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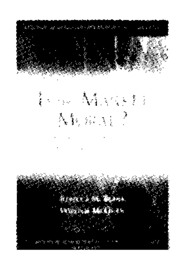

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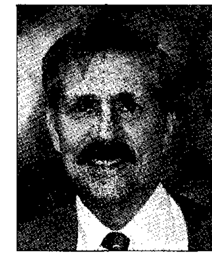
From the President

Global Corruption and the Interventionist State

BY RICHARD M. EBELING



In a recent survey of 50,000 people in 62 countries around the world, at least one out of every ten people admitted that he had bribed some corrupt political official or government administrator during the preceding 12 months. There seem to be very few places anywhere in the world where such political bribery does not occur. The omnipresence of such political corruption should not be surprising; it is inseparable from the modern interventionist state.

According to a report released in December by Transparency International (TI), a nongovernmental organization headquartered in Berlin, one out of every two people in the West African nation of Cameroon had paid a bribe during the previous 12 months. In Albania, Bolivia, Kenya, Lithuania, Moldova, and Nigeria, one out of every three citizens said he had done so. In the Czech Republic, Ecuador, Ghana, Mexico, the Philippines, Pakistan, Romania, Russia, and Ukraine, one out of every four to five people acknowledged bribing someone connected with the government.

In 36 of the 62 countries surveyed, respondents said that political parties were the most corrupt, followed by parliaments and legislatures, the police, the legal system and judiciary, and the tax authorities. Seventy-seven percent of all respondents stated that petty political corruption (involving business licenses, traffic violations, and so on) was a big problem in their countries. Eighty-five percent said that "grand" political corruption at the highest levels of government involving the political elites and special-interest groups was a major problem.

While few Americans or Canadians admitted they paid bribes ("petty" or "grand") to someone in government, in both countries the respondents said that on a scale of one to four (with one being "not at all" and four being "to a large extent"), the occurrence of political corruption ranked above a three. While respondents in France, Germany, Italy, Spain, and the United Kingdom assigned about the same degree of significance to political corruption as those in North America, between 1 and 2 percent admitted they or someone in their household had paid a bribe to a government official during the preceding year.

TI's more comprehensive 2004 *Global Corruption Report*, released last spring, revealed that the primary bases for political corruption around the world were government procurement contracts, electoral contributions by special-interest groups, and bribes for regulatory benefits or limits on both domestic and foreign competitors.

The pervasiveness of political corruption, unfortunately, can be neither reduced nor eliminated through various forms of legislative and legal reform, as organizations such as TI often advocate. Corruption is an inevitable outgrowth of the interventionist state and can only be "cured" through the establishment of an unrestricted free-market economy.

The essence of the market economy is that each of us can acquire what others have only through voluntary acts of exchange. We must each apply ourselves in ways we hope will attract potential customers, persuading them to purchase what we are selling instead of what our rivals are offering. On the free market the only moral and legal "weapon" permitted to "capture" customers is to offer better, more useful, and less-expensive goods to the buying public. Violence and fraud are outside of the market's "rules of the game."

Sometimes we will not be able to get what we want. If we are not as good at satisfying consumers as our competitors are, our incomes might be reduced. This in turn would reduce our ability to acquire what others are offering on the market. The only way to prevent or reverse this is to find better ways to supply goods and

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services at attractive prices that will earn us the incomes we would like.

The nature of the interventionist state is to short-circuit the free market and keep it from doing its job, namely, seeing to it that each of us applies himself in ways that serve others while pursuing his own self-interest. The interventionist state goes beyond protecting our lives and property, and assuring that all human association is based on peaceful and mutual agreement. It intervenes by using coercive power and influencing the outcomes of the market through the application of political force.

Transfers of Wealth

The government taxes the public and has huge sums of money to disburse to various programs and projects. It imposes licensing and regulatory restrictions on free and open competition. It transfers great amounts of income and wealth to different groups through sundry "redistributive" schemes. It controls how and for what purpose people may use and dispose of their own property. It paternalistically imposes legal standards influencing the ways we may live, learn, associate, and interact with others around us.

Those in the government who wield these powers hold the fate of virtually everyone in their decision-making hands. It is inevitable that those drawn to employment in the political arena often will see the potential for personal gain in how and for whose benefit or harm they apply their vast life-determining decrees and decisions. Some will be attracted to such "public service" because they are motivated by ideological visions they dream of imposing for the "good of humanity."

Some will see that bribing those holding this political power is the only means to attain their ends. This may be to restrict or prohibit competition in their own corner of the market or to acquire other people's money through coercive redistribution. For others, however, bribing those who hold the regulatory reins may be the only way to get around restrictions that prevent them from competing on the market and earning a living.

The business of the interventionist state, therefore, is the buying and selling of favors and privileges. It must lead to corruption, because by necessity it uses political power to harm some for the benefit of others, and those expecting to be either harmed or benefited will inevitably try to influence what those holding power do with it.

In addition, it should not be forgotten that such corruption slowly eats away at the moral fiber of the society. Austrian economist Ludwig von Mises explained this over 70 years ago in his *Critique of Interventionism*:

> Public opinion is not mistaken if it scents corruption everywhere in the interventionist state. . . . By constantly violating criminal laws and moral decrees they [the bribers and the bribed] finally lose the ability to distinguish between right and wrong, good and bad. If finally few economic goods can be produced or sold without violating some regulation, it becomes an unfortunate accompaniment of "life" to sin against law and morality. . . . The merchant who began by violating foreign exchange controls, import and export restrictions, price ceilings, et cetera, easily proceeds to defraud his partner. The decay of business morals . . . is the inevitable concomitant of the regulations that were placed on trade and production. . . .

The interventionist state is a political garden that inevitably sprouts the weeds of bribery and corruption. And over time it tends to envelop and replace all traditional and ethical norms of conduct and morality.

Ending global political corruption in its various "petty" and "grand" forms, therefore, will only come with the removal of government from social and economic life. When government is limited to protecting our lives and property, there will be little left to buy and sell politically. Corruption then will be an infrequent annoyance and occasional scandal, rather than an inescapable aspect of today's social and economic life around the world.

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Perspective

I, Liberal

In October a few of us at FEE traveled all the way to Tbilisi, Georgia, one of the former Soviet Union's imperial possessions, to put on a two-day student seminar in the political economy of freedom. Georgia is a scenic country with gracious people. We enjoyed warm hospitality throughout our visit. The Georgians are struggling to make the transition from socialism to liberty, and with the help of a solid core of freedom-philosophy advocates, they might just make it.

Aside from the countless amenities extended to us, it was also nice to be in a place where the word "liberal" is understood. In the linguistically challenged United States, to be a liberal is to favor the government over the individual. Before the word was hijacked in the Progressive Era by devotees of what Ludwig von Mises called "statolatry," a liberal supported private property, free markets, and the rule of law as a bulwark against the state. The words "liberal" and "liberty" obviously share the same root. They originate in the Latin word for "free."

But that's all forgotten. Now that "liberal" is associated with bully government, it has become a dirty word, especially during elections, and no one wants it anymore—not even the advocates of bully government. *The Economist* on November 4 pointed out that it is derisory in Europe too, although over there it retains much of its original meaning.

I'd like to associate myself with what *The Economist* said:

> There ought to be a word . . . to stand for what liberalism used to mean. The idea, with its roots in English and Scottish political philosophy of the 18th century, speaks up for individual rights and freedoms, and challenges over-mighty government and other forms of power. In that sense, traditional English liberalism favoured small government—but, crucially, it viewed a government's efforts to legislate religion and personal morality as sceptically as it regarded the attempt to regulate trade (the favoured economic intervention of the age). This, in our view, remains a very appealing, as well as internally consistent, kind of scepticism.

The magazine went on to lament the absurd division of freedom into personal and economic varieties, one for the left and one for the right: "That separation explains how it can be that the same term is now used in different places to say opposite things. What is harder to explain is why 'liberal' has become such a term of abuse. When you understand that the tradition it springs from has changed the world so much for the better in the past two and a half centuries, you might have expected all sides to be claiming the label for their own exclusive use."

There is no better person to turn to for insight into the changing notion of liberalism than Herbert Spencer, who examined the matter in "The New Toryism," found in his 1884 collection *The Man Versus the State* (online, thanks to the Liberty Fund, at www.econlib.org/library/LFBooks/Spencer/spnMvS.html). Not so ironically, Spencer worked at *The Economist* from 1848 (five years after its founding) to 1853.

Spencer reminded his readers that two types of societies had long been in contention: the militant, or status-based, type versus the industrial, or contract-based, type. Advocates of the latter, who later became known as both Whigs and Liberals, accomplished the Herculean task of "resist[ing] and decreas[ing] the coercive power of the ruler over the subject." After detailing this earth-shaking record, Spencer wrote, "[I]t seems needful to remind everybody what Liberalism was in the past, that they may perceive its unlikeness to the so-called Liberalism of the present. . . .They have lost sight of the truth that in past times Liberalism habitually stood for individual freedom *versus* State-coercion."

This raises the question Spencer wishes to answer: "How is it that Liberalism . . . has grown more and more coercive in its legislation?" It was a case of confused thinking. Later activists mistook Liberalism's elimination of coercive government "hindrances to happiness" for the use of coercive government to achieve the good directly. "And seeking to gain it directly, they have used methods intrinsically opposed to those originally used."

Today's *Economist* editors wisely prefer that left and right continue to shun the word "liberal," leaving it to "its original owner[s]. That will free 'liberal' to be used exclusively from now on in its proper sense, as we shall continue to use it regardless."

Same here.

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If government is ever to be restrained, it will have to be deprived of its power over money and banking. Richard Ebeling makes the case in connection with a country that has no central bank: Panama.

February 5 marks the 100th anniverary of the birth of that passionate champion of capitalism, novelist-philosopher Ayn Rand. Chris Matthew Sciabarra contributes a centennial appreciation.

All kinds of political impositions are justified in the name of consensus. Russell Madden deconstructs that treacherous notion.

As California goes, so goes the nation—and Los Angeles is experiencing an alarming loss of emergency-room service. Steven Greenhut describes a scary development that could be coming to a city near you.

Hitting someone over the head has never been an effective way to win him to one's point of view. Ralph Hood learned this the hard way and now is reformed.

Take me out to the ballgame. Take me out to the crowd. Buy me some peanuts and crackerjacks, just as long as I don't pay that tax. Ray Keating shows why no one should be forced to pay for a stadium.

The words "Lear" and "jet" go together like peanut and butter. But who was Bill Lear? Anthony Young knows.

Last October, Congress ended the 70-year-old tobacco price-support program. That was the good news. The bad news is that smokers will be forced to pay off the tobacco farmers. E. C. Pasour, Jr., explains.

Searching the political-economic landscape, our columnists have come up with this: Richard Ebeling explains political corruption. Donald Boudreaux ponders the nature of progress. Burton Folsom relates a story from the days of the underground railroad. Walter Williams considers the moral underpinnings of a free society. And Jane Orient, reading the claim that America needs socialized medicine, replies, "It Just Ain't So!"

Our reviewers render verdicts on books about the status of nations, the morality of the market, the racial gap in learning, and politics. — *Sheldon Richman*

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America Needs Socialized Medicine? It Just Ain't So!

BY JANE ORIENT

Paul Krugman attributes "America's Failing Health" to the lack of Canadian-style socialized medicine and thus to the persistence of a free-enterprise sector in American medicine (*New York Times*, August 27).

Because "interest groups are too powerful, and the antigovernment propaganda of the right has become too well established," his prescription is a "modest step in the right direction," rather than a one-step enactment of a Canadian system.

Let's see now: the United States has been taking such "modest steps" toward socialized medicine since the 1940s. There was Hill-Burton, or federal aid to build hospitals, in 1946; Kerr-Mills, to provide federal aid to elderly who couldn't afford needed medical care, in 1960; then Medicare in 1965, and Medicaid.

In the Clinton years, there were additional modest steps, notably the State Children's Health Insurance Program (SCHIP). And George W. Bush brought us another try at a Medicare prescription-drug benefit, which is to be implemented in 2006—unless there's a replay of seniors' reactions to the last attempt to introduce a prescription-drug benefit in 1989, when the seniors assaulted Rep. Dan Rostenkowski's car.

What has been the result of these incremental intrusions into American medicine? An ever-increasing number of uninsured? A noncompetitive automobile industry? An overall drag on the economy?

Why, no. Those are mere temporal associations. Correlation doesn't prove causation. The real explanation is that there hasn't been *enough* federal intervention, in Krugman's view. The remnant of a private sector competing with the government for those scarce resources is, paradoxically, the cause of the problems.

Scarce resources? Not exactly. In the United States it is said we spend *too much* on medical care, but there is a misallocation of the resources. That's because selfish people want too much medical care for themselves and their families, and greedy doctors and hospitals want to provide too much treatment to those who can pay for it.

What we need, Krugman apparently supposes, is an infallible government planning mechanism to divide up the resources and to put a rigid ceiling on spending, and nongreedy doctors and hospitals to allocate the available care in the fairest possible way. Public-spirited doctors and hospitals will replace the ones we have now as soon as all their checks start coming from the government.

And of course the government will allocate a lot of resources to providing health care to healthy people, whether they want it or not (especially mental-health care), to keep them healthy. If some people get sick before all ill-health is prevented and end up circling emergency rooms in an ambulance or parked in a corridor, that will keep the pressure on for more spending.

When the effects of socialized medical programs are measured in a way that controls for confounding variables (like educational level and drug abuse), it is hard to show any effect on any health outcome, such as low birth weight. If one compares infant mortality in Canadian and American Indians of the same genetic stock, however, the Americans do better.

But the big picture, Krugman claims, is lower infant mortality and longer life expectancy in a number of

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countries that have socialized medicine. In this case, correlation *does* prove causation, Krugman implies—even if the statistics aren't comparable. (Since very low-birth-weight babies are considered stillbirths in some socialized countries, whereas they are counted as live births here, the United States looks worse—even though many more tiny preemies survive here.)

Krugman may call his proposal a "modest step." But the incremental march toward socialism is the way to bring about revolutionary changes. It is hardly less modest than Jonathan Swift's proposal to solve the Irish famine problem by eating babies. And if the Krugman Plan were presented honestly, it might provoke a similar reaction.

What to Look Forward to

This is what "single payer" Canadian-style socialism would mean:

- Everyone is forced to pay, through taxes, for other people's "health care," especially for their well-baby visits, mental-health screening, contraceptives, sterilizations, or other politically favored services.
- No one is permitted to pay for "covered" medical care for himself or a family member, unless the family member is a dog or a cat.
- No medical practitioner or facility is permitted to earn a profit by providing more sophisticated, more convenient, or more effective care.
- Doctors' total earnings are capped, so that if they do more than the maximum permitted amount of work, it will be at their own expense.
- The availability of care is totally controlled by a political process.
- Employers and employees get to unload the entire burden of medical insurance onto taxpayers, dragging down the entire economy instead of individual industries that have succumbed to Big-Labor demands for unaffordable benefits.
- The Medicare Pac-Man will devour the entire federal treasury even sooner, unless there are massive cuts in promised benefits.
- The sick must compete with the healthy and the well-connected for a share of politically rationed resources.

Honest description, however, is not to be expected of socialists. Krugman, for example, says that the government "offers" insurance to the elderly. The fact is that the day Medicare took effect, Lyndon Johnson got all insurers to cancel existing health benefits for the elderly. One can decline to accept Medicare Part B (physician coverage), for which there is no private substitute, but the only way to avoid Medicare Part A (hospital coverage) is to give up all Social Security benefits. Thus a correct description would be: "The U.S. forces the elderly to depend on the federal government for health insurance."

Krugman likes the idea of having the government "assume the risk" for catastrophic health costs, "thereby reducing the incentive for socially wasteful spending." Translated, this means having the government take over all true medical insurance (which is meant to cover catastrophes, not routine expenses) and enabling the government to ration expensive care to the sick.

Krugman repeats the assertions that government health insurance—unlike the Post Office and the Pentagon—has less overhead than private enterprise. It is remotely possible that Medicare spends less on administration than some private insurers, although a 1994 study by the Council for Affordable Health Insurance showed that private insurers spend less. Nobody really knows because government accounting makes Enron's look like a model of simplicity and honesty. But the threshold for investigating a Medicare carrier for fraud is about $200 million, as whistleblower Theresa Burr discovered. (See "Report from a Medicare Whistleblower," *Journal of American Physicians and Surgeons*, Winter 2003; www.aapsonline.org/jpands/vol8no4/burr.pdf.)

Moreover, Medicare imposes tremendously costly burdens on "providers."

Krugman is right in his assessment that there is much wrong with the status quo. The system of third-party payment is upside down and backwards. But instead of rebuilding the foundation, the Krugman solution would kick out the props, hastening the collapse of an unwieldy monster and crushing the best of medical care in the process.

Government, Fiscal Responsibility, and Free Banking

BY RICHARD M. EBELING

There has been no greater threat to life, liberty, and property throughout the ages than government. Even the most violent and brutal private individuals have been able to inflict only a mere fraction of the harm and destruction that have been caused by the use of power by political authorities. The pursuit of legal plunder, to use Frédéric Bastiat's well-chosen phrase, has been behind all the major economic and political disasters that have befallen man throughout history.

We often forget the fundamental truth that governments have nothing to spend or redistribute that they do not first take from society's producers. The fiscal history of mankind is nothing but a long, uninterrupted account of the methods governments have devised for seizing the income and wealth of their citizens and subjects.[1] And parallel to that same sad history must be an account of all the attempts by the victims of government's legal plunder to devise counter-methods to prevent or at least limit the looting of their income and wealth by those in political power.

Every student who takes an economics class learns that governments have basically three methods for obtaining control over a portion of the people's wealth: taxation, borrowing, and inflation—the printing of money. It was John Maynard Keynes who pointed out 85 years ago that "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they also confiscate arbitrarily; and, while the process impoverishes many, it actually enriches some. . . . There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."[2]

To prevent the use of inflation to attain their fiscal ends, various attempts have been made over the last 200 years to limit the power of governments to print money to cover their expenditures. In the nineteenth and early twentieth centuries the method used was the gold standard. The idea was to place the creation of money outside the control of government. As a commodity, the amount of gold available for both monetary and nonmonetary uses is determined and limited by the same market forces that determine the supply of any other freely traded good or service: the demand and price for gold for various uses relative to the cost and profitability of mining and minting it into coins or bullion, or into some other commercial form.

Any paper money in circulation under the gold standard was meant to be money substitutes—that is, notes or claims to quantities of gold that had been deposited in banks and that were used as a convenient alternative to the constant withdrawing and depositing of gold to facilitate everyday market exchanges.

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Under the gold standard, the supply of money substitutes in circulation was meant to increase and decrease to reflect any changes in the quantity of gold in a nation's banking system. The gold standard that existed in the late nineteenth and early twentieth centuries never worked as precisely or as rigidly as it is portrayed in some economics textbooks. But, nonetheless, the power of government to resort to the printing press to cover its expenditures was significantly limited.

Governments, therefore, had to use one of the two other methods for acquiring their citizens' and subjects' income and wealth. Governments had to either tax the population or borrow money from financial institutions. But as James Buchanan and others have pointed out, before World War I many of the countries of North America and western and central Europe operated under an "unwritten fiscal constitution."[3] Governments, except during times of national emergency, were expected to more or less balance their budgets on an annual basis. And if a national emergency (such as a war) compelled a government to borrow money to cover its unexpected expenditures, it was expected to run budget surpluses to pay off any accumulated debt when the emergency passed.

Under the gold standard, the supply of money substitutes in circulation was meant to increase and decrease to reflect any changes in the quantity of gold in a nation's banking system.

This unwritten balanced-budget rule was never rigidly practiced either, of course. But the idea that needless government debt was a waste and a drag on the economic welfare of a nation served as an important check on the growth of government spending. When governments planned to do things, the people were more or less explicitly presented with the bill. It was more difficult for governments to promise a wide variety of benefits without also showing what society's tax burden would be.

Gold Standard Shelved

This all changed during and after World War I. The gold standard was set aside, and Keynes, who in 1919 had warned about the dangers of inflation, soon was arguing that gold was a "barbarous relic" that needed to be replaced with government-managed paper money to facilitate monetary and fiscal fine-tuning.[4] And that unwritten fiscal constitution which required annual balanced budgets was replaced with the Keynesian conception of a balanced budget over the phases of the business cycle.

In practice, of course, this set loose the fiscal demons. Restrained by neither gold nor the limits of taxation, governments around the world went into an orgy of deficit spending and money creation that led some to refer to a good part of the twentieth century as the "age of inflation." Politicians and bureaucrats could now far more easily offer short-run benefits to special-interest groups through growth in government power and spending, while avoiding any mention of the longer-run costs to society as a whole.

Beginning in the late 1960s and 1970s a counterrevolution against Keynesian economics emerged, especially in the United States, which has come to be identified with Milton Friedman and monetarism.[5] To restrain government's ability to create inflation, Friedman proposed a "monetary rule": the annual increase in the money supply should be limited to the average annual increase in real output in the economy. Put the creation of paper money on "automatic pilot," and governments would once more be prevented from using the printing press to capriciously cover their expenditures.[6]

But in the years after receiving the Nobel Prize in economics, Friedman had second thoughts about the effectiveness of his monetary rule. He has stated that Public Choice theory—the use of economic theory to analyze the logic and incentives in political decision-making—persuaded him that trying to get central banks to pursue a monetary policy that would serve the long-run interest of society was a waste of time. Just like the rest of us, politicians, bureaucrats, and central bankers have their own self-interested goals, and they