A FINAL NOTE

What Do We Want?

The 1994 U.S. elections and the 1995 congressional session demonstrate that The System of Liberty still works. Franklin Roosevelt's socialist agenda, so eloquently stated in his 1945 inaugural address, set the stage for a fifty-year trial that reached its high point in Lyndon Johnson's Great Society program and seems to have broken its spear with the defeat of President Clinton's thrust to federalize health care.

This break point came when rule by regulation, executive order and court decisions signally failed to deliver the promised benefits. Crime escalated, as did welfare dependency, single parenthood and teenage pregnancy, while educational achievement dropped continuously. The growing cost of government produced far more negative than positive results. Solid, law-abiding citizens were aghast. But do they really want the System of Liberty?

Despite the far-worse reality of nations that went much further than the U.S. in the direction of centralized power, the promise of the ancient path to an ideal society still appeals to ordinary people as well as potential leaders. Not much is required of most people for this ideal. All they need is to grant power to supposedly wise and virtuous men and women, then follow their dictates. The leaders would be expected to use state power to operate a just and caring nation. This same kind of thinking led hundreds of thousands of intelligent, well-meaning people to glorify Stalin's Soviet Union (and every other communist state) while denigrating a caricature of "Western Civilization." This approach seems to offer a direct and easily understood way to achieve an ideal state.

The System of Liberty offers a means to an end -- a way to seek for the ideal, not the ideal itself -- because we do not agree on what constitutes the ideal. The search is a work in progress. The System of Liberty allows all voices to be heard, and offers each faction peaceful means to organize and contend for the influence and power that will make its conception of the ideal part of the culture. Capitalism can do this because ordinary men and women are assumed able to have legitimate opinions, as well as property they can use in political, economic and cultural enterprises to try and turn their aspirations into reality.

This book tries to display the advantages of this indirect approach to a better society. But this conception places real responsibility on individuals. It does not promise a secure, favored place. It offers a process toward an indefinite ideal. Is this what we want?

Believers in the direct approach to an ideal state tend to have a static view of society. Their goals are definite: equality, security, a high living standard and a preserved environment. All are presumed achievable, and once in place the problems addressed are solved and stay solved. If change is introduced, it is managed so that all benefit. No one is hurt.

Proponents of the System of Liberty do not believe in solutions. They expect changes that present trade-offs, and offer a set of procedures to find the better trade-offs. Some people may get hurt.

The United States is entering a new phase in the incessant war between proponents of the System of Liberty and those of the ancient way. The battle lines are uncertain. Retreat positions are shrouded in the disarray of unexpected reverses by those who favor the ancient way, and the excitement of easier-than-expected successes of proponents of the System of Liberty. The moral basis for intrusive government has dramatically weakened, but that is all. Actual gains for the System of Liberty are still only prospective. Even the opportunity will be lost if the economic foundation that supports liberty in political life, no less than economic and cultural life, is lost.

The future is unpredictable, of course, but we now know some useful things. For example, it is not necessary to live in a large nation with many natural resources to be economically well off,

if relatively free markets exist. Witness the success of nations as small as Singapore and Switzerland. This will probably result in the breakup of large nations into smaller ones.

A breakup may also be good military strategy. Atomic weapons exist, and the fact they have not been used during the past 50 years cannot guarantee they will never be used. Small atom (fission) bombs can be secreted in ships that can reach nearly every city in the United States, including those on the Great Lakes and inland from the Gulf of Mexico at least as far as Baton Rouge and Houston. The far more fearsome hydrogen bomb is an ever-present threat. Only a little can be said, and that with some diffidence. Proliferation cannot be ruled out. Small, relatively poor nations, such as Pakistan, already have nuclear weapons. Perhaps a world of smaller nations, each with less to offer an aggressor and each armed with a few atom bombs of its own, would be a safer place than one in which a few nations try to keep non-nuclear nations from getting the weapon. Considering the hubris and blunders of the leaders of large nations who served up World Wars I and II, smaller nations with arms can hardly do worse. But a System of Liberty offers the means for constant adjustments to events that cannot be foreseen today and may penetrate the secrecy screens that cloak current policy decisions.

Although battered, the economic base for liberty is still intact. The resilience of democracy, rooted in private property, free enterprise and free contracting, remains on display. This is a great moment when once again the direction of aspirations may be set for the next 50 years. But the outcome is in doubt.

Despite the failures of the welfare state, the voting majority may believe that tinkering with the direct government-managed drive to the ideal is the best choice. If this attitude prevails, the economic base for the System of Liberty would be further weakened. This would weaken the foundation for rival political parties and disfavored cultural and religious groups, as well. The egalitarian ideal would divide the population into antagonistic groups fighting for favors from government, and probably lead to a more authoritarian government -- perhaps even a national police force and personal identity cards to protect internal security. In short, events will

approximate the progression from democracy to tyranny forecast by Plato. But popular support apparently has peaked, at least temporarily, for this kind of society.

Today America's experiment in an egalitarian welfare state is increasingly judged a failure, the unintended consequences of which have surpassed whatever gains it may have produced. More than enough vitality remains in the battered competitive economic and political sectors to move closer the System of Liberty. But it is not yet clear that major steps toward the System of Liberty will win enough support at the polls to give it a 50-year run.

We can be sure that our children and grandchildren will find problems and opportunities where they can make their contributions. We have no need to borrow trouble from the future. Sufficient are the troubles of the day.

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