
THE FREEMAN

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Perspective

There's No Such Thing as Economic Freedom

In 1938 the U.S. Supreme Court ruled that a federal law prohibiting the interstate shipping of filled milk violated neither the commerce clause nor the due process clause of the Constitution. What is best remembered about that opinion is "footnote four," which has influenced American jurisprudence ever since.

Writing for the majority in *United States v. Carolene Products Company*, Justice Harlan E. Stone set out the doctrine that some kinds of freedom are more equal than others and that certain government acts warrant a higher judicial scrutiny than other kinds. The latter are to begin with a presumption of constitutionality: "There may be narrower scope for operation of the presumption of constitutionality when legislation appears on its face to be within a specific prohibition of the Constitution, such as those of the first ten amendments."

In other words, when the court decides that a government regulation lies beyond an explicit constitutional prohibition—for example, one found in the Bill of Rights—the court should presume it is constitutional and not subject to the strict scrutiny that regulations lying within some explicit prohibition deserve. For example, the court will simply assume members of Congress had a good reason to regulate some aspect of commerce unless it can be shown otherwise. When it comes to economic activity, there is to be no presumption of liberty as there is in other matters.

Hence the bifurcated system of freedoms—fundamental and economic—we labor under today.

Advocates of freedom know this doctrine is based on an error and invoke the indivisibility of freedom in response. But too often they undercut their own case by talking about . . . *economic freedom*.

I realize this phrase may be meant only to emphasize the depreciated aspect of freedom, but as free-market advocates know, intentions don't nullify effects. Whenever one says "economic freedom," one implies that other kinds of freedom exist. That of course does not imply that some freedoms are more equal than others,

but it certainly opens the possibility. That can't happen if we insist that freedom is indivisible.

The case for the indivisibility of freedom is not hard to make when one remembers that there are no *economic* ends. There are only ends—namely, the values we pursue in the course of our lives. Thomas Sowell writes in *Basic Economics*, “One of the last refuges of someone whose pet project or theory has been exposed as economic nonsense is to say: ‘Economics is all very well, but there are also non-economic values to consider.’ Presumably, these are supposed to be higher and nobler concerns that soar above the level of crass materialism.

“Of course there are non-economic values. In fact, there are *only* non-economic values. Economics is not a value in and of itself. It is only a way of weighing one value against another.”

If there are no economic ends, then there is no *economic* freedom. There is only freedom. Full stop.

People act to achieve objectives they believe will help them to flourish (however they may conceive that). Sometimes they pursue material values; other times they pursue nonmaterial, or spiritual, values. But the material values serve the same purpose as the nonmaterial ones. They are not pursued for economic purposes.

This fits the Austrian insight—developed also by the British economist Philip Wicksteed—that the classical economists erred in thinking their discipline applies only to the self-interested pursuit of material wealth. Economics (or praxeology, to use Ludwig von Mises's term for the broader discipline) analyzes purposeful action in itself. It doesn't matter what the purpose is; the principles of action are universal.

Living a human life consists in the pursuit of a variety of values, some material, some not. Thus dividing freedom into spheres is both arbitrary and ultimately pernicious.

★ ★ ★

Frédéric Bastiat is beloved by advocates of freedom; they simply can't get enough of his incisive and witty writings. Too bad he never got to the big book he

hoped to write. David Hart tells us what Bastiat would have said.

This year marks the 50th anniversary of a landmark volume on Austrian economics: Murray Rothbard's *Man, Economy, and State*. Robert Murphy explains its importance and staying power.

American pundits would have us believe that much of Europe is suffering a double-dip recession because governments are practicing fiscal austerity. Not so, says Stephen Davies.

There's more to the cost of the welfare state than its explicit budget amounts. James Payne does a fuller accounting.

A privatized orphanage in Guatemala demonstrates what one determined woman can do if given the freedom to do it. John Blundell has the story.

The National Resources Planning Board sounds like something out of an Ayn Rand novel, but it was created during the New Deal. Warren Gibson fills in the details of this ominous-sounding agency.

Earlier in U.S. history women lacked the full rights of men, and this shaped the behavior even of private insurance companies and mutual-aid organizations. One woman changed things radically. Wendy McElroy tells us how.

Our busy columnists have come up with an assortment of topics. Lawrence Reed celebrates the life of Richard Cobden. Donald Boudreaux contemplates complexity. Robert Higgs explains the post-World War II boom. John Stossel sees “regime uncertainty” all around. Charles Baird looks at labor in the context of freedom of association. And Kevin Carson, reading one columnist's claim that there are many different kinds of capitalism, replies, “It Just Ain't So!”

The subjects of book reviews in this issue are Herbert Spencer, school reform, shrinking big government, and racial discrimination.

In *Capital Letters*, David Henderson is challenged on open borders.

—Sheldon Richman
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Richard Cobden: The International Man

BY LAWRENCE W. REED



William Ewart Gladstone, prime minister of Great Britain four times in the nineteenth century, boasted near the end of his life that during his years in government the country's tariffs on foreign goods were nearly abolished. Britain, the "workshop of the world," became perhaps the freest of free-trade nations by 1900. London was the global capital of financial capital. Not by coincidence, the British enjoyed the highest per capita income in the world until they were surpassed by America around the time of World War I.

Gladstone rightly deserves much credit for reducing the State's interference in commerce. An ardent protectionist and defender of the status quo early in his parliamentary career, he learned enough economics to turn to tax cuts on enterprise at home and free trade abroad. As chairman of the Board of Trade, chancellor of the Exchequer, and later prime minister, he played a key role in ridding the books of about 95 percent of Britain's tariffs. But even Gladstone would acknowledge an intellectual debt to the one man regarded above all others as free trade's greatest champion of the century, Richard Cobden.

"Amongst the most memorable men of the nineteenth century," wrote Lewis Apjohn in his 1881 biography of Cobden, "we must assuredly count the small and active band who, first by popular agitation then by a gallant Parliamentary struggle, assailed and abolished the monopolies by which the material growth of the nation had so long been checked."

Cobden was set on an arduous path to greatness early on. Born in 1804 on a farm that could hardly support the family, Richard was sent to work as a clerk in an uncle's warehouse at an early age. There he learned

some important principles of business and later was a traveling salesman before becoming an entrepreneur in the calico printing business in Manchester. In his twenties and early thirties, a keen mind and humanitarian impulses led him to speak out against harmful government policies—an interest that became a lifelong avocation thanks in no small part to the influence of another Victorian-era libertarian, John Bright.

Half a century before Cobden's intellectual pursuits, Adam Smith's *The Wealth of Nations* made the case for free trade in a world that was then highly protectionist. In 1815 Britain's Parliament passed the infamous Corn

Laws to protect domestic producers of grain against cheap imports, but Smith's arguments ensured it was only a matter of time before principled opposition would arise. In 1839 Cobden and Bright formed the Anti-Corn Law League to promote free trade.

Writing in the June 1995 issue of this magazine, Jim Powell explained how this remarkable pair collaborated to make the League an extraordinary force (tinyurl.com/7dtcybh):

Cobden and Bright helped focus free traders on three principal issues. First, they set an inspiring, radical objective—repealing the Corn Laws. Cobden convinced all supporters that every shilling of tariff inflicted misery on people. Modifying the tariffs, a position favored by compromise-minded chamber of commerce people, was out.

Second, free trade would capture the imagination of people if it became a moral issue. "It appears to me," Cobden wrote an Edinburgh publisher, "that a moral and even a religious spirit may be infused into

Even Gladstone would acknowledge an intellectual debt to free trade's greatest champion of the century, Richard Cobden.

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that topic [free trade], and if agitated in the same manner that the question of slavery has been, it will be irresistible.”

Third, success would require a national campaign coordinating Anti-Corn-Law associations throughout England—the mission of the Anti-Corn Law League, launched in March 1839. This, in turn, called for vigorous fundraising. Cobden made arrangements to turn his calico printing and marketing business over to his partners.

Cobden hammered the Corn Laws for making people miserable. “He knew of a place,” noted biographer [John] Morley, “where a hundred wedding-rings had been pawned in a single week to provide bread; and of another place where men and women subsisted on boiled nettles, and dug up the decayed carcass of a cow rather than perish of hunger.”

Remarkable Success

The Anti-Corn Law League proved to be a remarkably effective grassroots campaign. By 1846 popular sentiment (and the plight of the starving Irish amid the potato famine) pressured Parliament to abolish the Corn Laws. Fourteen years later Cobden successfully negotiated for the British what became known as the Cobden-Chevalier Treaty of 1860, the first free-trade pact between France and Britain, historic foes and once-ardent protectionist countries.

Signed just five years before Cobden’s death, the treaty was the fulfillment of something he said a few years before: “Peace will come to earth when the people have more to do with each other and governments less.” In the decade after the signing of the treaty, the volume of trade between the two nations nearly doubled.

Noninterventionism

Cobden would deserve a place of high honor in the history of liberty for his work on trade alone, but he had much to say about other issues, too. He was consistently noninterventionist, both at home and abroad.

In another *Freeman* article about Cobden (March 1993, tinyurl.com/lu7xrm), John Chodes presented Cobden’s view that Britain’s leaders had long “inhibited discovery and improvements by wasting millions on the military.” Cobden saw Britain’s “obsession with the

Cobden would deserve a place of high honor in the history of liberty for his work on trade alone, but he had much to say about other issues, too. He was consistently noninterventionist, both at home and abroad.

doctrine of the balance of power as a source of conflict, not stability. ‘Empires have arisen unbidden by us; others have departed despite our utmost efforts to preserve them,’” Cobden wrote. Gladstone was echoing Cobden’s sentiments precisely when he declared, “Here is my first principle of foreign policy: good government at home.”

When Cobden died in 1865 at the age of 60, the French minister of foreign affairs eulogized him with these words: “He is above all in our eyes the representative of those sentiments and those cosmopolitan principles before which national frontiers and rivalries disappear. . . Cobden, if I may be permitted to say so, was an international man.”

Perhaps the greatest words of tribute came from Benjamin Disraeli, twice prime minister and an opponent of Cobden’s at the time of the Corn Law debate: “[H]e was, without doubt, the greatest politician that the upper middle class of this country has yet produced . . . not only an ornament to the House of Commons but an honour to England.”

I proudly display a sketch of Richard Cobden in my home office. The world needs his idealistic spirit now more than ever. **FEE**

Capitalism Comes in Many Flavors? It Just Ain't So!

BY KEVIN A. CARSON

In a recent *Washington Post* op-ed (“Identity Crisis for American Capitalism,” May 26, tinyurl.com/7lfour4), Steven Pearlstein presents a taxonomy of the various species of capitalism, arguing that it, “like ice cream, comes in many flavors. These different capitalisms can be combined, in the same way chocolate and coffee produce mocha.”

In so doing, though, he greatly exaggerates the difference between these flavors. Pearlstein’s first major variant of modern capitalism—robber-baron capitalism—was characterized by the large-scale economic power of big business. It was succeeded by the managerial capitalism of the New Deal and post-WWII era: “Competition tended to be gentlemanly and the power of big business was held in check by the federal government (big government) and unions (big labor).”

The “State capitalism” of the European social democracies and Japan is just a more extreme variant of American managerial capitalism.

As American managerial capitalism led to stagnation and decay, it was replaced in recent decades by three competing models: the “entrepreneurial capitalism” of Silicon Valley, the “shareholder capitalism” of Gordon Gekko, and the “worker capitalism” of employee-owned and profit-sharing firms.

Pearlstein’s schema strongly implies that the main distinction between robber-baron and managerial capi-

talism was the latter’s increased restraint on the power of big business by government and organized labor, as opposed to the relative “laissez faire” of the nineteenth century. Although this is a popular view of the robber-baron era, it doesn’t hold much water. The capitalism of the Gilded Age was a virtual creature of the State, with land grants and other railroad subsidies serving as the indispensable prerequisites for a single national market, and the national corporate economy being cartelized among industrial giants with the aid of patent pooling and tariffs.

And à la J. K. Galbraith, the relationship between big business, government, and labor was characterized less by checks and balances than by collusion or cooperation. General Electric president Gerard Swope and the wing of big business he represented arguably had more to do with the form taken by FDR’s New Deal than did

the CIO’s John L. Lewis. Managerial capitalism was not so much an external constraint imposed on big business, as a recognition by big business itself that State-enforced cartels and enforcement of labor discipline by domesticated unions were the best ways to guarantee stable profits in the long run.

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Ice cream flavors are a lot more distinct from each other than Pearlstein’s “flavors” of capitalism.

Brian J. Matis

As for so-called “shareholder capitalism,” in actual fact it is just as managerial as the classic managerial capitalism of Adolf Berle and Gardiner Means, authors of the influential 1932 book *The Modern Corporation and Private Property*. Shareholder ownership, let alone control, is—to put it bluntly—a myth. The theory, as set forth by thinkers like Michael Jensen some 30 years ago, was that large bonuses and stock options would “align management incentives” with shareholder interests, and that hostile takeovers would enable shareholders to punish underperforming management.

But in practice “shareholder capitalism” is geared to the interests of management in an even more short-term and vulgar way than the managerial version. The much-vaunted “market for corporate control,” to the extent it existed at all, was mainly a phenomenon of the first few years after the introduction of hostile takeovers. Management—inevitably, given its inside control over corporate bylaws—gamed the rules to protect itself from the threat of hostile takeover. Since then, most takeovers have been friendly—collusive acts between the managements of acquiring and acquired companies, often at the expense of the long-term profitability of both. Proxy fights against inside directors almost always fail. Most new investment is financed internally from retained earnings, rather than the issue of bonds.

In short, the average large corporation under corporatism is a planned economy run by a self-perpetuating managerial oligarchy. The only effect of oversized bonuses and stock options is to make management even more short-sighted and self-serving at the expense of long-term productivity.

The shareholder model, in its way, is at least as State-dependent as the old managerial model. Its triumph in the '90s required a massive expansion of the neoliberal legal regime during the Clinton administration. NAFTA, the Uruguay Round of GATT, the World Trade Organization, TRIPS (Agreement on Trade Related Aspects of Intellectual Property Rights), the

WIPO (World Intellectual Property Organization) Copyright Treaty, the Telecommunications Act, and the Digital Millennium Copyright Act together formed the structural framework for the model of transnational capitalism that now prevails.

Pearlstein’s “entrepreneurial capitalism,” with a new coat of paint, is being trotted out as the “Progressive” alternative to this neoliberal model of capitalism. It’s the “cognitive capitalism” or “green capitalism” of Barack Obama, Warren Buffett, Bill Gates, Bono, and championed by John Roemer’s “New Growth Theory.” But this model is just as exploitative—just as “capitalistic,” in the sense of being dependent on State-enforced monopoly for its profits—as neoliberalism. In fact it’s really just a greenwashed, bobo variant of neoliberalism.

Cognitive, green, or progressive capitalism is absolutely dependent on the State for enclosing progress and innovation, via “intellectual property” (IP) law, as a source of artificial scarcity rents. Its proponents also tend to be bullish on government subsidies to research and development. So it’s probably no coincidence that so many of its prominent spokespersons are IP hawks like Bill Gates (who denounced the members of the free and open source movement as “communists”) and Bono (who praised the Chinese State’s Internet censorship as a model for

American efforts to suppress “piracy”).

Pearlstein’s comparison to flavors of ice cream is more apt than he imagines. Although the number of flavors of ice cream may be virtually unlimited, they all have certain things in common. They all consist of frozen, sweetened cream or milk, with additional flavorings added.

All Pearlstein’s variants of capitalism, likewise, have some things in common. Rather than having their origins in the spontaneous outcome of the free market, they’re all characterized by large-scale structural collusion between the centralized State and big business.

FBB

Cognitive, green, or progressive capitalism is absolutely dependent on the State for enclosing progress and innovation, via “intellectual property” law, as a source of artificial scarcity rents.

Frédéric Bastiat on Legal Plunder

BY DAVID HART

Frédéric Bastiat's unwritten *History of Plunder* Franks alongside Lord Acton's *History of Liberty* and the third volume of Murray Rothbard's *Austrian Perspective on the History of Economic Thought* as the greatest libertarian books never written. Had he lived to a ripe old age, instead of dying at the age of 49 from throat cancer, Bastiat might have finished his magnum opus, *Economic Harmonies* and completed his history of plunder. It should be noted that Karl Marx published the first volume of his magnum opus, *Das Capital* (1867), when he was 49 but lived another 16 years. Given the chance, Bastiat might well have fulfilled his great promise as an economic theorist and historian and become the Karl Marx of the nineteenth-century classical-liberal movement.

In the six brief years that Bastiat was active as a writer and a politician (1844–1850), he produced six large volumes of letters, pamphlets, articles, and books, which Liberty Fund is translating as part of its *Collected Works of Frédéric Bastiat* (2011–2015). What emerges from a chronological examination of his writings is his gradual realization that the State (which he often wrote as THE STATE) is a vast machine that is purposely designed to take the property of some people without their consent and to transfer it to other people. The word he uses with increasing frequency in this period to describe the actions of the State is “la spoliation” (plunder), although he also uses “parasite,” “viol” (rape), “vol” (theft), and “pillage,” which are equally harsh and to the point. In his scattered writings on

State plunder written before the 1848 revolution, he identifies the particular groups that have had access to State power at different times in history in order to plunder ordinary people. These include warriors, slave owners, the Catholic Church, and more recently commercial and industrial monopolists. Each group and the particular way it used State power to exploit ordinary people for its own benefit was to have a separate section in his *History of Plunder*. Had he defined the State before the 1848 revolution, he might have written:

“The State is the mechanism by which a small privileged group of people lives at the expense of everyone else.”

But the outbreak of the revolution in February 1848 in Paris changed the equation dramatically, which forced Bastiat to change his strategy for combating plunder by the State. Before the revolution small privileged minorities were able to seize control of the State and plunder the majority of the people for their own benefit:

Slave owners were able to exploit their slaves; aristocratic landowners were able to exploit their serfs; privileged monopolists were able to exploit their customers; and thus it made some kind of brutal sense for a small minority to plunder and loot the majority. Bastiat's strategy before 1848 had been to identify the special interests that benefited from their access to the State and to expose them to the public via his journalism,

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often with withering criticism and satire: the landed elites who benefited from tariff protection, the industrial elites who benefited from monopolies and State subsidies, and the monarchy and aristocratic elites who benefited from access to jobs in the government and the army.

The rise to power of socialist groups in 1848 meant that larger groups, perhaps a majority of voters if the socialist parties were successful, were now trying to use the same methods as these privileged minorities but for the benefit of “everyone” instead of a narrow elite. The problem, as Bastiat saw it, was that it was impossible for the majority to live at the expense of the majority. Since somebody had to pay the bills eventually, the majority would be paying the taxes as well as receiving the “benefits” of State handouts, with the State and its employees taking their customary cut along the way. This conundrum led him to put forward his famous definition in mid-1848: “The State is the great fiction by which everyone endeavours to live at the expense of everyone else.” Bastiat now had to change his strategy and try to convince ordinary workers that promises of government jobs, State-funded unemployment relief, and price controls were self-defeating and ultimately impossible to achieve.

Bastiat was not able to win this intellectual or political debate because of his death in December 1850, and the socialist forces were ultimately defeated temporarily by a combination of military and police oppression, as the “party of order” supported the rise of Louis Napoleon (soon to be self-appointed Emperor Napoleon III). However, the core weaknesses of the welfare state were clearly identified by Bastiat in 1848, and we are seeing the consequences of its economic contradictions and possible collapse in the protests on the streets of Athens today.

With this broader picture in mind, I would like to examine Bastiat’s theory of plunder so we can see more clearly what he had in mind and appreciate the power of his analysis.

Bastiat developed his theory in a dozen or so articles and chapters of books that he wrote between the end of 1845 and mid-1850. From these scattered writings I have reconstructed his theory of plunder as he might have done in his *History of Plunder*:

There exists an absolute moral philosophy which is based on natural law. Natural laws are partly discovered through the scientific, empirical observation of human societies (by means of economics and history) and partly through divine revelation [Bastiat drew on his deism and his moral Christianity]. This moral philosophy applies to all human beings without exception (especially to kings and politicians). There are only two ways by which wealth (property) can be acquired: first, through voluntary individual activity and freely negotiated exchange with others (“service for service”) by individuals called “the producers”; second, through theft (coercion or fraud) by a third party, which he called “the plunderers.” The existence of plunder is a scientific, empirical matter revealed by the study of history. The plunderers have historically organized themselves into States and have tried to make their activities an exception to the universal moral principles by introducing laws that “sanction” plunder and a moral code that “glorifies” it. The plunderers also deceive their victims by means of “la Ruse” (trickery, deception, fraud) and the use of “sophisms” (fallacies) to justify and disguise what they are doing. It is the task of political economists like Bastiat to expose the trickery, fraud, and fallacies used by the plunderers to hide what they do from their “dupes” (the ordinary people) and to eliminate organized plunder from society for good.

Let’s examine some of his theory in more detail.

As a supporter of the idea of natural law and natural rights, Bastiat believed there were moral principles that could be identified and elaborated by human beings and that had a universal application. In other words, there were not two moral principles in operation, one for the sovereign power and government officials and another for the rest of mankind. One of these universal principles was the notion of an individual’s right to own property, along with the corresponding injunction not to violate an individual’s right to property by means of force or fraud.

According to Bastiat: “There are only two ways of acquiring the things that are necessary for the preservation, embellishing and amelioration of life: PRO-

DUCTION and PLUNDER.” (“The Physiology of Plunder” in *Economic Sophisms II*.)

A bit further into the essay he elaborates:

The genuine and equitable law governing man is “The freely negotiated exchange of one service for another.” Plunder consists in banishing by deception or force the freedom to negotiate in order to receive a service without rendering another in return.

Plunder by force is exercised as follows: People wait for a man to produce something and then seize it from him with weapons.

This is formally condemned by the Ten Commandments: Thou shalt not steal.

When it takes place between individuals, it is called theft and leads to prison; when it takes place between nations, it is called conquest and leads to glory.

He cites the Ten Commandments, the French Penal Code, and the Dictionary of the French Academy to define what theft is as clearly as he can and to note its universal prohibition. According to these definitions, in Bastiat’s mind the policies of the French government were nothing more than “theft by subsidy,” “theft by Customs duties,” “mutual theft” of all Frenchmen via subsidies and protective duties, and so on. Altogether they made up an entire system of “plunder,” which had been evolving for centuries.

Therefore, because of the ubiquity of plunder in human history it was essential for political economy to take it into account when discussing the operation of the market and its “disturbing factors”:

Some people say: “PLUNDER is an accident, a local and transitory abuse, stigmatized by the moral order, reprobated by law and unworthy of the attentions of Political Economy.”

But whatever the benevolence and optimism of one’s heart one is obliged to acknowledge that PLUNDER is exercised on a vast scale in this world and is too universally woven into all the major events in the annals of humanity for any moral science, and above all Political Economy, to feel justified in disregarding it.

A key feature of plunder that distinguishes it from the acquisition of wealth by voluntary exchange is the use of violence plus what he called “la Ruse” (fraud or trickery). Within the category of “plunder” there are two main types that interested Bastiat: “illegal plunder”—which was undertaken by thieves, robbers, and highwaymen—and “legal plunder,” which was usually undertaken by the State under the protection of the legal system that exempted sovereigns and government officials from the usual prohibition against taking other people’s property by force. Illegal plunder was less interesting to Bastiat, as it was universally condemned and quite well understood by legal theorists and economists. Instead Bastiat concentrated on the latter form, as it was hardly recognized at all by economists as a problem although it had existed on a “vast scale” throughout history and was one of its driving forces. As he noted in his “final and important aperçu” that ended the “Conclusion” to *Economic Sophisms I*:

Force applied to spoliation is the backdrop of the annals of the human race. Retracing its history would be to reproduce almost entirely the history of every nation: the Assyrians, the Babylonians, the Medes, the Persians, the Egyptians, the Greeks, the Romans, the Goths, the Franks, the Huns, the Turks, the Arabs, the Mongols and the Tartars, not to mention the Spanish in America, the English in India, the French in Africa, the Russians in Asia, etc., etc.

In “The Physiology of Plunder” Bastiat sketched out the main types of plunder that had emerged in history: war, slavery, theocracy, and monopoly. Historically, societies and their ruling elites, which lived from plunder, had evolved through alternating periods of conflict. In a letter to Mme. Cheuvreux (June 23, 1850) Bastiat observed that “our history will be seen as having only two phases, the periods of conflict as to who will take control of the State and the periods of truce, which will be the transitory reign of a triumphant oppression, the harbinger of a fresh conflict.”

The immediate historical origins of the modern French State were the aristocratic and theological elites, which rose to dominance in the Old Regime and which were challenged for control of the State first by

socialist-minded reformers under Robespierre during the Reign of Terror and then by the military elites under Napoleon. The defeat of Napoleon had led to a temporary return of the aristocratic and theological elites until they were again overthrown in another revolution, this time one in which Bastiat played an active role as elected politician, journalist, and economic theoretician.

In the period in which he was living, the modern State had evolved to the point where a large, permanent, professional class of bureaucrats carried out the will of the sovereign power—which was King Louis Philippe during the July Monarchy (1830–1848) and then the “People” in the Second Republic, following the Revolution of February 1848—to tax, regulate, and subsidize a growing part of the French economy. Three aspects of the growth of the State on which Bastiat had focused his opposition in the mid-to-late 1840s were protectionist tariffs on imported goods, taxation, and the government subsidization of the unemployed in the National Workshops during 1848. As the State expanded its size and the scope of its activities, it began supplying an ever larger number of “public services” funded by the taxpayers.

Bastiat had a stern view of these developments and saw any “public service” that went beyond the bare minimum of police and legal services as “a disastrous form of parasitism” (“The Middlemen” in “What Is Seen and What Is Not Seen”). Using his favorite stock figure, Jacques Bonhomme (John Everyman), to make his points, Bastiat compared the “forced sale” of “public services”—or “legal parasitism” of the French bureaucracy—to the actions of the petty thief who indulges in mere “illegal (or extralegal) parasitism” when he takes Jacques’s property by breaking into his house (“Taxes” in “What Is Seen and What Is Not Seen”).

Bastiat thought the modern bureaucratic and regulatory State of his day was based on a mixture of outright violence and coercion on the one hand, and trickery and fallacies (sophisms) on the other. The violence and coercion came from the taxes, tariffs, and regulations, which were imposed on taxpayers, traders, and producers; the ideological dimension that maintained the current class of plunderers came from a new set of “political” and “economic sophisms” that confused,

misled, and tricked a new generation of “dupes” into supporting the system. The science of political economy, according to Bastiat, was to be the means by which the economic sophisms of the present would be exposed, rebutted, and finally overturned, thus depriving the current plundering class of its livelihood and power: “I have said enough to show that Political Economy has an obvious practical use. It is the flame that destroys this social disorder, Plunder, by unveiling Trickery and dissipating Error” (“Physiology of Plunder”).

In the following essay on “The Two Moralities,” Bastiat contrasts the role of “religious morality” and “economic morality” in bringing about this change in thinking: “Let religious morality therefore touch the hearts of the Tartuffes, the Caesars, the colonists, sinecurists and monopolists, etc. if it can. The task of political economy is to enlighten their dupes.” (In Molière’s play *Tartuffe*, or *The Imposter*, Tartuffe is a scheming hypocrite and Orgon is a well-meaning dupe.) It was Bastiat’s purpose in writing the essays that made up the two-volume collection *Economic Sophisms* to begin the long process of the intellectual demolition of the tricks, frauds, and fallacies used by the privileged elites to defend their vested interests and their systematic plundering of the ordinary people.

Bastiat was skeptical that religious morality would be successful in changing the views of those who held power because, as he asked on several occasions, how many times in history have ruling elites ever voluntarily given up their power and privileges? His preference was to strike at power from below by opening the eyes of the duped and tricked with the truths that political economy provided, to encourage doubt and mistrust in the justice of the rulers’ actions, and to mock the follies of the political elite by using sarcasm and the “sting of ridicule.” Bastiat summed up the job of the political economists as “opening the eyes of the Orgons, uprooting preconceived ideas, stimulating just and essential mistrust and studying and exposing the true nature of things and actions.”

This he did to brilliant effect in the writings of the last two years of his life, the lasting legacy of his contribution to classical-liberal political economy. **FEE**

Rothbard's *Man, Economy, and State* at 50

BY ROBERT P. MURPHY

This year marks the 50th anniversary of the 1962 publication of Murray Rothbard's grand treatise, *Man, Economy, and State (MES)*. I was humbled when asked to write an appreciation of this indispensable work of Austrian economics. Rather than discussing the book's obvious role in the modern revival of Austrian ideas, I decided to focus on the book itself.

Rothbard originally intended his work to be a textbook treatment of Ludwig von Mises's own magnum opus, *Human Action*, which had come out in 1949. Indeed, Herbert C. Cornuelle, president of the Volcker Fund, was the one to pitch this idea to Rothbard that very year. Rothbard prepared an outline and a sample chapter on money, then received the blessing of Mises himself to go forward.

However, as Joseph Stromberg chronicles in exquisite detail in his introduction to the Mises Institute's Scholar's Edition of *MES* (2004), upon embarking on the project Rothbard eventually realized that a mere textbook would not be adequate. Cornuelle had visited Rothbard and asked if he thought the work should become a treatise in its own right. Rothbard pondered the question and eventually wrote in response (in February 1954):

The original concept of this project was as a step-by-step, spelled-out version of Mises' *Human Action*. However, as I have been proceeding, the necessary

elaborations on the sometimes sparse framework of Mises has led inevitably to new and original presentations. Now that I have been proceeding to the theory of production where the whole cost-curve situation has to be faced, Mises is not much of a guide in this area. It is an area which encompasses a large part of present-day textbooks, and therefore must be met, in one way or another. . . . A further complication has arisen. A textbook, traditionally, is supposed to simply

present already-received doctrine in a clear, step-by-step manner. But not only would my textbook fly in the face of the doctrine as received by 99 percent of present-day economists, but there is one particularly vital point on which Mises, and all other economists, will have to be revised: monopoly theory.

Thus we see that Rothbard eventually realized that he was writing a brand new treatise, resting on the Misesian edifice to be sure, but one that was Rothbard's own. Not only did Rothbard differ from Mises on certain key points (some of which will be discussed below), but even where their treatments were compatible, Rothbard's was the clearer and more systematic.

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The fundamental difference between *Human Action* and *Man, Economy, and State* is that the latter is completely self-contained. The intelligent layperson with no prior exposure to any economics can read just Rothbard's treatise and walk away understanding the core of orthodox Austrian theory. In contrast, Mises's classic work assumes a great deal of background knowledge on the part of the reader, including Kantian philosophy, the classical theory of value, and Böhm-Bawerkian capital and interest theory (!). None of this is meant to belittle Mises's work, but merely to underscore that I personally always point the dedicated newcomer to *MES* first, and only then to *Human Action*.

Rothbard initially follows in Mises's footsteps by categorizing economics as a subset of *praxeology*, which is the science of human action. According to Rothbard, starting from the basic axiom that human beings *act*—that they consciously use means to (attempt to) achieve desired goals—one can logically deduce the entire body of economic principles or laws.

It is interesting to read Rothbard's description (in a March 1951 letter to Cornuelle) of his method of attack:

What I have in mind for a textbook would be a pioneering project. . . . At each step, the reader would be enlightened through simple, hypothetical examples, until, slowly but relentlessly, he would find himself equipped to tackle the economic problems of the day. . . . [T]hrough this method, even the most confirmed socialist, would step-by-step, beginning with simple praxeological axioms, at the end, suddenly find himself realizing the absurdity of his socialist and interventionist beliefs. He would become a libertarian in spite of himself.

At this point, let me clarify something that I know, from firsthand experience, has puzzled many students of the Austrian movement. Sometimes in their zeal for doctrinal purity, self-described Rothbardians will label one group of economists "Misesians" to distinguish them (presumably) from other economists who are *not* Misesians. This strikes some as odd, since Rothbard himself differed with Mises on areas such as monopoly

theory, the feasibility of free-market legal and defense services, and the possibility of constructing a rational system of ethics.

Whether helpful or otherwise, what Rothbardians mean by "Misesian" concerns the important issue of the very *foundation* of economic law. If an economist thinks that economic principles are logical deductions from self-evident axioms—analogue to geometry—then he or she is a "Misesian" in this sense.

On the other hand, if an economist thinks that tentative economic laws must be used to generate falsifiable predictions that are then (if possible) subjected to empirical tests—analogue to the physical sciences—then he or she would be classified as a (non-Misesian) positivist, even though such an economist might reach similar free-market policy conclusions with this alternate method.

Following Mises, Rothbard and his modern disciples argue that sound economic theory is *logically antecedent* to empirical investigation. If trying to understand the causes of the Great Depression, for example, one can't simply "let the facts speak for themselves," because there are infinite possible facts one could assemble for the purpose. (What was the mass of the moon on February 16, 1923, at exactly noon GMT, and might it have had something to do with the 1929 stock market crash?) Indeed, the very concepts of money, interest rates, and so forth are themselves theory-laden; one needs to have a praxeological foundation to even perceive such categories, because they don't exist "out there" in "the real world" the way a naive positivist might suggest.

Professor Joseph Salerno once told Rothbard that Rothbard had incorporated the capital theory of Eugen von Böhm-Bawerk into his exposition far more thoroughly than Mises had done in his own works. For those of us who read *MES* in our youth, we take this for granted, but Salerno's observation is perfectly correct: Rothbard takes the crucial yet at times mind-numbingly dry treatments of Austrian capital theory from the masters (mainly Carl Menger, Böhm-Bawerk, and F. A. Hayek) and distills them into a very readable discussion. He caps it all off with a beautiful diagram (appearing in the beginning of chapter 6, "Production: The Rate of Interest and Its Determination") that I

have described as the superior Austrian version of the mainstream’s “Circular Flow Diagram.”

Rothbard’s diagram takes the famous Hayekian triangle illustrating the structure of production and rotates it 90 degrees to the right, so that what is considered the earliest, or “highest,” stage of production actually is the highest bar on the diagram. At each step moving downward, the goods-in-process have moved through another period of work, where further inputs of land, labor, and capital goods have been applied, transforming the capital goods ever closer to the ultimate consumer goods.

Rothbard’s ingenious construction allows for an “economy-wide” accounting, where the capitalists earn the correct rate of return on their investments each period and where the net incomes earned by the capitalists, land owners, and laborers each period sum to the total spent on the finished consumer goods emerging from the bottom of the production “pipeline” that period.

I say that Rothbard’s diagram is the answer to the mainstream “circular flow” because it does everything the latter does—namely, it shows how money “circulates” around the economy so that one person’s expenditure is another’s income—but it does so much more. In Rothbard’s diagram, one can immediately see the distinction between net and gross investment. Because Rothbard wanted (initially) to depict a steady-state equilibrium (what Mises called the “evenly rotating economy,” or ERE), there is no *net* saving or investment in the economy depicted in Rothbard’s schematic. Using traditional mainstream tools (income = consumption + investment + government spending + net exports, or $Y = C + I + G + Nx$), we would therefore conclude that this hypothetical economy, with no government or foreign market, was driven 100 percent

by domestic consumer spending. Yet, as the diagram makes crystal clear, each period it takes far more *gross investment* than consumer spending (318 ounces of gold versus 100 ounces) just to keep the system running smoothly. If the capitalists for some reason decided *not* to plow back most of their gross earnings into replenishing their supplies and hiring new land and labor factors, then the complex structure would soon break down and the consumption goods would stop shooting out of the pipeline.

In addition to illustrating the long-run equilibrium relationships among time preference (the higher valuation of present goods versus comparable future goods), factor pricing, and the stages of production, Rothbard’s diagrammatic exposition also makes it easy to show the impact of a decrease in time preference. In this case, consumers restrict their spending on final consumption goods, the “spread” or mark-up narrows between the prices of capital goods in each successive stage of production, and the entire structure becomes taller, so that the original land and labor inputs are invested for a longer average period. These processes were described by Böhm-Bawerk and Hayek, of course, but Rothbard’s exposition makes the whole affair much more comprehensible to a beginner.

If I have spent an unusual amount of time discussing a single diagram from Rothbard’s thousand-plus-page tome, it is because I think it encapsulates literally weeks of study on the Austrian approach to economics. I have spent almost entire lectures walking my students through the diagram to make sure they understand exactly how it works and to see just how much knowledge is packed into its deceptively simple appearance. I don’t think it’s an exaggeration to say that if one comprehends exactly what Rothbard is doing in that simple

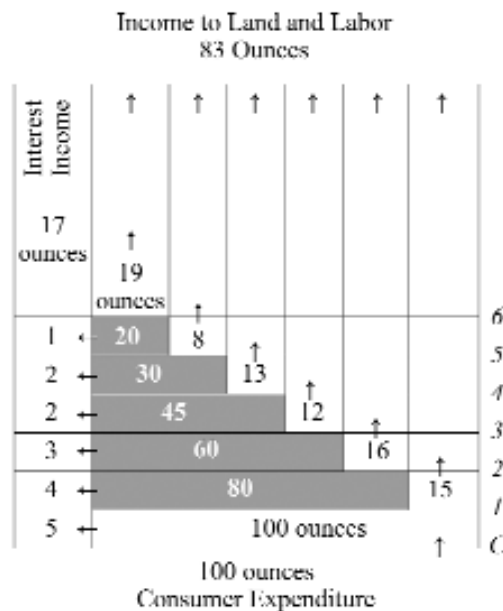


FIGURE 41. INCOME ACCRUING TO FACTORS AT VARIOUS STAGES OF PRODUCTION

Rothbard’s answer to the mainstream “Circular Flow Diagram.”

diagram, then one will grasp the Austrian critique of Alan Greenspan and Ben Bernanke.

Throughout the book Rothbard makes original contributions, but they are often in the form of making a received point a little more crisply, or by filling in a gap in the standard case for a familiar conclusion. When it comes to monopoly theory, however, Rothbard overturns the tables and starts from scratch.

He begins his treatment by challenging the very notion of “consumers’ sovereignty” as developed by William Hutt. Hutt (and later Mises) used the term to convey the notion that the “customer is always right” and that through their spending decisions the consumers in a market economy ultimately allocate resources to competing ends.

Rothbard rejected the term on the grounds of both accuracy and strategy. Strictly speaking, it was simply not true to say that consumers were somehow “sovereign” over producers. Yes, consumers were free to withhold their money, but by the same token business owners were free to withhold their products, and workers were free to withhold their labor. Instead of exhibiting consumers’ sovereignty, Rothbard felt the free market demonstrated *individual self-sovereignty*.

Rothbard also disliked the term for strategic reasons, because the notion of “consumers’ sovereignty” could be used as an ideal benchmark with which to criticize the performance of the real-world market. That is precisely what happened (with the related notion of “perfect competition”) in mainstream welfare economics.

During his preliminary discussion of monopoly, Rothbard makes some brilliant observations. For example, he points out that most economists and the general public are horrified by the formation of a cartel, while they look with favor on the creation of a corporation. Yet the processes are quite similar, involving individuals pooling their resources into a unified enterprise. Rothbard also generalizes Mises’s calculation argument as originally applied to a socialist state to show that no single firm could ever encompass the entire economy.

After this and other warm-up sections, Rothbard goes for the throat: He denies the very *existence* of a so-called “competitive price” with which to contrast the allegedly inefficient “monopoly price.” Instead Rothbard offers the *free-market price*, the only benchmark that can be discussed coherently.

In addition to his positive exposition of sound Austrian economics, Rothbard fills *MES* with critiques of rival doctrines. I am particularly fond of his discussion of Keynesian economics. The critiques have lost some of their force over the decades, because a typical Keynesian textbook no longer bases its policy conclusions on the arguments that were common when Rothbard was writing. Even so, Rothbard’s demonstrations are a joy to behold.

My personal favorite is his *reductio ad absurdum* of the multiplier (based on a similar argument by Henry Hazlitt). After reviewing the standard Keynesian case (at the time) that new investment spending will have a “multiplier” impact on total income, Rothbard uses the same approach to “prove” that the reader of his book has a much higher multiplier still. Specifically, Rothbard sets out a few equations showing that “Social Income” is equal to

the “Income of the Reader” plus the “Income of everyone else.” Then he uses some empirical observation to discover that the “Income of everyone else” is 0.99999 times “Social Income.” After some algebra, Rothbard concludes that “Social Income” is 100,000 times the “Income of the Reader.” The consistent Keynesian, Rothbard notes, should then advocate that the government print up dollars and hand them to the reader of Rothbard’s book, because the “reader’s spending will prime the pump of a 100,000-fold increase in the national income.”

Fifty years after its initial publication, Murray Rothbard’s grand treatise still holds up. If anyone considers himself or herself a fan of Austrian economics and has yet to try *Man, Economy, and State*, I promise you are in for a treat.

FEE



Murray Rothbard (left) with Henry Hazlitt and Ludwig von Mises at FEE headquarters in Irvington, NY.
Archive photo

The Myth of Pent-up Demand and the Successful Reconversion after World War II

BY ROBERT HIGGS



The orthodox story of U.S. reconversion after World War II places heavy weight on the drawing down of accumulated liquid assets to finance consumers' satisfaction of their so-called pent-up demands. In the words of economic historians Gary Walton and Hugh Rockoff, "During the war, people had accumulated large stores of financial assets, especially money and government bonds. . . . Once the war was over, *these savings were released and created a surge in demand*" (emphasis added). No doubt many people did urgently desire to purchase new cars, household appliances, houses, and other goods that had been unavailable or in tightly limited supply during the war. But the idea that postwar consumers paid for such goods by drawing down their liquid-asset holdings conflicts with the evidence.

The most serious flaw in the orthodoxy is that individuals did *not* in fact reduce their holdings of liquid assets after the war. Let us define liquid assets as currency held by the public, demand and time deposits in commercial banks, deposits in mutual savings banks, and deposits in the postal savings system. In November 1945 liquid assets so defined reached an all-time high of \$151.1 billion. By December 1946 they had risen to \$161.6 billion and by December 1947 to \$168.5 billion. Every component of liquid assets so defined increased during that two-year period. Of course, so long as the total amount of money was increasing, the public as a whole could not "draw down" its holdings: What one member of the public gave up, another acquired.

If people did not—indeed, could not—reduce their holdings of liquid assets, perhaps they tried to do so, thereby driving up the velocity of monetary circulation. Not so. Neither the velocity of money defined as

M1 nor the velocity of money defined as M2 rose in those years. For the four years from 1945 through 1948, the velocity of M1 took the values 1.75, 1.52, 1.62, and 1.73; the velocity of M2 took the values 1.37, 1.16, 1.23, and 1.31.

Perhaps consumers were liquidating their war-bloated holdings of government bonds? No. At the end of 1945 individuals held \$64.0 billion of the public debt; at the end of 1946, \$64.1 billion; and at the end of 1947, \$65.7 billion.

How then did consumers finance their surge of spending during the postwar recovery of the private economy? In nominal terms, by a combination of increased personal income and a reduced rate of saving; in real terms, simply by reducing the rate of personal saving.

Between 1945 and 1946, when personal consumption spending increased by \$23.7 billion, annual personal savings dropped by \$14.4 billion and personal taxes fell by \$2.2 billion; increased (nominal) personal income financed the balance of the increased consumption. Between 1946 and 1947, when personal consumption spending increased by \$17.3 billion, annual personal savings dropped by \$5.2 billion and personal taxes rose by \$2.7 billion; increased (nominal) income financed the balance of the increased consumption. Between 1947 and 1948, when personal consumption spending increased by \$12.9 billion, increased (nominal) personal income accounted for more than the entire increase, as personal taxes fell by just \$0.2 billion and annual personal savings actually increased by \$6.1 billion.

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The idea that postwar consumers paid for such goods by drawing down their liquid-asset holdings conflicts with the evidence.

Clearly, during the critical first two years after the war, the ability of consumers to spend more nominal dollars (\$41.0 billion) for consumer goods depended overwhelmingly on just two sources: increased personal income (\$20.5 billion) and reduced annual saving (\$19.7 billion).

Untapped Potential

The potential for reduction of the personal saving rate (personal saving relative to disposable personal income) was huge after V-J Day. During the war the personal saving rate had risen to extraordinary levels: 23.6 percent in 1942, 25.0 percent in 1943, 25.5 percent in 1944, and 19.7 percent in 1945. After the war the personal saving rate fell to 9.5 percent in 1946 and 4.3 percent in 1947 before rebounding to the 5–7 percent range characteristic of the next two decades. After having saved at much higher rates than they would have chosen in the absence of the wartime restrictions, households quickly reduced their rate of saving when the war ended. Note, however, that *they did not dissave*. Even at the low point in 1947, the savings rate was 4.3 percent, not much below the prewar norm for relatively prosperous years.

The postwar resurgence of the private economy rested on an investment boom as well as a consumer spending surge. In current dollars, gross private domestic investment leaped from \$10.6 billion in 1945 to \$30.6 billion in 1946, \$34.0 billion in 1947, and \$46.0 billion in 1948. Relative to gross national product (GNP), that surge pushed the private investment rate from 5 percent in 1945 (it had been even lower in the previous two years) to 14.7 percent in 1946 and 1947 and 17.9 percent in 1948.

Firms could finance their increased investment spending in part because, unlike individuals, they did unload some of the government securities they had

acquired during the war. Between 1945 and 1946, holdings of public debt by corporations (exclusive of banks and insurance companies) fell by \$6.9 billion. They fell further, by \$1.2 billion, in 1947 before rising by \$0.7 billion in 1948.

Moreover, owing to reduced tax liability—the Revenue Act of 1945 lowered the top corporate income-tax rate and repealed the excess-profits tax—corporations enjoyed rising after-tax profits from 1946 through 1948. During the years from 1941 through 1944, after-tax corporate profits had held steady in the range of \$10–11 billion annually. After-tax profits dropped to \$9.0 billion in 1945, as the government

canceled procurement contracts and many firms incurred extraordinary expenses to reconvert their production facilities. Then after-tax profits rose to \$15.5 billion in 1946, \$20.2 billion in 1947, and \$22.7 billion in 1948.

With greater after-tax profits to draw on, businesses increased their retained earnings. Gross business savings increased from \$15.1 billion in 1945 and \$14.5 billion in 1946 to \$20.2 billion in 1947 and \$28.0 billion in 1948. The additional retained earnings provided an important source of financing for the higher

business investment after the war.

Corporations also returned to capital markets in a big way. Stock and bond offerings, which only once had exceeded \$3.2 billion in the years from 1935 to 1944 (the exception being \$4.6 billion in 1936), jumped to \$6.0 billion in 1945, \$6.9 billion in 1946, \$6.6 billion in 1947, and \$7.1 billion in 1948.

In sum, the corporate investment boom of the postwar transition years received its financing from a combination of the proceeds from sales of previously acquired government bonds, increased current retained earnings (attributable in part to reduced corporate-tax liabilities), and the proceeds of corporate securities offerings. FEE

Consumers spent more in the first two years after the war, but the money came from just two sources: increased personal income and reduced annual saving.

The European Tragedy

BY STEPHEN DAVIES

People are closely watching the slow-motion train wreck that is the crisis of the eurozone—that is, the economic travails of Greece, Spain, Ireland, Portugal, and Italy (known collectively as the PIIGS). The problem with much of the discussion in the United States is that both of the main camps are right about some things but wrong about others—because neither fully grasps the real nature and cause of the crisis in Europe.

One view holds up the Europeans as a warning to the United States of the consequences of government profligacy. The problem, so the argument goes, is crushing sovereign debt brought about by excessive government spending over many years funded by borrowing rather than taxation. The rising yields on sovereign debt reflect that investors now realize the European governments are bankrupt and cannot be relied on to service their accumulated debt, much less repay it. As yields rise the burden of debt becomes greater until the only ways out are either default or fiscal stringency with a combination of tax increases and cuts in government spending to bring stability. This is also the view, it would appear, of the German finance ministry and much of the German public.

The contrary view is that the European crisis is indeed a warning to the United States—of the dreadful consequences of austerity. For this camp the experience shows the folly of responding to the financial crisis of 2007–08 with cuts in government spending

and efforts at balancing the books. These efforts are self-defeating because they will aggravate the economic contraction and reduce government revenues while increasing spending (because of “automatic stabilizers” such as unemployment benefits), worsening the government’s finances. The correct response to the economic slowdown in Europe, therefore, is a Keynesian one of increasing government spending and widening deficits, at least in the short term, until the economy recovers.

Those who blame profligacy and those who blame austerity both have some things right, but neither grasps the real nature of Europe’s woes.

Both sides are simultaneously right and wrong. The second side is correct that the underlying problem is not fiscal irresponsibility by governments (Greece is a significant exception to this). Ireland and Spain both had budget surpluses before 2007, while Italy’s finances were responsibly run for the last decade or more. In fact, the figures show that the supposedly responsible and austere Germans had finances and debt comparable to those of the countries now facing a crisis. Above all this side is correct to argue that major cuts in government spending in the

PIIGS will not solve their underlying problems and may well make their problems worse in the short run. Greece again is an exception; the levels of spending there are simply unsustainable on any reckoning.

However, this side is wrong to argue that fiscal stringency is the real cause of the problems of the eurozone

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and that things would be much better if this policy were abandoned or reversed. A common theme is that the relatively better performance of the U.S. economy reflects the lesser degree of austerity and fiscal correction. Europe, in other words, shows what *not* to do in fiscal policy. The problem with this is, first, that there simply hasn't been that much austerity in Europe yet—most of the cuts have yet to take place. There have indeed been government cutbacks, most notably in Ireland, but not that much. Looking at the U.S. government sector as a whole, one sees that the extent of cutbacks there and in Europe is pretty much the same. So budget cuts cannot explain the disastrous economic situation in, for example, Spain.

Meanwhile taxes have gone up or are due to go up considerably in the United Kingdom, Ireland, Spain, Italy, and Portugal. If austerity is intended to lighten the burden of government, tax increases are counterproductive.

What Not To Do

Moreover, it does not follow that the correct policy response now is to simply increase spending. In many European countries this would actually make things worse. The reason is that one of the underlying real problems is structural rigidity in the economies of many of those countries brought about by massive overregulation, particularly of labor markets. The package of measures labeled “austerity” includes many supply-side reforms that are vital for the economic future of countries such as Spain and Italy. Simply raising government spending without putting through these measures would raise costs throughout these economies—which is their basic problem, as we shall see.

Even more important, a fiscal stimulus would not deal with the underlying economic problem either in Europe or the United States: the massive distortion of economic activity, asset values, and relative prices brought about by a decade-long boom fueled by an unprecedented growth of credit. In much of Europe this problem is much worse because of an extra element—the way the credit boom of the “noughties”

interacted with and exacerbated the structural and design faults of the euro. The problems caused by the euro are aggravated by the policy of central banks over the last decade.

The euro was a bad idea from the start. When it was launched a galaxy of eminent economists warned that it was a bad idea with the potential to be a real disaster. Most also predicted that it would not last, and that the longer it lasted the worse the ultimate debacle would be. This view was not confined to any one economic school or part of the political spectrum: Milton Friedman and Paul Krugman both warned against the adoption of the euro in almost identical terms.

Suboptimal Currency Area

The reason for this unusual near-unanimity is the existence of a generally shared body of economic theory—the optimal single currency area theory. The theory was formulated in the 1960s in a series of classic papers. It says that it makes sense for a population living in a geographical area to have a common single currency only if certain conditions are met. One was for the economy of the area to be homogeneous so that unexpected events and processes (“shocks” in the economic parlance) did not affect different parts of the area in different ways. In reality

this almost never applies, so at least one of two other factors has to exist. The first is an integrated labor market with free movement of workers from areas of unemployment to areas of high demand for labor. The second is a central government that can move spending from one part of the currency area to another through tax and spending policy.

Neither of these conditions existed in Europe; language barriers and social obstacles to mobility prevented an integrated labor market from emerging. The euro was a currency without a country or a government in any meaningful sense. The U.K. government made several alternative suggestions at the time, including allowing all European currencies to be legal tender in all member states (so they would effectively compete with one another) and having the euro as a common

There simply hasn't been that much austerity in Europe yet—most of the cuts have yet to take place.

currency that was legal tender throughout the European Union but alongside existing national currencies (so it would not be a single currency). Both were rejected—because they were not compatible with the political project that was the real reason for creating the euro.

Several economists not only warned against adopting the euro on general grounds, they predicted specific problems. Some argued that one result would be to severely raise labor costs in parts of the eurozone that had rigid economies with controlled markets relative to areas that had more open and flexible labor markets. The consequence would ultimately be higher unemployment in those areas, with a consequent incentive to have inflation in order to remove the faulty relative pricing of labor. Another common prediction was that a common interest rate over such a varied set of economies would lead to inflationary bubbles in some areas. This is almost exactly what has happened.

When the euro was set up, the relative prices of goods and services of all kinds in Europe (including wages) broadly reflected the underlying productivity in the different countries. This was mediated through the exchange rates between the different national currencies. So if you took into account the exchange rate between deutschmarks and pesetas, for example, you had a price level in Spain that was about half that in Germany; this reflected that German workers were almost twice as productive as Spanish ones. The expectation was that the performance of the different countries would converge once they had a single currency, so that Italian and Greek workers would become as productive as German workers. In fact, things went in exactly the opposite direction.

In Germany labor costs actually went down slightly while prices remained broadly stable. By contrast, labor costs and prices in peripheral countries doubled, partly because of the rigidities in their labor markets and because there was no longer an exchange-rate adjustment mechanism. This meant that by 2005–06 the price level in the peripheral countries was much higher than it should have been. Essentially they had been paying themselves like Germans or Finns without having the productivity to support or justify this. The result was that they became utterly uncompetitive while the prices

of assets in those countries became severely overvalued.

The lack of competitiveness meant that the peripheral countries ran huge balance-of-payment deficits with Germany. This in itself is not a problem—the payments account shortfall is exactly matched by a capital account surplus, a flow of capital from the “creditor” area to the “debtor” one. This was the point at which the credit boom of the noughties interacted with the euro with disastrous results. Large amounts of money flowed out of banks in core countries such as Germany and the Netherlands, pumped up enormous real estate bubbles in places such as Spain and Ireland, and funded public spending via the sale of government debt at artificially low yields in countries such as Greece and Portugal. The Irish and Spanish governments were helpless in the face of these bubbles because they could no longer raise interest rates.

Then in 2007 the global credit bubble burst. At this point the private credit flows that had been sustaining consumption and investment in the uncompetitive peripheral economies suddenly stopped. In the United States a similar situation faced Arizona and Nevada but this was compensated for by a decline in prices, a movement of people, and flows of federal government spending. Nothing like this was possible in Europe. Instead peripheral countries faced a sudden wrenching readjustment. If they had still had their own currencies much of this could have been borne by a depreciating exchange rate, but this was no longer an option. Another option would have been to allow local banks to go bust and allow asset prices to fall to realistic levels. However, this would also have exposed the insolvency of much of the European banking system, and politicians throughout Europe balked.

So what has happened is this: The “creditor” countries such as Germany are insisting that the adjustment in relative prices between eurozone core and periphery take place entirely in the “debtor” countries, which therefore face the prospect of years of deflation. Politicians throughout Europe refuse to let asset prices fall to real market levels because of fears for the banking system. The result is the crisis we now see, which is *not* caused by austerity. Such austerity as there is, is a consequence of the crisis not a cause. On the other hand, while there is a real need to reduce government spend-

ing in several of the PIIGS in the medium term, doing it now is not going to help with the crisis, which comes from a hopeless lack of competitiveness that is no longer compensated for by private flows of capital, which have now suddenly stopped. The other problem is systematic overvaluation of assets in these countries, which can only be dealt with by revaluing them.

So what could resolve this crisis? One solution would be to create what the eurozone lacks—a federal government. Besides other objections, this is politically impossible, not least because it would mean the German taxpayer perpetually funding other countries via transfers. Another solution would be to have much higher inflation in the eurozone and in particular to have higher inflation in Germany than in the periphery. (This is the solution Paul Krugman advocates.) Again, this is politically impossible, quite apart from being undesirable for other reasons.

A third solution would be to dismantle the euro either by the PIIGS leaving the zone and defaulting or by Germany leaving along with other core countries.

The least bad option would be to keep a single currency but scrap the central bank. Nobody with any say in the matter even imagines this solution, though.

(This would be preferable but is less likely.) This move would have dramatic and severe effects but would still be better than keeping the show going since that would condemn most of Europe to prolonged stagnation.

The most radical solution—as well as the least bad—would be to allow banks throughout the eurozone to be wound up while allowing assets everywhere to reach realistic relative levels. This would mean a massive, albeit temporary, shock in much of the eurozone, but after that a recovery could happen.

The alternative to a single government that would enable the euro to survive would be to keep a single currency but scrap the central bank and move to a free-banking system throughout Europe. Nobody with any say in the matter even imagines this solution, though.

The problems facing Europe now are a tragedy in the strict original meaning of the word: the inevitable result of the hubris of political actors who thought they could ignore economic wisdom. The nemesis they have brought on themselves can have no good result and is inescapable. **FEE**



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The Unnoticed Deficit That Makes Us \$6 Trillion Poorer

BY JAMES L. PAYNE

Politicians are busy these days trying to fix deficits, trying to close the gap between what government spends and what it takes in. It's a difficult task, but it is assumed that in the long run some combination of spending cuts and tax increases will bring us to balanced budgets. If that day ever arrives, the politicians will toast each other for their maturity and leadership, and assume that the country's fiscal problems have been solved.

Unfortunately, this self-congratulation would not be justified. In this balanced budget situation, with taxes fully covering expenditures, there would still be a huge negative number eating at the heart of national finances. This other "deficit" consists of the overhead costs, or waste, in government tax-and-spend systems. Though there is an element of redistribution in many spending programs, basically government is taxing people and then trying to return the money to them as some benefit they could have bought for themselves, such as education, housing, art, pensions, medical care, and so on. This cycling of funds through government involves enormous waste. My estimate of this loss puts it at \$5.7 trillion.

For most people a waste figure of this magnitude will seem unbelievable. How should we explain their incredulity? Perhaps their skepticism is justified. This would be true if comprehensive studies of the overhead cost of government transfers were well known and these studies consistently showed that this cost is quite small. Unfortunately this explanation is doubly

false. First, the studies that do exist are obscure, utterly unknown to reporters, politicians, and the public. Second, these obscure studies indicate that overhead costs of government transfer programs are extremely high.

For example, economist Edgar Browning has taught and researched in the field of public economics for decades. In 2008 he produced a book, *Stealing from Each Other*, which reviewed some of the overhead costs

involved in social welfare spending and the taxes that finance it. This book has an Amazon sales rank of 830,878, which is to say there are nearly a million book titles more popular. The few people who have read it will know that Professor Browning's estimate of the cumulative waste stemming from welfare state transfers is not a trivial number. He estimates that this waste lowers the U.S. gross domestic product (GDP) by \$4 trillion.

It is clear, then, that people who believe that the overhead costs of government activities are low do not *know* this for a fact. Instead they are making a blind assumption, supposing that government is an efficient machine for directing society's resources. In *Six Political Illusions* I call this belief *the illusion of the frictionless State*. Explain-

People who believe that the overhead costs of government activities are low do not know this for a fact. Instead they are making a blind assumption.

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ing this deeply rooted bias would take us rather far afield, into realms of psychology and even theology. In summary we can say that human beings are apparently disposed to believe in a higher power capable of managing society and fixing its problems, and this leads them to thoughtlessly attribute special powers and capacities to government. One of these special powers is the ability to transfer resources without significant overhead cost.

The power of this illusion is seen in the thinking of academics and philosophers who for generations have urged government to redistribute wealth from rich to poor. None of these otherwise intelligent people paused to seriously analyze the overhead costs of such a transfer system. It did not occur to them that a system of income redistribution might involve staggering waste, indeed so much waste that even the poor end up worse off. An example of this complacency is the prominent economist Richard Musgrave, who in 1969 suggested that the overhead cost of raising a dollar in taxes was a mere two cents. Decades of economic research since he mentioned that figure have revealed that the real waste caused by the tax system alone is over 20 times as high.

Extraction Costs

To get an idea of what a full accounting would look like, let's review some of the main overhead costs of government subsidy programs.

On the tax side the process of extracting money from the public includes these burdens:

1. *Disincentive costs.* A fine—for speeding, say—is a monetary penalty intended to discourage the activity that triggers the fine. In economic terms a tax is just like a fine: It discourages the economic activity that triggers the tax. A tax on wages is like a fine on working: It is a monetary penalty that discourages work. A tax on income from opening a new business is like a fine on opening new businesses, and so on.

Because of its discouraging effect on work, savings, and investment, taxation depresses production and therefore makes everyone poorer. Economists have

made estimates of this cost (which they call “excess burden” or “deadweight loss”). Their figures for different taxes range from 28.7 percent to 139 percent of the taxes collected.

2. *Compliance costs.* The tax system compels businesses and individuals to engage in a huge amount of work to learn about the tax code and grapple with tax returns, tax reporting, and tax depositing. One study of this burden found that tax compliance labor absorbed 10.2 billion hours a year, equivalent to the entire labor force of Indiana, Iowa, and Maine put together.

3. *The disincentive cost of tax uncertainty.* Because taxes are an uncertain and changing future cost, firms and individuals cannot plan efficiently.

4. *Enforcement costs.* This is the burden on citizens of grappling with IRS accusations, including dealing with audits, tax litigation, tax liens, and forced collections.

5. *Evasion and avoidance costs.* This is the work and expense involved in structuring lives and businesses to minimize tax burdens, including arranging tax shelters of many kinds.

6. *Governmental costs.* This is the cost of running the IRS, as well as the fractional use the tax system makes of other governmental units, including

the Treasury, courts, and prisons.

In a study I undertook in 1993, I found that these six costs amounted to 65.01 percent of tax revenue collected. In that report I noted the existence of 25 other tax system overhead costs that a fully comprehensive analysis ought to include.

Disbursement Costs

Once government has got the tax dollars, many kinds of wastes and costs enter the disbursement process, so that the country seldom gets one dollar of benefit for one dollar appropriated. There are seven main disbursement costs.

1. *Government administrative costs.* These include the costs of running the agency that oversees the subsidy as well as the fractional burden on other parts of government, including the Treasury, law enforcement units, courts, prisons, and the legislature.

Extraction of revenue from the public involves many kinds of additional costs.

2. *Misallocation costs.* Government agencies that attempt to deliver goods and services are inherently inefficient, owing to the fact that they are sheltered from the discipline of the market and also because political management is disruptive and demoralizing. One study of this waste found it averaged 50 percent of the funds appropriated. Government trash collection, ambulance service, and so forth cost twice as much as the same activity performed by a private firm.

Overconsumption and Underconsumption

3. *Overconsumption costs.* When government offers services below their economic cost, people “consume” more than they need and would be willing to pay for. This problem is especially acute when a subsidy is delivered as a producer-controlled giveaway. Medicare is an example. Since doctors are largely making the decisions and they know their patients are not paying, they can load up the bill with marginally important services. For example, in one case I know of, a consumer paying his own way arranged with his doctor for a hip replacement operation that cost \$15,000. When the same operation was being paid for by Medicare, the patient and his doctor accepted extras that brought the bill to \$45,000. The pattern of overconsumption in subsidized medical care was documented in a social experiment by the RAND Corporation in the early 1980s. It found that making medical care free produced an overconsumption rate of 44 percent compared to those paying their own way—with no difference in health benefits for the average participant.

4. *Underconsumption costs.* An exclusive government program may fail to supply goods or services that members of the public need and are willing to pay for. For example, if a government health care monopoly fails to offer a hip replacement operation that the consumer is willing to buy for \$15,000, then this \$15,000 represents an underconsumption cost. Underconsumption is not a major problem in a free economy. In a State-controlled economy it is an enormous cost.

5. *Private-sector compliance costs.* To obtain government benefits, recipients have to undertake much work and expense, filling out forms, gathering data to put in forms, making phone calls, writing letters, standing in line, and hiring lawyers. Once the subsidy is achieved, the recipient may have to answer questionnaires and file reports. For example a North Dakota wheat farmer told me he spends 15–20 percent of his working day dealing with government paperwork connected with his farm subsidy.

6. *Lobbying costs.* When government is seen as capable of providing a multitude of goods and services, citizens expend time and money on lobbying, public relations and propaganda, and campaign finance to influence the political process in their favor.

7. *Disincentive costs.* Government benefits can undercut the motivation of both firms and citizens to be productive. For example disability payments undermine the incentive of disabled people to seek work. Unemployment benefits have a similar effect. Researchers at the Federal Reserve Bank of San Francisco found that the extension of unemployment benefits in 2009 increased unemployment by 0.8 percentage points. In other words, the disincentive effect of this benefit kept 1.2 million workers out of the labor force.

Most people work in order to have money to buy things they need. As government fills those needs through benefit programs, it takes away the incentive to work. The cumulative disincentive effect of benefit programs—food, housing, day care/schooling, medical care, retirement income—is to create a sizable body of permanently unemployed workers not contributing to the nation’s wealth.

What might these seven costs add up to? This is a complicated question because each program will have a different mix of costs. Yet because we don’t have a secure calculation of this number doesn’t mean we should proceed to treat it as zero—which the illusion of the frictionless State invites us to do. That is like saying that since we don’t know when the next train is coming, it’s safe to sleep on the tracks.

Once government has got the tax dollars, many kinds of wastes and costs enter the disbursement process.

A Start

The better way to deal with this unknown is to make preliminary estimates, and then refine them with subsequent research. In the case of these overhead costs of disbursement, a useful first estimate can be achieved by proposing plausible figures for the range of each cost and taking the midpoint of each. My effort along these lines is given in Table 1. The total, 51 percent, is a preliminary estimate of the average disbursement cost. For those who wish to criticize this number as being either too high or too low, I say: Be my guest! It's high time that policy analysts and budget writers started making estimates of this number.

We are now in a position to make a comprehensive estimate of the overhead cost of government spending programs. On the tax side there is a 65 percent waste, and on the disbursement side a 51 percent waste, for a total of 116 percent. The interpretation of this figure, then, is that when government spends \$100, the country winds up being \$116 poorer than it would have been had that taxing and spending not occurred.

To calculate how much this waste costs the country overall, we need to apply it to government spending at

all levels. From this total figure I have subtracted spending for core government functions—defense, foreign policy, courts, police—on the grounds that only government can provide these services. These programs may involve huge amounts of waste, but abandoning them isn't considered an option. All other government services—education, scientific research, pensions, health care, charity, arts, roads—can be and are provided through voluntary, free-market systems, so a realistic

and less wasteful way of providing the activity is available.

Total non-core spending for federal, state, and local governments combined was \$4.9 trillion in 2009–10. Applying the 116 percent factor to this number gives us a waste figure of \$5.7 trillion. That is the yearly economic loss the

country suffers owing to its decision to supply consumer goods and services through government.

Translated to the individual level, this waste amounts to \$18,000 per person, or \$72,000 for a family of four. Next time a politician urges a government spending program to ease burdens on citizens, keep this figure in mind. Think what American families would be able to afford if government stopped trying to make things affordable.

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	Midpoint of range
Government administrative costs: 2 to 10%	5
Misallocation costs: 0 to 30%	15
Overconsumption costs: 0 to 30%	15
Underconsumption costs: negligible	
Compliance costs: 1 to 10%	5
Lobbying costs: 0 to 3%	1
Disincentive costs: 0 to 20%	10
Total	51%



Inconceivable Complexity

BY DONALD J. BOUDREAUX

We've all seen old photos and film clips of people trying to fly like birds. Each of these aspiring aviators has wing-like things strapped to his arms. But no amount of flapping, however furious, ever gets him airborne like the birds he's trying to imitate.

The man dressed in wings observes a flying bird and then analogizes his own limbs and muscle movements to what he supposes, from his observations, are those of the bird. But the human is misled into thinking that because he's intelligent and has some body parts that are more or less analogous to a bird's body parts, he can easily enough mimic the bird's body and movements and thereby achieve flight.

Of course this man is deeply mistaken. Despite our smarts, we humans can observe only a tiny fraction of the details that enable birds to fly. We can with our naked eyes observe only the most obvious, large, "macro" details ("bird flaps limbs that extend from bird's upper torso"; "bird's flapping limbs are made of lightweight, flexible, overlapping things that we call 'feathers'"). But the amount of detail that we don't—that we cannot—observe through simple observation is overwhelming. The bird's musculature; its cardiovascular system; the weight, positioning, and minuscule maneuverings of its tail—these and countless other relevant details aren't observed.

We see only an animal extending itself horizontally, flapping its limbs, and then, *voilà!*, it is safely and gracefully airborne!

Modern science and technology, of course, have taught us why we cannot simply strap on wings and fly like birds. We now understand just how numerous, and

unobservable to the naked eye, are the details that enable birds to soar. The exact positioning and strength of a bird's wing and tail muscles; the bird's blood pressure; its sensory receptors that alert it to changes in wind direction—science reveals to us (some of) these myriad details and teaches us that they are indispensable to that bird's ability to fly.

And science makes clear just how essential nearly all of these details are. Alter a detail here and the bird's flight becomes less graceful; alter a detail there and the bird is no more able to fly than is a goat.

Unfortunately, the same wisdom that guides our understanding of biology all too often abandons us when we contemplate the economy.

Awe and Admiration

The common reaction to scientific revelations of the enormous complexity of the flight of a seemingly simple sparrow is to admire nature's handiwork. Such fine-tuned intricacies—yet all the creation of natural selection!

And our admiration properly prevents us from supposing that that our newfound scientific knowledge of birds gives us power to fly by flapping our wing-dressed arms. (To fly we rely on quite different principles, most commonly fixed-wing aviation.)

Awe-struck by nature's handiwork, we correctly realize that even some really smart Leonardo or Einstein could not possibly match, and much less out-perform, "mindless" natural selection at creating a real flying bird.

Unfortunately, the same wisdom that guides our understanding of biology all too often abandons us when we contemplate the economy.

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Attempts to centrally plan economies, or even to intervene in major ways into market economies, are very much like humans' attempts to fly by dressing like birds and flapping fake wings: utterly futile, and potentially calamitous, because the most that can be observed of any successful economy are a handful of large details (assembly lines, retail outlets, money). Consciously calling into existence steel factories, wheat farms, supermarkets, currency, and other apparently obvious keys to economic success, and then trying to get these things all to work together to achieve economic takeoff, is akin to a man strapping sheets of fake feathers to his arms and legs and trying to fly. The effort simply won't work, even if it appears to the untrained eye as if it should.

This reality isn't altered by modern science.

Indescribable Complexity

A market economy is indescribably vast and complex—its success depends on so many intricate, changing details all somehow being made to work smoothly together that the “facts” that are essential to its thriving cannot be catalogued with anywhere near the completeness that can be achieved by a 21st-century scientist studying and cataloging the “facts” that enable sparrows to fly. A sparrow is complex compared, say, to a limestone rock. Compared to the modern market economy, however, a sparrow is extremely simple.

A surge in the supply of steel in Detroit for the month of October 2012—an uptick in consumer demand for a specific color of car and a downtick in demand for another color—the possibility of using a new financial instrument to spread investment risks more widely—unexpected difficulties in hiring work-

ers who possess a certain set of skills—an innovation that lowers the costs of advertising—an electrical failure that threatens to shut down for several days a section of a factory—a trucking company that discovers it underestimated the fuel costs of delivering 1,000 new automobiles to dealerships throughout New England. . . . Dealing with details such as these—details that Hayek called “the particular circumstances of time and place”—is not incidental to the success of a modern economy; it is of the essence.

Awareness of these facts, and of knowledge of workable options of how to respond to them, are key to the growth and continued success of any market economy. These facts are dealt with successfully only in market economies and only to the extent that individuals on the spot are free to respond to these facts as they, individually, see fit.

Yet no observer or planner or regulator can see and catalog all these highly specific facts. The facts—each of which must be dealt with—are far too numerous at any moment for an observing scientist to catalog *even if that moment were to be frozen for decades*. Greatly intensifying this complexity is the reality that these facts are forever changing. A moment from now many of these facts will be different from what they are at this moment.

Nevertheless, too many people, including politicians, continue to believe that because they can observe a handful of bulky facts about the economy, they can thereby know enough to intervene into that economy in ways that will improve its operation. That belief, though, is hubris. It's very much like believing that you'll fly if you simply strap on a pair of wings and commence to flapping madly.

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Trying to plan an economy is akin to a man strapping sheets to fake feathers to his arms and legs and trying to fly.

The Road to Villa Nueva

BY JOHN BLUNDELL

Madre Inés Ayau has a ready smile. When recalling her first day in charge of a large orphanage in the old district of Guatemala City, this leader of a tiny band of libertarian Russian Orthodox nuns laughs out loud. As she arrived for a formal handover ceremony, the 16 teenaged residents hurled eggs and stones before running away, never to be seen again.

It was a new start for the orphanage, or *hogar* (which literally means “home”), and just one more meaty project for this dynamic nun in her early sixties. Hogar Rafael Ayau had been founded by her great-great-grandfather, a philanthropist, in 1856 and had done much good work before being nationalized in the mid-1950s. But by 1996 every window was broken and the orphaned teenagers were running wild, working as prostitutes while hooked on drink and drugs. They were nominally being looked after by 36 workers, and there was a padded payroll of 105 people in total. In spite of this, the vulnerable youngsters were receiving no real care or education.

When the then-president of Guatemala, Álvaro Arzú—who had previously been taught at university by both Madre Inés and her father—asked if she would run it, she gave him a very direct answer: “Yes, we will do it but only if we can take over the whole

operation and privatize it with no government involvement at all.”

And so the president and his wife, Patricia de Arzú, who was in charge of social services, set about reprivatizing the *hogar* along with Madre Inés and her close colleagues Madre Ivonne and Madre María. The entire existing staff had to be let go before Hogar Rafael Ayau reopened in October 1997.

As a team led by a private company began to renovate the campus, Madre Inés (officially, her title is

Igoumeni or Abbess but she prefers to be styled in the same way as her fellow nuns) headed north to the United States. There she solicited donations for the newly formed American Friends of the Hogar Rafael Ayau.

She quickly raised a million dollars, helped by her family—which was well-known and respected in political, business, and philanthropic circles—and by a local bank. Unknown to Inés, her great-uncle, whose

wife had been instrumental in running the orphanage, had left a trust for the *hogar*, which paid out an annual sum. But once it was nationalized the bank was no longer willing to expedite such funds and quietly sat on the trust. Now that the institution had been returned to the private sector, Inés received a call from the man-



Madre Inés touring the construction of the new school on the shore of Lake Amatitlán with some of the home's older residents.

Courtesy Hogar Rafael Ayau

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ager. “We have a five-figure check waiting here for you,” he announced.

Madre Inés Ayau is the daughter of the late Manuel Ayau, a Guatemalan entrepreneur and politician who founded the Universidad Francisco Marroquín (UFM), one of Latin America’s leading universities, in 1971. (He was also a FEE trustee.) Inés, the third of six children, attended a school run by nuns and from a young age wanted to become one herself.

She joined a Roman Catholic convent at the age of 20 and ran slap bang into a total anathema named liberation theology, which, she says, “I always fought as hard as I could. Liberation theology is a rereading of the Bible with communist glasses, searching for words out of context to justify a communist political agenda.”

A New Old Faith

In the years that followed she traveled all over the world teaching religion in schools as she worked for a degree in theology. But everywhere she went she was dismayed to encounter teachers influenced by liberation theology.

“I was really fed up with it,” she confided, “so while I was in the Philippines for two years I started looking for something more traditional and discovered Russian Orthodoxy.”

She was immediately declared *persona non grata* by her former church when she left in 1986. “The move was very hard for both sides,” she said.

Inés returned to Guatemala in May 1987 to build a distance-learning program at UFM at her father’s request. The program succeeded and later became the private, technologically oriented Galileo University. Inés then moved on to another project: building Guatemala’s first Russian Orthodox monastery and church. A family friend had donated 30 acres of land in the town of Villa Nueva, just south of Guatemala City.

Yet when the president challenged her to turn around Hogar Rafael Ayau, Madre Inés found time to throw herself into the orphanage, and in the following

decade it prospered. Some 240 children whose parents were unknown or dead were adopted locally or internationally, and some 900 graduated out of Madre’s high school program and into the local job market.

I have visited the *hogar* several times, and I always sense a caring atmosphere and a real commitment to education and good values. The children are voracious readers, and one corner of the reading room is a “Library of Liberty” devoted to classical-liberal texts.

Meanwhile, all the children capable of working in the orphanage’s micro-enterprises receive 50 percent of the profit on every item they make. The woodworking shop is a particular favorite with customers. “The older

girls even have debit and credit cards,” Madre Ivonne told me. From time to time she drives the white orphanage minibus out to a safe mall and sends groups of girls out shopping for the afternoon with their own hard-earned money.

Renationalization

The *hogar*’s future was put in jeopardy in late 2007 when outgoing President Óscar Berger bowed to UNICEF pressure to renationalize the orphan business and make private adoptions illegal.

UFM Chair Carroll Rodríguez explained what this means in practice:

“It is not illegal to adopt in Guatemala;

now, however, you have to go through the State-run Consejo Nacional de Adopciones. It is also not illegal to run an *hogar*, but it is illegal to charge or receive any money for providing the services of caring for adoptable babies and other children. So many of the law-abiding *hogares* had to shut down, and that is why Mother Inés now only accepts children whose parents are known.”

As a result Madre’s numbers have fallen from a high of around 160 children down to a mere 60. As she herself now puts it, “I am running a boarding school for the poor.” The State alone cares for parentless kids. Any baby left at the gates of Hogar Rafael Ayau has to be turned in to the State first thing the next day.

The *hogar*’s future was put in jeopardy in late 2007 when outgoing President Óscar Berger bowed to UNICEF pressure to renationalize the orphan business and make private adoptions illegal.

Up until prohibition, Guatemala, China, and Russia were the last three remaining countries with a well-developed legal market in international adoptions. All other nations that had once allowed children to be sent to new families abroad had already succumbed to UNICEF pressure to put an end to the practice.

But UNICEF had in effect restricted supply without doing anything about demand. Its campaign caused a worldwide shortage of babies for inter-country adoption and made it an expensive business in Guatemala, where at least 3,000 infants a year were adopted. On average, fees and expenses alone came to \$25,000.

I had seen Guatemala's booming adoption scene firsthand on earlier visits. I had been struck by the large numbers of American women and couples at western hotels with Guatemalan toddlers and a local nanny. The adoption paperwork took a year—evidence, Rodríguez pointed out, “that the process was both regulated and exhaustive.” In the meantime a local nanny looked after the baby and the prospective parents had to make regular weeklong visits to prove their seriousness and bond with the child.

Black Markets, Abandoned Children

There was a darker side too, with unscrupulous baby traffickers profiting from the dearth of infants. But the result of outright prohibition was predictable and downright disastrous. The cost of adopting soared to a black-market price of \$60,000, according to Guatemala's leading family law attorney Dina Castro, and Madre told me of baby kidnappings, of pregnant women being held hostage until they gave birth, and of a cross-border baby trade with El Salvador, in which newborn babies were brought in and passed off as Guatemalan.

At the same time, Madre Inés told me, some 100 reputable agencies had closed immediately, derailing already approved adoptions. The government ended up with what was effectively a stockpile of thousands of babies and children.

“The government now has about 30,000 children in its care, and it is all static—there is no movement at all,” Madre told me. “The government claims to be starting a major new move for local adoptions into private loving families but it is all a smokescreen.”

In fact, the red tape surrounding domestic adoption means that would-be adopters are finding it harder to be accepted as suitable parents, compounding the problem. Foster parents are now prohibited from adopting, and since the new law came in, attorney Castro had “personally not seen one resolution granting an adoption.”

“Many children are abandoned,” fumed Armando de la Torre, a former Jesuit priest in his 80s and now director of the School of Social Sciences at UFM. “Their avenue to escape has been closed, and this has been decided by people who hate private initiative and thirst for big government.”

The tens of thousands in State custody—exact figures are hard to come by—are a great source of sorrow to him. “It is wicked,” he told me. “These children now face a bleak future in crime, as beggars

and as prostitutes—all of them illiterate.”

After only four years it was clear to the most casual observer that many more children were living on the streets. On the road to Villa Nueva to visit Madre's building project, which now included a brand new home, I spotted a young girl of eight or nine who should clearly have been at school. She jumped out into the street, juggled three balls, and then begged. As the traffic lights changed she wandered off in the direction of a nearby bar.

But Hogar Rafael Ayau is still serving an important need. Just days before my visit last March, a single mom who lives and works as a scavenger in the city dump had turned up at Madre's door with her three young children aged one, two, and six, asking her to care for them. She reported sexual attacks on them and feared for their future. I lunched on bread and vegetables with these newly scrubbed children in the *hogar's* canteen. In common with every child in the room, all three were

“The government claims to be starting a major new move for local adoptions into private loving families but it is all a smokescreen.”

polite and respectful, and cleaned their plates even after second helpings. Their mom would visit monthly, and if she ever got back on her feet, the kids would be returned.

Undaunted Ambition

Despite all the obstacles, Madre Inés's ambition continues unabated. Twenty years after beginning work at Villa Nueva, construction has nearly finished. The development is on a cliff overlooking Lake Amatitlán, where Madre has built a Russian Orthodox church of such beauty and brilliance I had to sit down for a good half-hour just to take it in. Every square inch, including the ceiling, is painted with exquisitely colored and lettered iconography. Madre has also created a productive farm producing fish, rabbit meat, fruit, and vegetables. She is a real entrepreneur.

It is on the highest point of this incredible site that Madre is close to finishing the new \$2-million home, including a school. The children will then leave their increasingly unsuitable downtown site, where by day old buses poison the air with their exhaust and by night prostitutes, dog fights, and shootings rule the street.

As I gazed up the steep hill toward the home, I thought I could see a four-level building, but in fact I was looking at two buildings of two stories each. One

had dormitories and single rooms above, with eating and socializing areas below. A bridge connected them with the school areas lower down in the building next door.

Madre Inés is raising funds from Guatemalan private donors and American Orthodox Christians to get the job done properly. And she has been fortunate to have had family support from the outset. For example, her family's tile factory has for many years shipped "seconds" to a retail site adjoining the Guatemala City property. One hundred percent of revenues are devoted to Madre's efforts. Rental of the Guatemala City campus will also help once the residents have moved to Villa Nueva.

Madre Inés has designed all the buildings at Villa Nueva herself. Fredy Chutan, the engineer in charge of construction, has only one worry: "When fundraising

goes well she thinks of new things to add." He regaled me with details of the four major additions made to the plans since the day they broke ground, and he is resigned to more.

"Madre has a very strong character," he told me. "She is so determined that she achieves big projects not even governments can do."

(Madre Inés Ayau can be contacted at abbines@ufm.edu and more information can be found at hogarafaelayau.org).

FEE



The Monastery church at Villa Nueva, with the new home at the far left.
 Courtesy Hogar Rafael Ayau



FDR, Uncle Fred, and the NRPB

BY WARREN C. GIBSON

In Ayn Rand's epic novel *Atlas Shrugged*, government officials regulate the economy through something called the Bureau of Economic Planning and Natural Resources. She clearly chose that name to reflect their belief that productive people were bound to produce just because of their "conditioning" and could therefore be treated pretty much like coal in the ground—as resources ripe for exploitation.

One wonders whether she had ever heard of the National Resources Planning Board (NRPB). The NRPB was a real agency, part of the kaleidoscope of bureaus that formed the New Deal. Its history is in some ways as dry as dust, but a closer look reveals some interesting and timeless insights into the planning mentality and the role of personalities in shaping history.

The philosophy underlying Roosevelt's New Deal, if one can call it that, was to try something and if it didn't work, try something else. In that same spirit the NRPB mission changed frequently; even its name changed four times before it was killed in 1943. It had been authorized as part of the National Industrial Recovery Act, but that program was ruled unconstitutional in 1935, leaving the National Planning Board, as it was called then, in danger of extinction. It was quickly rescued by FDR, however, and established as an independent agency. Casting about for a new name, one planner suggested "natural resources," whereupon another commented that human beings were America's most important resource. "National Resources" was sug-

gested. The President chewed the phrase over a few times, then, pleased with its sound, grinned and announced, "That's it. Get that down, boys, because that's settled."

FDR seems to have enjoyed the monthly gatherings of NRPB board and staff in his office, much as he might have enjoyed a romp with one of his dogs. Marion Clawson, in his book *New Deal Planning: The National Resources Planning Board*, says the President's relationships with the board and its officers were "friendly, even cordial." No wonder, given that FDR had appointed as board chair none other than his uncle Frederick Delano, affectionately known to FDR and much of the NRPB staff as Uncle Fred. The meetings were usually loosely organized and inconclusive, with the President often telling stories or reminiscing. Attendees were left to guess at what the President wanted and sometimes had to follow up with a memo for his approval.

The appointment of Uncle Fred suggests nepotism, but the reality was quite different. He brought a rather impressive résumé to the job: civil engineer, railroad executive, member of the board of governors of the Federal Reserve, and a pioneer in city and regional planning. Clawson reports that Uncle Fred bent over backward to avoid the appearance of capitalizing on his connection to the Oval Office. He was so standoffish with members of Congress that the board

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The NRPB's history reveals some interesting insights into the planning mentality and the role of personalities in shaping history.

never did establish the kind of friendly congressional ties that are essential to any bureaucracy. Nor did he press FDR for favors, as an unrelated chairman might have.

A dilemma haunted the NRPB throughout its life. Its *raison d'être* stemmed from the realization that the multitude of alphabet agencies that sprang up under the New Deal were insufficiently coordinated, to put it mildly. This meant the NRPB's scope should have been broad enough to include almost all the functions of the federal government, save perhaps war and foreign affairs. But established agencies were often less than keen to see their turf invaded. The NRPB tried to address that problem by contacting bureaus or agencies they thought might be interested in some new NRPB committee and asking them to nominate members. The board tried to get people from the highest levels of the agencies, but such people tended to skip meetings or send substitutes. Whatever their levels, outside committee members could be a nuisance to the NRPB because they often took a defensive attitude toward what they saw as their agencies' turf. In later years the board did more of its own work in-house, but that policy tended to isolate it.

What did the NRPB actually produce? Reports. Lots of reports, some quite lengthy, on topics ranging from New England airports to the role of cities in the national economy to industrial plant siting and family budgeting. An example is available online: "Security, Work, and Relief Policies" (tinyurl.com/bra9oq3). In well over 600 pages existing policies are summarized and recommendations are made. It was the product of a committee of bureaucrats, academics, and private charity people, all quite distinguished, we must assume. Of course, distinguished committee members usually do no real work, so one or two long-forgotten staffers must have been the real authors. Consider this, the first of six recommendations that appear on page 545: "Increasing emphasis on policies aiming at the prevention of economic insecurity through a fuller utilization of *our productive resources*

including labor, and by more comprehensive measures to improve the health of our people" (tinyurl.com/7ub8u92; emphasis added). If that sounds like just harmless gibberish, consider that phrase again: "Our productive resources including labor." There you have exactly the attitude of Rand's "looters." Workers are national resources to be manipulated and exploited as government agents see fit. And of course, when central planning doesn't work, the solution is more planning. "My hands are tied," says Wesley Mouch, Rand's looter-in-chief, as the economy collapses. "I need wider powers."

Bureaucracies seldom die; they usually just morph into a new form. In the case of the NRPB, however,

several factors came together to kill the board in 1943. One was the ongoing and understandable fear among many that FDR was leading the nation to some kind of socialism. The NRPB published many short pamphlets that extolled the planning ideal in sixth-grade English. These were propaganda pieces, pure and simple, written in a style that seems almost laughable from today's sophisticated viewpoint. There had always been considerable distrust among many Republicans and conservative Democrats in Congress of the New Deal in general and the NRPB in particular. To this were added several other factors that finally did in the NRPB.

By 1938 it was becoming evident that war was coming and FDR began shifting his attention in that direction and away from the New Deal, perhaps sensing its failure. By 1942 the NRPB meetings had become biannual rather than monthly. The Republicans scored gains in the 1942 elections, and they, like many Democrats, were not in a good mood when the NRPB made its appropriations request in 1943. During this time Congress felt compelled to rubber-stamp Roosevelt's requests for war appropriations, making them all the more recalcitrant about domestic appropriations, especially since the New Deal was by then essentially a dead letter, even with the President.

Orthodox Marxist theory says history is determined by material productive factors, whatever that means. In fact history often turns on accidents of circumstance or personality, as the end of the NRPB shows.

Another factor was the interaction of Uncle Fred with his two principal deputies. Orthodox Marxist theory says the course of history is determined by material productive factors, whatever that means. In fact history often turns on accidents of circumstance or personality, as the end of the NRPB shows. Uncle Fred's second and third in command, Vice Chair Charles E. Merriam and Executive Director Charles W. Eliot, had been at loggerheads for years. Said historian Arthur Schlesinger of these two, "The tension between them, mounting through the thirties as Delano's advanced age weakened his leadership, handicapped the committee's work. . . . Merriam the scholar tended to favor long-term research projects; Delano and Eliot the planners wanted to shape current policies and programs."

The simmering feud broke out into the open in 1943 when Eliot went behind Merriam's back to a private meeting with the President to "express my very great concern over Uncle Fred's sickness, depression, and reaction to attacks in Congress and the press." This incident may have broken the spirit of the board and, perhaps more important, may have extinguished the last of FDR's interest in the organization. It may be that FDR sent a quiet signal to his front men in Congress to let the NRPB go. Lacking a champion in the House, the NRPB appropriation was allowed to die and that was that.

A common thread runs through all the NRPB activities and reports: an unquestioned faith in central planning as a requirement of modern life. It is possible that some New Dealers really believed that the only alternative to central planning was chaos, though this faith must surely have been wearing thin for anyone in the late 1930s who took an honest look at the record of the New Deal.

It was just one year after the NRPB's demise that F. A. Hayek's *The Road to Serfdom* burst on the scene. To the great surprise of everyone—perhaps most of all Hayek—the book was a runaway success in the United States. A *Reader's Digest* condensed version and a comic

book version (tinyurl.com/3k3zke) were published. Sixty years later, it enjoyed renewed popularity, briefly topping the Amazon sales list in 2007. In the book, as many *Freeman* readers well know, Hayek argues that central planning does not work, that it is inherently undemocratic and is deeply corrosive of political liberty. He takes pains to show that the alternative to central planning is not no planning but rather planning by individuals and families and businesses, each within their own unique spheres of knowledge and interests.

If the 1930s advocates of central planning are to be accorded some slack, not so Mr. Clawson, who in his NRPB history marches straight ahead under the central planning banner. *The Road to Serfdom* might as well not have been written, Hayek's Nobel Prize not awarded, Keynesian policy prescriptions not collapsed under stagflation, and Friedman's *Capitalism and Freedom* and his *Newsweek* columns never penned. Charging ahead, Clawson looks forward from his 1981 publication date and compiles a "list of major national problems on which a consistent and competent national policy is urgently needed." First on his list is, of all things, inflation, somehow to be solved by planners going after greedy businessmen or unions or consumers or anybody but the real culprit, the monetary authority! Of course, Paul Volcker was already at work solving the problem by instituting monetary restraint at the Fed.

The NRPB is dead but has another agency taken its place? Who knows? After counting 123 bureaus and agencies on the list at USA.gov (tinyurl.com/5vwnfr6) I gave up. And I had only gotten through the letter C! What is certain is that even after the collapse of communism, an event that should have doomed the central planning idea once and for all, the Wesley Mouch types remain undeterred, ever guided by the axiom that planning failures are always to be solved with more planning or better planners. It will ever be thus, I fear, as long as there are among us busybodies eager to seize the reins of government and bedevil us all. **FEE**

A common thread runs through all the NRPB activities and reports: an unquestioned faith in central planning as a requirement of modern life.

Bina West Miller: Pioneer

BY WENDY MCELROY

S abina (Bina) West Miller (1867–1954) is proof that one person can change the world. She saw a social injustice and corrected it through hard work, entrepreneurship, and good will. In the process she broke through one of the strongest cultural barriers in history: bias against women. The injustice she confronted was the inability of average women to secure life insurance in the late nineteenth century. This left women—and in many cases their children—without a benefit available to men. Miller achieved her goal in a resounding way that changed insurance practices in America.

As a 24-year-old teacher in rural St. Clair County, Michigan, Miller was profoundly affected by the fate of her two favorite students—a brother and sister. Their mother died, and their father could not afford a housekeeper to care for them. The precocious children were placed in separate foster homes where the girl worked as a domestic servant and the boy was “lent out” to work in a livery stable. The children lost their mother, their family, and their futures at the same moment. Miller believed the family would have survived the death of the father because he had life insurance through a fraternal society; the money meant resilience and provided options. Unfortunately, at that time average women were considered uninsurable because of their high mortality rate in pregnancy and childbirth. And so the mother had been uninsured. The scenario was not uncommon.

Shortly afterward, in June 1891, Miller and her aunt Nellie attended a picnic held by the fraternal society

Knights of the Maccabees in Port Huron, Michigan. The society offered life and disability insurance to members, as well as providing self-improvement programs and other social benefits. The members were male. An inspiring speech gave Miller the idea of extending those advantages to women, and the idea burned in her like a fire. The booklet *A Golden Anniversary Tribute to Bina West Miller* (1942), written by Miller’s longtime associate Mary MacEachern Baird, described the moment. It opened by repeating Miller’s words:



Bina West Miller
The Phoenixmasonry Masonic Museum and
Library at <http://www.phoenixmasonry.org>

“Aunt Nellie, I believe this [life insurance for women] is the greatest thing I have ever heard of,” said a serious, dark-haired girl to her aunt, as their horse jogged along a quiet country road at the close of a hot summer afternoon from a picnic which they had attended together. “I think I shall make this my life work. Here is a real need, and I know I can fill it.”

It was a bold statement, uttered at a time when women could not vote for president, did not have the same property rights as men, and could not serve on juries.

Nevertheless, Miller confronted the challenge and started creating women’s auxiliaries for the Fraternal Society of the Maccabees. Fifteen years later, the *Milwaukee Sentinel* (October 7, 1916) carried an advertisement for the Women’s Benefit Association of the

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Maccabees (WBA)—Miller’s umbrella organization. The WBA announced itself as “The Largest, Strongest, and Most Progressive Fraternal Benefit Society for Women in the World. Offers more opportunities to women than any other fraternal insurance society. Non-political and non-sectarian. Established in 55 states and provinces. Organized October 1, 1892.” The advertisement went on to state the current membership at 188,008 women and the benefits paid since organization at \$13,863,295.70 (estimated to be \$303,743,462.84 in current dollars). Its reserve fund was \$9,478,870.02 with a 1916 interest earning of \$450,000 on “gilt edge investments.” The ad assured readers that every dollar went into homes “in time of want and distress. We cannot begin to record the deeds of loving kindness and sympathy that have gone hand in hand with these disbursements.” And, indeed, the WBA established a reputation for the immediate and uncomplicated payment of member claims.

Life Insurance Throughout History

Private societies have been providing health and life insurance at least since Greek and Roman times, circa 600 AD. In Rome members of “benevolent societies” would make regular payments in exchange for financial assistance with burial costs and other expenses. In the seventeenth century, friendly societies emerged in England and became popular by the late nineteenth century. These mutual-aid groups comprised paying members who came together to establish a general fund to provide insurance, pensions, and other financial benefits to members; social benefits like education were also prominent aspects of the societies. While insurance companies offered coverage to the affluent, these organizations insured the common man. They exploded in popularity. *The Insurance Cyclopeadia* (1871) by Cornelius Walford listed 9,497 friendly societies in existence between 1828 and 1847, with total membership on July 8, 1847, of 740,581. In the nineteenth century female friendly societies were also commonplace.

By the late nineteenth century fraternal organizations provided a massive private safety network of all races and incomes.

The early American model of insurance was based on the English one, with the first life insurance company founded in 1735 in Charleston, South Carolina. Benjamin Franklin was instrumental in establishing the efficacy of mutual-aid insurance when in 1752 he founded one of the first effective fire insurance companies in the colonies, the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire; Franklin also recommended life insurance. The first life insurance association based on mutual aid was chartered on May 2, 1759. The Corporation for Relief of Poor and Distressed Widows and Children of Presbyterian Ministers was a general fund established by Presbyterians in Philadelphia and New York for ministers and their families. Ten years later the Episcopalians followed suit.

Meanwhile the first insurance policy for members of the general public was issued in 1761 in Philadelphia. But such insurance was still uncommon. In his chapter on Bina West Miller in *Ladies for Liberty*, John Blundell explained, “Life insurance provided by joint-stock companies had come to the U.S. as early as the 1750s followed by mutual life insurance companies in the 1840s. . . . But the policies of both such companies were

out of the reach of the average person.”

By the late nineteenth century, however, life insurance for working people thrived due to the emergence of fraternal organizations that provided a massive private safety network of all races and incomes. In “The Rise and Fall of Fraternal Insurance Organizations” (*Humane Studies Review*, volume 7, number 2 Spring 1992), Leslie Siddeley wrote, “At this time, the insurance industry in America was young, and life insurance was a luxury reserved for the rich. This began to change, however, when a group of railroad mechanics from Readville, Pennsylvania formed a fraternal organization [in 1868] which had among its functions the provision of life insurance for its members.”

The word *fraternal* comes from *frater*, the Latin word for brother. Thus fraternal organizations are brotherhoods in which members share common values, like

religion or profession, and where they associate for mutual advantage. In nineteenth-century America, membership was almost always limited to one sex, generally men. Gradually, it became acceptable for women to “join” by forming separate auxiliaries, but they did not necessarily enjoy the same benefits.

Siddeley noted that “by 1920 the National Fraternal Congress (NFC), an association of fraternal societies, boasted 200 member societies with 120,000 local affiliated lodges. These 200 societies insured nine million members with over \$9,500,000,000 of life insurance in force. The member societies of the NFC were just the tip of the iceberg. For example we know that in 1918 there were 313 non-NFC fraternal organizations providing insurance to the immigrant poor in Chicago alone. In fact, fraternal insurance was by far the most popular type of insurance among the immigrant poor, as well as among native blacks. Despite their poverty, these groups had levels of insurance equal to, and sometimes greater than, native whites.”

The Maccabees

The fraternal organization with which Bina West Miller associated was the Knights of the Maccabees. Established in 1878 in Ontario, Canada, the group was active in her home state of Michigan, where it became renowned for low-cost members-only insurance. At first the Maccabees provided insurance on an assessment basis. When a member died, all the others put ten cents into a general fund to provide the widow with a payout. After a massive reorganization, however, the Maccabees began collecting monthly fees based on recent payouts. In 1890 they expanded to offer sick benefits, as well as disability and funeral benefits. People flocked to the financial and social benefits offered by the Maccabees. Sick benefits ran from \$4 to \$10 per week. Benefits in the case of permanent disability were \$50, \$200, or \$300 annually, depending on how much a member had been assessed while working. Other benefits were similarly well defined. In 1896 the organization boasted a membership of 209,831.



Miller in her Maccabees office.
The Phoenixmasonry Masonic Museum and Library at
<http://www.phoenixmasonry.org>

This was the organization as Miller knew it in 1891, when she made the fateful decision to push for the inclusion of women. Her timing was excellent; three years later New York Life became the first company in America to offer life insurance at the same rates to both women and men; previously, women had been charged more. Clearly a demand for women’s equality in benefits was in the air.

Working from the basement of a local Maccabee Temple, on October 1, 1892, Miller began to create women’s auxiliaries called Ladies of the Maccabees; as noted, they would be collectively known as the Women’s Benefit Association—a nonprofit, dues-supported organization run exclusively for and by women. The first certificate for a death benefit was issued on November 4. The first death claim was paid out on September 25, 1893; it was \$1,000. Gaining a reputation for fairness, Miller grew the membership from 319 in 1892 to 5,770 in 1894. By 1900 there were 75,000 members in 42 states.

“Hard Work and Ever At It”

According to Albert C. Stevens, author of *Cyclopedia of Fraternities*, Miller’s organization was not recognized by the Maccabees at first. Her success changed many minds. Stevens, a contemporary of Miller, wrote, “Its successful career has surprised many, even among its well-wishers, and has shown that women may safely be intrusted with the conduct and management of many of the broader business affairs of life.”

How did she do it? The motto that graced her office was: “Hard Work and Ever At It.” With \$500 of borrowed money, Miller traveled extensively and alone, often by horse and buggy. She not only sold memberships to women in the United States and Canada but also formed local chapters and auxiliaries. Moreover she did so without pay at first.

Blundell described Miller’s method: “Her strategy from day one was to contact the head of the male fraternal society in a particular town and to ask to talk to its members about how a women’s auxiliary could ben-

efit their female relatives. If successful (and she nearly always was) she would parlay this meeting into a second one with the women.”

More than Insurance

Women flocked to her presentations. The benefits Miller offered were more than financial. They included self-improvement programs, emotional support networks, and service in the community, such as volunteering at hospitals.

Each chapter met monthly to provide the women with a social outlet, which many of them sadly lacked; the Maccabees organized largely in rural areas. The various chapters were connected by the *Ladies Review*, a periodical from Port Huron, Michigan, which became the WBA's home base.

The WBA is a success story that deserves to be explored in far more depth. For example, in 1931 membership was opened to men. Miller continued as chief executive officer of the WBA for over 56 years until her retirement at age

81. In 1996 the organization was renamed Woman's Life Insurance Society and remains a vibrant concern.

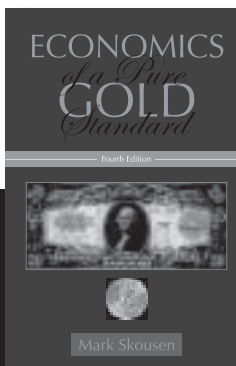
Much more could also be written about Bina West Miller, including her achievements unrelated to the WBA. But the network she established has particular significance for the modern day.

Miller's network is not merely a remarkable accomplishment, it is also a reminder that average people can provide admirably for their own needs, especially when they band together in mutual aid—as they are inclined to do. By 1924 the WBA's membership passed 250,000 and chapters were active in most of the states as well as Canada. This membership feat was achieved in the days of cumbersome travel, without the Internet, and despite social taboos.

The ability of average people to address complex social problems is often denigrated or dismissed outright in favor of bureaucratic solutions. Miller is one of many historical

examples that give the lie to such dismissals. Sadly, if Miller were to attempt a similar task today, the main barrier would be government. **FEE**

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Uncertainty Paralysis

BY JOHN STOSSEL

President Obama would do us all a big favor if he'd ask himself this: "Would I start or expand a business without knowing what regulations or taxes government will impose next year?"

If he'd just stop and ask that, he'd have a sense of what's wrong with the economy. He'd understand why a country that must create 120,000 new jobs each month just to absorb newcomers created only 163,000 last July. That might sound okay, but it added only 64,000 in June and unemployment has risen to 8.3 percent.

Past recoveries were quicker. Something is different. What could it be?

Let's remember that the economy—which is to say, us—is already burdened by byzantine bureaucratic impositions. Every week, the feds add another thousand pages of rules and proposals for rules. Local governments add their own. My mayor, in New York City, even proposes micromanaging the size of the drinks restaurants may sell.

Piling On

On top of the existing mountain of red tape, the Obama administration has piled on more, with more to come. Obamacare was less a specific prescription than a license for the Department of Health and Human Services to write new rules, lots of which are yet to be written. No one knows how the bureaucrats will micromanage health insurance.

Then there's Dodd-Frank, the 2,300-page revamp of finance industry regulations. Again, the bill left the rule-writing to regulatory agencies. Who knows what they will come up with?

Every year Congress makes thousands of changes to tax laws. And no one can guess what will happen in

2013 if the 2001 and 2003 tax cuts expire.

There is an irresistible temptation for politicians to "do something" whenever real or imagined problems appear. The number of on-the-fly programs in recent years (from attacks on unpaid internships to Cash for Clunkers) has been astounding. This uncertainty kills job creation. If you cannot tell what will happen next week, next month, next year, why make a significant commitment? The next law or executive order might make a mockery of your plans.

Debt

America faces a humongous debt, and its trajectory is upward. If nothing changes, the whole budget would be consumed by interest payments. No politician wants that—if only because there'll be no money to buy votes.

How will the problem be dealt with? Higher taxes? Massive inflation? Some combination? Where does that leave someone today who might, in a more stable policy environment, be eager to launch some big, long-term investment project?

In the dark, that's where.

Economist John B. Taylor of the Hoover Institution summed it up aptly: "Unpredictable economic policy—massive fiscal 'stimulus' and ballooning debt, the Federal Reserve's quantitative easing with multiyear near-zero interest rates, and regulatory uncertainty due to Obamacare and the Dodd-Frank financial reforms—is the main cause of persistent high unemployment and our feeble recovery."

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

Historian Robert Higgs of the Independent Institute calls it “regime uncertainty.”

Policy Fog

We should have learned the lesson during the Great Depression. Today’s problems are nowhere close to those of the 1930s, but there is a similarity in Franklin Roosevelt’s policy fog. Higgs writes:

The insufficiency of private investment from 1935 through 1940 reflected a pervasive uncertainty among investors about the security of their property rights in their capital and its prospective returns. . . . The willingness of businesspeople to invest requires a sufficiently healthy state of business confidence, and the Second New Deal ravaged the requisite confidence. . .

The solution? Taylor finds it in the writing of Nobel laureate F. A. Hayek: the rule of law. “Stripped of all technicalities,” Hayek wrote in *The Road to Serfdom*, “this means that government in all its actions is bound

If we are ever to get out of this hole the politicians have dug, we must disabuse them of the conceit that they improve our lives by spending more.

by rules fixed and announced beforehand—rules which make it possible to foresee with fair certainty how the authority will use its coercive powers in given circumstances and to plan one’s individual affairs on the basis of this knowledge.”

If we are ever to get out of this hole the politicians have dug, we must disabuse them of the conceit that they improve our lives by spending more, guaranteeing investments, or “jump-starting” industries.

Only when politicians butt out, leaving us with simple, predictable rules, can the economy grow for us all. **FEE**

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Capital Letters

To the Editor:

I very much enjoyed reading David Henderson's article, "Tear Down These Walls," in the June 2012 issue of *The Freeman* (tinyurl.com/783mb3w). However, I think he misses the point. It is not that borders separate individuals, but that they separate systems. When you have borders between North and South Korea, East and West Germany, or Mexico and the United States, there are stark differences on one side or the other. The border between the United States and Canada has lesser differences. Rather than have everyone come to our system that we have fought for and developed, I think it would make more sense to have others improve their systems. Just about everyone in the world would like to come to America; however, we must have some systematic way of allowing immigration or we will face consequences we can't even begin to imagine. Those countries that have been adjacent to countries with famine or civil war can attest to that. I do believe we need a well-thought-out plan for immigration, or a way to change the systems in other countries.

—Henry Woodruff
Golden, CO

David Henderson replies:

I'm glad you enjoyed my article. Borders separate individuals *and* economic systems. Like you, I would like governments in various countries to improve their systems. But unlike you, I'm not at ease with the idea of making hundreds of millions of people wait until their governments do improve. They may well wait forever.

Your two examples of North and South Korea and East and West Germany are telling. If I were in South Korea today, I would welcome those who escape from that North Korean hellhole. If I had been in West Germany before 1989, I would have welcomed East Germans who escaped from their totalitarian masters. But it appears that you would have had them arrested and sent back. Or are you saying that you would welcome them too? If so, what are we disagreeing about?

Or look back at an earlier time in history. Most American readers of this publication probably descend from people who came to the United States in the nineteenth century or later. Many of them immigrated to escape bad governments elsewhere. I would have welcomed them. What would you have done?

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Book Reviews

Herbert Spencer

by Alberto Mingardi, edited by John Meadowcroft
Continuum Publishing • 2011 • 192 pages • \$130.00

Reviewed by Wendy McElroy



“Who now reads Spencer?” As someone who does, I was seduced by the opening question of this recent book on the thought of Herbert Spencer.

The book by Alberto Mingardi (of the Italian think tank Instituto Bruno Leoni) is volume 18 in the series “Major Conservative and Libertarian Thinkers.” It presents an accessible yet sophisticated overview of an English philosopher who was key in the development of classical liberalism. As the book notes, Spencer (1820–1903) was “perhaps the only philosopher to sell one million copies of his work while still alive.” Nevertheless, his work has been neglected or reviled for almost a century. Mingardi remedies this intellectual injustice along with answering the question, “Why?”

Herbert Spencer clearly states its limitations. Spencer was a prolific system-builder who wrote hundreds of articles and dozens of books, including the ten-volume *Synthetic Philosophy*. Wisely, Mingardi narrows his focus to what many consider to be Spencer’s most enduring work: *Social Statics* (1850) as informed by his *Autobiography*.

In *Social Statics*, Spencer presented the political theory of his youth, including “the right to ignore the state,” that inspired a generation of radical individualists in England and America. They embraced Spencer’s vision of a government limited to administering justice, the propriety of laissez-faire economics, and the evolution of cooperation over coercion. His admirers, as much as his writings, form Spencer’s legacy. Mingardi’s book notes this well in a chapter entitled “Herbert Spencer’s Offspring,” to which I flipped first.

Why has Spencer’s substantial legacy been dismissed? To a degree it is because time has proven some

of his central views to be incorrect. For example, Spencer based much of his ethics on a theory of moral evolution. In the preface to the last part of *Ethics* (1893), Spencer himself expressed disillusionment in commenting that “the Doctrine of Evolution has not furnished guidance to the extent” he had expected.

But what of the writings that time did not disprove, such as his youthful politics? An entirely different explanation applies. Mingardi dates the New Deal era (1930s) as the pivot point in Spencer’s political influence. With the rise of John Maynard Keynes—the modern prophet of government intervention—Spencer’s laissez faire fell into disrepute. Because he wrote of the “survival of the fittest,” Spencer was accused of being a Social Darwinist who would nod in approval as the weak died miserably. (In fact Spencer wrote at length about the good done by voluntary charity.) Murray Rothbard explained (in the *Libertarian Forum*) what Spencer meant by “survival of the fittest”: He meant that “the natural law of cause and effect works its inexorable way, and what this means is that bad premises, bad goals, and ineffective means are dysfunctional for man.”

This relatively uncontroversial insight was used to great effect as a smear on every other position held by Spencer. Poignantly Mingardi observes, “As a theorist of laissez-faire, Spencer was buried with the very principles he upheld.” He has fared no better posthumously.

The book ends, as it begins, with a provocative question: “Who should read Spencer today?” It is here, in his answer, that Mingardi and I part ways. I *do* share his puzzlement at “how the intellectual adversaries of Keynes have by and large ignored Spencer.” But I hold little hope that the academic attention Mingardi applauds will restore Spencer to his place of proper esteem.

What will? The answer resides in a theme developed within the book itself. Mingardi emphasizes what most commentators sadly miss: Spencer championed the working man. In spotlighting Spencer’s critique of the Poor Laws in *Social Statics*, Mingardi quotes the argument that such law “divides the community into two great classes—labourers and paupers, the one doing nothing towards the production of the general stock of food and clothing, and the other having to provide for

the consumption of both. Hence it is evident that each member of the producing class, is injured by the appropriation of a portion of the general stock by the non-producing class.”

Mingardi comments that Spencer “was invoking the abolition of the Poor Laws because he saw that . . . the greatest portion of it comes from the toils of the labouring class.” It is no wonder Spencer felt so deeply for the working man. His uncle, Thomas Spencer, Herbert’s role model, was active in repealing the Corn Laws (the tariff on grain imports), one of the most successful working-class and libertarian causes in history.

His passion for individual liberty and the working class is most likely to spark a Spencer revival. It inspired a generation that read his freshly published work. It is no less relevant today.

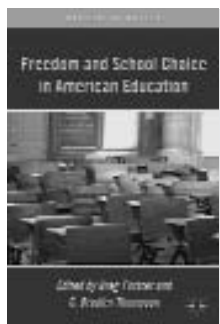
Herbert Spencer is a well-written, -referenced, and -researched book that never slips into the error of academic cleverness. Mingardi pays respect to a fallen leader who deserves to stand tall. He steps back and lets Spencer speak. **FEE**

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Freedom and School Choice in American Education

edited by Greg Forster and C. Bradley Thompson
Palgrave Macmillan • 2011 • 214 pages • \$85.00

Reviewed by George Leef



No part of American life is more politicized than education. Governments demand that parents turn their children over to approved schools at a tender age. The parents and all other taxpayers (whether they have children or not) must pay taxes to support the “public education system.” Government schools are for the most part run for the benefit of the vast numbers of teachers and administrators employed by them. The cost is high and the educational outcomes for most students are startlingly poor, but the education establishment (often referred to by some in the school reform movement as “the blob”) is adept at

hiding both the costs and bad results behind a blizzard of slick public relations events and releases.

The government education system is a lot like the old Soviet Union’s agriculture system: high costs, lousy results, all protected by official propaganda. Perhaps America’s situation is even worse: At least the Russians knew they were hungry. Many Americans actually believe that their children are getting a good education.

How can we escape from this hideous system? This book brings together eight papers delivered at a conference at Clemson University in 2008. There is a palpable tension in the book between reformers who think that significant improvements are possible within the existing, government-dominated framework (through vouchers, tax credits, and alternative schools) and those who believe that no real progress is possible as long as education is handled by government. The debate is similar to that over the inefficiencies of socialism several generations ago, between economists who argued that socialism could be made to work pretty well and those who argued that the State had to stop trying to manage the economy altogether.


The first chapter, by University of Arkansas professor Jay Greene, takes the position that learning gains can be made within the status quo and that they are worth fighting for because it is imperative that we do whatever we can to improve children’s chances for a better life. Greene contends that “every initiative that expands parental control over education of their children is a positive step,” and thus he favors policies in which governments give parents vouchers enabling them to pay for education at nongovernment schools. Greene is adamant that we must not let the best become the enemy of the good; any forward motion toward expanded parental choice is beneficial.

At the polar opposite of Greene’s view is that of *Freeman* editor Sheldon Richman, who argues that “school choice” is dangerous because it diverts our focus away from another imperative, “that the state not be permitted to meddle with either the supply or demand side of the market process.” Quoting the British scientist and social commentator Joseph Priestley, Richman maintains that “bureaucrats can’t help but stifle the stumbling, groping experimental process that is indispensable to making valuable discoveries in edu-

cational techniques.” And there is another high cost—as John Stuart Mill observed, “a general State education is a mere contrivance for molding people to be exactly like one another.” In Richman’s view, it’s a waste of time and resources to fight for changes within the State’s schooling system. Vouchers, for example, are apt to lead to further government regulation of the small private school market.

In the final chapter, Greg Forster of the Friedman Foundation for Educational Choice observes that many of the victories of the school choice movement have proven to be fragile. “The blob” is terrible at educating students, but works furiously and effectively to subvert or dilute any changes that diminish its power. A good recent example is the teachers’-union-led attack that ousted reform-minded mayor Adrian Fenty in Washington, D.C., and his iconoclastic school superintendent, Michelle Rhee. But instead of concluding that the right reform strategy is to separate school and State, Forster urges activists to work for “universal choice.” That doesn’t mean the sort of universal choice enjoyed by, say, music consumers, who have unfettered choice among innumerable sellers, however. Forster means voucher programs that are available everywhere. After what he had written about “the blob’s” single-minded pursuit of protecting its monopoly, it’s hard to see why he’s optimistic about the eventual success of a “universal choice” agenda.

Back on the other side Cato Institute’s Andrew Coulson explains why America needs a true market in education. Coulson, who wrote a book on the history of free-market education, asks, “Is there any sort of financial assistance program that can assure universal access to a free educational marketplace without destroying the conditions necessary for that market?” He answers in the negative—government funding will inevitably undermine competition—and advocates focusing on the goal of having parents pay for most if not all of the cost of the schools their children attend.

I wish I had space to discuss all eight chapters of this *very* thought-provoking book in detail. Read it yourself! 

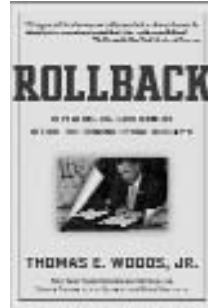
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Rollback: Repealing Big Government Before the Coming Fiscal Collapse

by Thomas E. Woods, Jr.

Regnery Publishing, Inc. • 2011 • 240 pages • \$16.16

Reviewed by Robert Batemarco



In my occasional discussions with my 22-year-old son about matters political, he often expresses agreement with my general principles, but says he has problems with some of my facts. Mr. Batemarco, meet Dr. Woods. In *Rollback*, Tom Woods provides the full package: facts galore viewed through the prism of the best theories economics has to offer. Yet neither his facts nor his theories are likely to have as much impact on most readers as the way he frames issues. He replaces the State’s “Newspeak” with shrewd analyses of the moral and economic repercussions of its usurpations.

The book proceeds systematically—laying out the nature and severity of our fiscal crisis in chapter one, contrasting the promises of the State with its actual “achievements” in areas as diverse as job creation, health care, housing, economic stability, and national defense in chapters two through five, illustrating how the government keeps people in thrall by taking credit for benefits generated by private market activity and bribing voters with their own money in chapter six, and finally setting forth potential solutions in chapter seven.

In discussing the results of decades of financial profligacy, Woods maintains that not until the emergence of a crisis that leaves us virtually no alternatives will the country be ready for true reform. With \$125 trillion (nine years’ annual GDP) of federal government debt and unfunded liabilities for Social Security and Medicare—and demographic trends leaving fewer and fewer young workers to pay for them—Woods convinces us that this crisis is here now.

Books of this type tend to be strong on identifying problems but short on solutions. Woods recognizes this, downplaying his proposed solutions as mere ideas. That might sound like a cop-out, but it’s not. Here’s why:

Until there is a fundamental change in the way people view the State, no proposed solution, however brilliant and grounded in fact, has a chance of being seriously considered. The majority have long seen government as a benevolent, albeit perhaps inefficient, entity that has the common good at heart and, indeed, belongs to us. Woods's contribution to a real solution is not his specific policy proposals so much as the power of his words to delegitimize this way of thinking about government. Key to this is his claim that there is no moral difference between the State's legal plunder and the illegal kind.

After laying the groundwork unobtrusively in the first five chapters, he makes this point overtly in chapter six. How can an entity serve the common good when it takes on the task of creating jobs, but hobbles job-creating enterprises with disincentives; when it claims responsibility for high-quality health care, but takes actions that inevitably reduce supplies; when it promises to protect us from monopoly by creating cartels? His answer to these questions: It cannot. What it can do quite well, however, is take credit for all the accomplishments of those who eschew force as a way of generating income, while parasitically feeding off of them.

Many of the ideas Woods offers to lead us out of the morass are radical yet time-tested. Removing legal impediments to transactions using precious metals or other currencies than the dollar would reduce the scope of the deceptively labeled "monetary policy." Nullification of unconstitutional laws by state legislators and jurors also has a long and little-known history, which the author has done much to make better known in some of his other works. Perhaps his most radical-sounding idea, repudiation of the national debt, seems a bit less radical when one realizes that the most likely alternative is not paying those debts honestly in a timely way, but rather their stealth repudiation through inflation. Indeed, the latter course of action is far more likely, since outright repudiation could have the salutary effect of smashing Americans' trust in the State for at least a generation, something politicians will try desperately to avoid.

I wish the author had delved further into many issues he merely summarizes. Alas, so many depredations and so little time.

In a book that pulls no punches, it's disappointing to see such inadvertent lapses as Woods's description of the State's commandeering of private property as a zero-sum game, when it's actually a negative-sum game. Another disappointment is that his proposal to trade tax freedom for no dependence on government programs is restricted to people 65 and over—it is doubtful there would be many takers at an age with so little time left to accumulate enough capital to offset the earnings plundered in their peak earning years.

Those are mere quibbles about an outstanding synthesis. *Rollback* deserves a wide audience. **FEE**

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Race and Economics: How Much Can Be Blamed on Discrimination?

by Walter E. Williams

Hoover Institution Press • 2011 • 185 pages • \$24.95
hardcover; \$14.95 paperback

Reviewed by D. W. MacKenzie



Few topics induce stronger emotional reactions by Americans than racism, and rightly so. Racial bigotry against black Americans has existed for centuries, and is responsible for innumerable injustices. Contemporary black Americans, on average, have lower incomes and life expectancies and less educational attainment, and are more likely to be victimized by and convicted of crimes.

Many people believe the simple argument that racism is what puts black Americans at a disadvantage, particularly in the private sector. The idea that racism causes private discrimination typically leads people to conclude that the interests of blacks can be advanced only through enlightened public policy. *Freeman* columnist and George Mason University professor Walter Williams, however, uses economic reasoning to make a more subtle argument: Private competition actually guides people toward color-blind exchange in markets. On the other hand, politics can lead to racist

policies, which subvert competition to the benefit of influential special interests.

The logic behind the economic arguments of *Race and Economics* is largely implicit. As such, readers with a background in price theory may appreciate its content more than others. In any case, the author has a unique talent for making lessons on economic theory both informative and entertaining.

There is a tradeoff regarding the depth of the historical analysis of *Race and Economics* and its overall length and readability. Williams covers centuries of American history, and a few foreign examples, in only 141 pages. Chapter two covers a large number of historical examples in which black Americans advanced their interests through free-market competition. Some readers may be surprised to find that there were successful black entrepreneurs before the Civil War.

In chapter three Williams examines anti-black public policies. A main point is that such policies are not simply a product of racism. Interest groups composed of white Americans have often used public policy to gain at the expense of the rest of society, including black Americans. Opportunities for personal gain through coercive income transfers have reinforced anti-black biases in American politics. The number of race-related coercive transfers discussed in this book suggests that such problems are commonplace.

Readers who already appreciate the market process, as well as Public Choice problems with modern government, should find this book illuminating and convincing. Yet the cursory treatment of each of the examples in *Race and Economics* limits the potential for this book to overcome resistance from more skeptical readers, especially when skepticism is driven by emotion. For example, Williams discusses the entire subprime mortgage problem in only one and one half pages. While I see no problems with his argument, those who strongly disagree with a free-market perspective on racism before reading the book may find its arguments and evidence insufficient.

It would be unfortunate if such individuals dismissed the book, because it contains many informative cases. For example, Williams mentions the decline in

black employment in construction in the late 1800s. The International Brotherhood of Electrical Workers and United Association of Plumbers and Steamfitters excluded blacks entirely, and the Plasterers Union allowed only a handful of black members. Williams also mentions several examples of companies hiring blacks as strikebreakers. Of course, violence was used against those black workers. The ability of union-excluded blacks to replace white union workers was severely impaired by FDR's National Recovery Administration. In fact, the NRA was sometimes referred to as "Negroes Rarely Allowed."

More recently the International Brotherhood of Teamsters used trucking regulation to restrict black Americans from entering the trucking industry. Williams notes that after deregulation of interstate trucking began in 1979, the percentage of black truck drivers increased. While unions are private organizations, their efforts at suppressing competition, which often have a disparate impact on blacks and other minorities, typically succeed only with government support.

These and other examples are fascinating (if not angering), and they do support Williams's thesis. However, the author might have buttressed them with more evidence and greater detail.

Race and Economics offers a correct interpretation of an important facet of American economic history, one that has applications to current public issues. Readers of *The Freeman* should find the book persuasive. Misconceptions concerning solutions to race-related economic problems are common. Many people lack an understanding of both the subtle working of markets and the perverse outcomes of politics, and react emotionally to race-related issues.

I hope Williams will write a longer and more detailed second edition of *Race and Economics*, but as it is, the book serves as a starting point for debate on the relative merits of public policy and private competition regarding racism. FEE

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Collective Bargaining and Human Rights

BY CHARLES W. BAIRD

Government-sector collective bargaining is being challenged in many states. In response, government-employee unions (GEUs) are asserting that the human rights of government employees, including freedom of association, are under assault. But a correct understanding of human rights gives the lie to the unions' self-serving jeremiads.

In states such as Indiana, Ohio, Rhode Island, and Wisconsin, chronic budget deficits and monstrous unfunded liabilities tied to government-employee pension funds and retiree health benefits have led to a revolt against GEUs. In Indiana, Governor Mitch Daniels cancelled the executive order of his predecessor that allowed collective bargaining among state employees. In Ohio, Governor John Kasich and the legislature adopted restrictions on collective bargaining and GEUs that were later overturned by referendum. In Rhode Island, State Treasurer Gina Raimondo convinced her Democratic colleagues in the legislature to adopt significant pension reforms that outraged the GEUs. In Wisconsin, Governor Scott Walker and the legislature restricted the scope of government-sector bargaining, forced GEUs to face periodic recertification, eliminated forced payment of agency fees by government employees, and stopped government agencies from automatically deducting union dues on behalf of the GEUs. For this, Governor Walker faced a recall election on June 5, which he won.

I have written on human rights (tinyurl.com/7bm3afm) and freedom of association (tinyurl.com/c9fhhum) in this magazine before. In brief, a genuine human right is nonrivalrous; that is, it can be exercised by every human at any time without one person's exercise of the right interfering with, or diminishing in any

way, any other person's exercise of the same right. Philosophers usually refer to nonrivalrous rights as "negative" rights because the exercise of them by anyone imposes a duty on others *not* to interfere. Nonrivalrous rights are not created by politicians or anyone else. They are our birthright.

Jefferson called such rights "inalienable"—all human beings hold them simply because they are human beings. They are our natural rights. Thus the rights delineated in the Declaration of Independence are nonrivalrous. For example, the right to *pursue* happiness

can be exercised by all without conflict or contradiction. In contrast, there is no right to *achieve* happiness in the sense that anyone is guaranteed to succeed in his pursuit of happiness. We can all pursue happiness by, for example, making offers of voluntary exchange to others, which they are free to accept or reject in their pursuit of happiness.

A correct understanding of human rights gives the lie to the unions' self-serving jeremiads.

Rivalrous Rights

If I, on the other hand, had a right to *achieve* happiness, there would have to be some others who have a duty to provide me with the means necessary to guarantee my success. In that case my exercise of the right to achieve happiness would be in conflict (rivalry) with the right of those others to achieve their happiness. Philosophers call rivalrous rights claims "positive" rights because the exercise of such a right by Person A imposes on Person B the duty to provide Person A with the means to achieve success. Politicians are fond of enacting positive rights—that is, giving some people legal, but not natural, claims to

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the resources of others. Positive rights are simply politician-granted privileges.

Freedom of association is a genuine human right. It is the right of Person A to associate with any Person B *who is willing to associate with him*. This right can be exercised nonrivalrously. It applies to all humans simultaneously. If freedom of association meant that Person A could associate with any Person B even if Person B did not want to do so, it would be a Person A right, not a human right.

Is there a human right to collective bargaining? Yes. However, not in the way that collective bargaining is defined in the National Labor Relations Act (NLRA) and in the state statutes that impose NLRA-style unionism on state and local government employees.

Coerced Association

Politicians have created mandatory good-faith bargaining between employers and certified unions representing employees. Workers are coerced into association with unions through majority vote, and employers are forced into a bargaining association with the unions. The bargaining must be in “good faith,” which means that no take-it-or-leave-it offers may be made. All of this is coerced, not free, association.

Collective bargaining is consistent with human rights when a union, representing only voluntary members, bargains on behalf of them with an employer who agrees to bargain with the union. Both sides would be able simply to say no and walk away. The ordinary common law of contract would apply.

Moreover, mandatory good-faith collective bargaining in the government sector violates basic principles of democratic government. The U.S. Constitution, like each state constitution, specifies three branches of government—the executive, the legislative, and the judicial. There is no mention of a fourth

branch of government called government-employee unions.

Mandatory “good-faith” bargaining is done behind closed doors with the general public having neither access nor voice. Terms and conditions of employment in the government sector are matters of public policy that have, among other things, significant effects on taxes. The government agencies that employ workers are typically part of the executive branch. Because bargaining is mandatory the executive branch is compelled to bargain with GEUs on matters of public policy. Because of “good faith” rules, the agency bureaucrats that allegedly sit on the opposite side of

the collective-bargaining table from the GEUs must get consent on some matters of public policy, thus the GEUs have veto power over those matters. In effect the GEUs are coequal with the executive branch of government in all matters that come under the scope of collective bargaining. They are a fourth branch of government.

During government-sector collective bargaining the agency heads that negotiate with the GEUs do not represent the interests of taxpayers. The bureaucrats want larger and larger

budgets, and the GEUs want higher and higher wages, salaries, and retirement benefits. Thus the bureaucrats and the GEUs have a common interest—picking the pockets of taxpayers.

Politicians created these positive rights for unions, so politicians are entitled (I think morally compelled) to take them away. Scott Walker and the others violated no human rights when they reduced the set of privileges given to GEUs by their predecessors. Unions do not have natural rights. Only humans have natural rights. Moreover, there are no “labor rights” apart from the human rights possessed by all workers. Government-sector bargaining is always based on arbitrary privileges pretending to be human rights. **FEE**

Is there a human right to collective bargaining? Yes. However, not in the way that NLRA-style unionism is imposed on state and local government employees.
