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# THE FREEMAN

IDEAS ON LIBERTY

VOLUME 62, NO 3

APRIL 2012

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# THE FREEMAN

## Published by

The Foundation for Economic Education  
Irvington-on-Hudson, NY 10533  
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[www.fee.org](http://www.fee.org)

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*The Freeman* is published monthly, except for combined January-February and July-August issues. Views expressed by the authors do not necessarily reflect those of FEE's officers and trustees. To receive a sample copy, or to have *The Freeman* come regularly to your door, call 800-960-4333, or e-mail [mnolan@fee.org](mailto:mnolan@fee.org).

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## The Chimera of Tax Fairness

President Obama plays the fairness card in calling for higher taxes on upper-income people. He says, "[W]e need to change our tax code so that people like me, and an awful lot of Members of Congress, pay our *fair share* of taxes. Tax reform should follow the Buffett rule: If you make more than \$1 million a year, you should not pay less than 30 percent in taxes" (emphasis added).

Obviously 30 percent is arbitrary. How does Obama know that constitutes fairness? If he's concerned that income and payroll taxes take a smaller percentage of Warren Buffett's income than the percentage they take from his secretary's income, why not reduce his *secretary's* tax rate? It's certainly not obvious that Buffett should pay more. Obama (like most other politicians) regards government spending growth as inexorable and virtually untouchable, but why? (Proposed "cuts" are merely reductions in the rate of growth.)

On this matter of tax fairness no one tops Murray Rothbard's discussion in his classic *Power and Market: Government and the Economy*. Rothbard starts by noting that for many years people thought products had a "just price," but even objective ethics could not "yield a quantitative measure or criterion of justice." So "the only possible objective criterion for the just price is *the* [voluntary, mutually agreed-upon] *market price*." Rothbard of course is talking about a market unblemished by government monopoly privilege and other interventions.

He goes on next to ask: "If the search for the just price has virtually ended in the pages of economic works, why does the quest for a 'just tax' continue with unabated vigor? Why do economists, severely scientific in their volumes, suddenly become *ad hoc* ethicists when the question of taxation is raised?"

We might also ask why a president makes ethical pronouncements about levels of taxation without first laying out his moral philosophy plainly for all to judge.

Thus the "canons of justice" in taxation must not be taken for granted. Calling something just does not make it so. Rothbard writes: "The prime objection to these

‘canons’ is that the writers have first to establish the justice of taxation itself. If this cannot be proven, and so far it has not been, then it is clearly idle to look for the ‘just tax.’ If taxation itself is unjust, then it is clear that no allocation of its burdens, however ingenious, can be declared just.”

A few pages earlier Rothbard defined taxation—uncontroversially, I hope—as “a coerced levy that the government extracts from the populace.” Pulling no punches, he quotes his mentor Frank Chodorov, once editor of *The Freeman*:

A historical study of taxation leads inevitably to loot, tribute, ransom—the economic purpose of conquest. The barons who put up toll-gates along the Rhine were tax-gatherers. So were the gangs who “protected,” for a forced fee, the caravans going to market. The Danes who regularly invited themselves into England, and remained as unwanted guests until paid off, called it Dannegeld; for a long time that remained the basis of English property taxes. The conquering Romans introduced the idea that what they collected from subject peoples was merely just payment for maintaining law and order. For a long time the Norman conquerors collected catch-as-catch-can tribute from the English, but when by natural processes an amalgam of the two peoples resulted in a nation, the collections were regularized in custom and law and were called taxes.

“Why do not economists abandon the search for the ‘just tax’ as they abandoned the quest for the ‘just price?’” Rothbard asks. “One reason is that doing so may have unwelcome implications for them. The ‘just price’ was abandoned in favor of the market price. Can the ‘just tax’ be abandoned in favor of the market tax? Clearly not, for on the market there is no taxation, and therefore no tax can be established that will duplicate market patterns.”

So let’s hear no more about tax fairness, unless it’s to point out that fairness is approached as tax rates move toward zero.

★ ★ ★

No doubt the first person to perform the services of a middleman benefited his fellow human beings

immensely—and forthwith became the object of their scorn. Richard Fulmer seeks an explanation.

Capital gains and dividends are taxed at a lower rate than wages, and most people think that’s unfair. But if, as Roy Cordato points out, investment income is actually double-taxed, our moral assessment should change.

People’s moral intuitions militate against the market economy and in favor of government. That’s unfortunate, Dwight Lee writes, because while market relations help people, the political system harms them, although it gives voters a chance to feel noble on the cheap.

As *The Freeman* has noted before, some of the most impoverished places on earth have successful private for-profit schools that cater to poor people. John Blundell profiles one such school entrepreneur and teacher in Zimbabwe.

The Progressive Era was smitten with big centralized organizations and top-down “scientific” management. No one was more responsible for this approach to management than Frederick W. Taylor, the subject of Harold B. Jones’s analysis.

Nothing violates the spirit of liberalism more than broad, vague government powers. And nothing so fits that description like the 1917 Espionage Act, which is used rather routinely these days against those who disclose government secrets to the public. Joseph Stromberg has the details.

Can you really be said to own your parcel of land if the government can say how it may be used? Samuel Staley puts zoning under the microscope.

This issue’s columnists deliver an array of fascinating insights. Donald Boudreaux pays belated tribute to the Austrian economist Ludwig Lachmann. Burton Folsom sees merit in President Warren G. Harding. John Stossel is thankful ideas have sex. Walter Williams updates the civil rights struggle. And Robert Murphy, hearing once too often that we owe the national debt to ourselves, retorts, “It Just Ain’t So!”

Coming under our reviewers’ scrutiny are books on a warning to Americans, literature and Austrian economics, identity politics, and the political philosophy of Anthony de Jasay.

—Sheldon Richman  
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## Where Are the Omelets?

BY LAWRENCE W. REED

*On ne saurait faire une omelette sans casser des oeufs.*

Translation: “One can’t expect to make an omelet without breaking eggs.”

With those words in 1790, Maximilian Robespierre welcomed the horrific French Revolution that had begun the year before. A consummate statist who worked tirelessly to plan the lives of others, he would become the architect of the Revolution’s bloodiest phase—the Reign of Terror of 1793–94. Robespierre and his guillotine broke eggs by the thousands in a vain effort to impose a utopian society based on the seductive slogan “liberté, égalité, fraternité.”

But, alas, Robespierre never made a single omelet. Nor did any of the other thugs who held power in the decade after 1789. They left France in moral, political, and economic ruin, and ripe for the dictatorship of Napoleon Bonaparte.

As with Robespierre, no omelets came from the egg-breaking efforts of Lenin, Mao, Pol Pot, Adolf Hitler, and Benito Mussolini either.

The French experience is one example in a disturbingly familiar pattern. Call them what you will—leftists, utopian socialists, radical interventionists, collectivists, or statist—history is littered with their presumptuous plans for rearranging society to fit their vision of “the common good,” plans that always fail as they kill or impoverish other people in the process. If socialism ever earns a final epitaph, it will be this: “Here lies a contrivance engineered by know-it-alls and busybodies who broke eggs with abandon but never, ever created an omelet.”

Every collectivist experiment of the twentieth century was heralded as the Promised Land by statist philosophers. “I have seen the future and it works,” the intellectual Lincoln Steffens said after a visit to Uncle Joe Stalin’s Soviet Union. In the *New Yorker* in 1984, John Kenneth Galbraith argued that the Soviet Union was making great economic progress in part because the socialist system made “full use” of its manpower, in contrast to the less efficient capitalist West. But an authoritative 846-page study published in 1997, *The Black Book of Communism*, estimated that the communist ideology claimed 20 million lives in the “workers’ paradise.” Similarly, *The Black Book* documented the

death tolls in other communist lands: 45 to 72 million in China, between 1.3 million and 2.3 million in Cambodia, 2 million in North Korea, 1.7 million in Africa, 1.5 million in Afghanistan, 1 million in Vietnam, 1 million in Eastern Europe, and 150,000 in Latin America.

### **Vast and Incompetent Bureaucracies**

Additionally, all of those murderous regimes were economic basket cases; they squandered resources on the police and military, built vast

and incompetent bureaucracies, and produced almost nothing for which there was a market beyond their borders. They didn’t make “full use” of anything except police power. In every single communist country the world over, the story has been the same: lots of broken eggs, no omelets. No exceptions.

F.A. Hayek explained this inevitable outcome in his seminal work, *The Road to Serfdom*, in 1944. All efforts to displace individual plans with central planning, he

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In every single communist country the world over, the story has been the same: lots of broken eggs, no omelets. No exceptions.

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warned us, must end in disaster and dictatorship. No lofty vision can vindicate the use of the brute force necessary to attain it. “The principle that the end justifies the means,” wrote Hayek, “is in individualist ethics regarded as the denial of all morals. In collectivist ethics it becomes necessarily the supreme rule.”

The worst crimes of the worst statisticians are often minimized or dismissed by their less radical intellectual brethren as the “excesses” of men and women who otherwise had good intentions. These apologists reject the iron fist and claim that the State can achieve their egalitarian and collectivist goals with a velvet glove.

But whether it is the Swedish “middle way,” Yugoslavian “worker socialism,” or British Fabianism, the result has been the same: broken eggs, but no omelets.

Have you ever noticed how statisticians are constantly “reforming” their own handiwork? Education reform. Health care reform. Welfare reform. Tax reform. The very fact that they’re always busy “reforming” is an implicit admission that they didn’t get it right the first 50 times.

The list is endless: Canadian health care, European welfarism, Argentine Peronism, African postcolonial socialism, Cuban communism, on and on ad infinitum. Nowhere in the world has the statist impulse produced

an omelet. Everywhere—it yields the same: eggs beaten, fried, and scrambled. People worse off than before, impoverished and looking elsewhere for answers and escape. Economies ruined. Freedoms extinguished.

It is a telling conclusion that statisticians have no successful model to point to, no omelet they can hold up as the *pièce de résistance* of their cuisine. Not so for those of us who believe in freedom. Indeed, economists James Gwartney, Robert Lawson, and Walter Block in their survey, *Economic Freedom of the World: 1975–1995*, conclude that “No country with a persistently high economic freedom rating during the two decades failed to achieve a high level of income. In contrast, no country with a persistently low rating was able to achieve even middle income status. . . . The countries with the largest increases in economic freedom during the period achieved impressive growth rates.”

Perhaps no one explained the lesson of all this better than the French economist and statesman Frédéric

Bastiat more than 150 years ago:

“And now that the legislators and do-gooders have so futilely inflicted so many systems upon society, may they finally end where they should have begun: May they reject all systems, and try liberty; for liberty is an acknowledgment of faith in God and His works.” **FEE**

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# Debt Can't Burden Future Generations? It Just Ain't So!

BY ROBERT P. MURPHY

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Paul Krugman and other advocates of government spending have recently claimed that the layperson's approach to government debt is all wrong. (I summarize the debate here: [tinyurl.com/8xe9t53](http://tinyurl.com/8xe9t53).) Contrary to the moralizers, Krugman and his allies claim government debt *per se* can't burden future generations as a whole. Our descendants will "owe it to themselves," at least if we disregard Treasury bonds held by foreigners. Any taxes raised to service the debt would simply flow into the pockets of Americans in their capacity as bondholders. Krugman argued that the "national debt" was not just a liability, but also an asset.

One major problem with this viewpoint is that it ignores a government deficit's tendency to divert resources out of private investment and into consumption chosen by the political process. Deficits therefore cause future generations to inherit fewer tractors, tools, and other equipment, reducing their ability to produce and making them poorer.

Besides the effect on physical investment in capital goods, James Buchanan showed ([tinyurl.com/6qxjdgk](http://tinyurl.com/6qxjdgk)) that there is a *completely independent* route through which government budget deficits today can impoverish future generations. Once we realize "the nation" is composed of different individuals who enter the scene at various points, live for varying lengths of time, and then die, to say "we owe the debt to ourselves" is a complete non sequitur. To repeat, Buchanan put his finger on an effect that operated above and beyond the fact that government deficit

spending today would tend to lower private investment. Even if we imagined that all government deficit spending today were paid for through a reduction in private consumption—so that we bequeathed the same stockpile of capital goods to our heirs—it would *still* be possible for our descendants (taken as a whole) to be made poorer by the policy.

To understand how this works, imagine the government in the year 2012 is going to spend \$100 billion throwing a gigantic party. Other things equal, the people alive in 2012 would love this massive bout of consumption. However, if the government were to levy a tax on the people in 2012 to pay for it, they would revolt.

Now instead, suppose the government issues an official piece of paper that declares: "In 2112 the U.S. government will count up how many taxpayers are in the country. It will then assess each of these  $x$  taxpayers a head tax of \$10 trillion/ $x$ . The \$10 trillion in tax revenues thereby collected will then be handed over to whoever owns this piece of paper at that time."

After making everyone aware of the official piece of paper, the government in 2012 could then auction it off to the highest bidder. Assuming investors trusted the promise and used a long-term nominal interest rate of about 4.7 percent, the government in 2012 could raise \$100 billion—the present discounted value of the \$10

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Deficits cause future generations to inherit fewer tractors, tools, and other equipment, reducing their ability to produce and making them poorer.

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trillion cash payment that wouldn't occur for another century—and thus pay for the party.

In this scenario the layperson is right to say that the present generation threw their party and made the poor saps in 2112 pay for it. The taxpayers collectively in 2112 are going to hand over \$10 trillion to some of their own members—they can't wire the funds back through the decades. However, this observation doesn't render the whole enterprise a wash.

The reason is that the people in 2112 who are getting paid the \$10 trillion aren't getting it *for free*. On the contrary, they would have earlier paid the present discounted value of the bond in order to acquire it. So when we do the accounting correctly, we see that the taxpayers in 2112 are clearly hurt (because of the gigantic tax bill), but that their loss doesn't translate into an equal gain for the bondholders. That's why their generation *as a whole* is poorer because of the wild party the people in 2012 threw.

### Losing Proposition

This critical point is worth spelling out. Consider an individual who participates in receiving the tax receipts in the year 2112. Perhaps this person paid \$955 the year before (in 2111) in order to have a claim to \$1,000 (that is, one ten-billionth of the face value) of the gigantic bond when it matured. The *full* \$1,000 he received in 2112 would not constitute a net gain to the person, since most of it would just be the principal he had given up the year before. The actual benefit to this person from the whole operation would be to receive a higher interest rate (given the risk of default) than he would have earned had he lent his \$955 in the private sector. So this person could reckon that the tax-and-distribute operation in 2112 was worth (say) \$5 to him.

It is against this \$5 (give or take) benefit to the bondholder that the full \$1,000 in tax collection must be contrasted. In other words, the individual taxpayer (responsible for one ten-billionth of the gigantic bond)

is out \$1,000, while the bondholder to whom that money is transferred only gains about \$5. Now if we focus on some *different* bondholder, who perhaps got into the game earlier (say in the year 2085), then his gain would be higher than \$5 because he earned above-market interest rates for a longer period. Even so, the only way the \$1,000 loss to a taxpayer would be exactly counterbalanced by a full \$1,000 gain to a bondholder is if the bondholder initially got the bond *for free*. This could happen for children who inherit their claims from their parents, but that's about it. Anybody else who had to put up his or her own money to get a piece of the big bond would not have had gains equal to the losses of the taxpayers. Thus the group "people alive in 2112" is *collectively* made poorer by the scheme.

Now consider the original generation who threw the party. Yes, there were investors in 2012 who had to reduce their potential consumption by \$100 billion when they bought that piece of paper from the government. But as those investors grew old, they could have sold the paper (a financial asset) to younger investors and used the funds to finance their retirement. Thus the investors in 2012 didn't actually lose out from the deal, which was voluntary for them, when we consider their lifetime income.

To sum up: Many people alive in 2012 gained and nobody lost, while the people alive in 2112 had losses that outweighed the total gain. This is true even though the people in 2112 "owed the \$10 trillion to themselves."

If an imperialist government paid for popular spending programs by levying a tax *not* on its own citizens but on a conquered land, the scheme would of course be a gigantic theft working across space and through the currency markets. Deficit finance is similar, working across time and through the bond markets. It allows today's citizens to pay for government goodies by levying a tax on unborn generations who have no say in the political decision. FEE

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Deficit finance  
is similar to a  
government paying  
for popular  
spending programs  
at home by taxing a  
conquered land.

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# Cavemen and Middlemen

BY RICHARD W. FULMER

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If a caveman could specialize in a single craft such as making stone knives, he would likely become very skilled through sheer repetition. He would soon learn to create better products more quickly and with less effort than if he had to spend potential knife-building time hunting, fishing, gathering food, constructing shelters, building fires, and crafting baskets, pottery, and clothing. Specialization, however, would only be possible if there were sufficient demand for his tools. If the caveman's clan is small, demand will be limited, making it unlikely that he would be able to trade his knives for enough food, clothing, and other goods to ensure his survival.

The size of the market determines the degree of specialization that is possible and therefore the productivity of a cave clan's members. Their productivity in turn determines how well they live. If the market could be expanded, a higher degree of specialization would be possible, raising both productivity and living standards.

Suppose Rok, an itinerant caveman, notices that his clan makes particularly good obsidian knives, while another, miles away, makes excellent bone needles, and still another makes fine loincloths. Rok is lucky in a hunt one day and kills a large deer. He gives its hide and most of the meat to his clansmen in return for

knives, reasoning that he can easily transport them to the other clans and trade for needles and loincloths. He can bring these back and exchange them for even more knives to trade with the other clans for still more goods.

Rok has done far more than simply transport products among clans. He has unleashed a complex, dynamic, iterative process. First, by expanding the marketplace to three clans, he has enabled more cavemen to specialize, increasing their productivity and improving their own welfare and that of their clans. By opening trade among the clans he has boosted each one's survival chances. If a hunt goes badly for one they may be able to trade for food with another that has had better luck.

In addition Rok has introduced the clans to goods that they may have never seen before, sparking new ideas and planting the seeds for improved and perhaps entirely new products. If he profits by the exchanges he makes, he also provides an example to others who may go into direct competition with him, increasing the volume of trade among the three clans, or who may open trade with still other clans, potentially discovering new products and ideas.



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Rok's surplus goods, or profits, provide him with working capital. By trading some of his goods for food, Rok buys time that he can employ in improving his wares or in trying out new ideas such as small-animal snares or obsidian scrapers and awls. If his new products are successful, Rok's wealth will grow, but this wealth will pale in comparison with that created by clan members exploiting the increased productivity that Rok's new tools engender.

Rok's growing surpluses may also serve as venture capital. Rok can lend stone tools, bone needles, loin-cloths, and snares to others, who can then "trade them for time" as Rok did. They in turn may be able to increase their own and their clans' wealth with the products they create with that time. If their efforts are fruitful, they can pay Rok back with interest; if not Rok will lose his investment. However, if Rok invests in enough other budding entrepreneurs and inventors, and if he carefully chooses to whom he entrusts his surplus, his gains will likely outweigh his losses.

Again, though, however high Rok's profits are, the clans will benefit as well. The tools that he and his partners create will increase the productivity of everyone in the clans and leave them all materially better off than before.

Unfortunately Rok's activities spark resentment among some clan members. A few cavemen believe that Rok is cheating them out of the full value of their labor. They see that, as a trader, he is simply transporting goods between the clans and making a profit even though he does not improve the goods in any way. They do not see that simply by moving them, he adds value to the goods. Nor do they, like Rok himself, see the subtle, though critically important, processes that he has unleashed by expanding each clan's market, nor the clans' greater resilience and rising prosperity through increased specialization and communication of ideas.

Cavemen who borrow from Rok resent being indebted to him and having to pay him back more than they originally borrowed. They do not understand that the interest they pay Rok is the cost of the time that they purchased with his goods. Nor do they understand that by lending them the goods, Rok was giving up the opportunity to employ those goods in other ways.

Rok is also seen as an outsider by the members of the other clans with which he trades. People's natural distrust of strangers, their resentment of Rok's "exploitation," and their envy of his relative prosperity all feed their growing hostility. Moreover, they reason that by trading with other clans, some amount of value is leaving their own clan. When two people trade both must benefit or the trade would not take place. If the two are from the same clan the mutual benefits would all be kept within the clan. They do not see that "inter-clan leakage" is more than offset by the advantages of an expanded market and by a bigger "idea pool."

The growing resentment and envy leads one of the clans to drive Rok away and to cut off trade with his clan and others. Later they notice that their living standards fell significantly after Rok left, though they see no connection between their growing poverty and Rok's departure. This self-isolated clan is far less likely to survive and prosper than are those that welcome, or at least tolerate, Rok and other middlemen.

Rok's descendants are what Thomas Sowell calls "minority middlemen": Jews across the world, "Armenians in the Ottoman Empire, Ibos in Nigeria, Marwaris in Burma, overseas Chinese in Southeast Asia, and Lebanese in a number of countries." A significant number of people from each of these groups have, for a variety of geographical, cultural, and historical reasons, worked far from their homelands as peddlers, merchants, and moneylenders. They and other middlemen helped bring mankind out of caves and into prosperity; in return they have been reviled, persecuted, tortured, and killed.

The oppression of "parasitical middlemen" has immeasurably diminished humanity's welfare. Had their contribution been understood in Rok's time and since, the world's people would be far wealthier than they are today. Even an additional annual growth rate of only 1 percent, compounded over the millennia, would have doubled and redoubled per capita income many times over. The human suffering that would have been avoided can scarcely be imagined. When we interfere with peaceful, free trade, we hurt ourselves, our children, and their children throughout eternity. Let's stop. 

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# Saving, Investment, and the Income Tax

BY ROY CORDATO

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In the late 1980s and early 1990s, when I was an economist at the Institute for Research on the Economics of Taxation, my boss and tax policy mentor, the late Norman Ture, had a favorite saying: “People aren’t taxed. Activities are.” It is this proposition—that taxation of any kind always has the effect of penalizing some activities relative to others—that lies at the heart of the economic analysis of taxation.

Obviously the income tax is a tax on people’s income-generating activities. What this means is that it penalizes these activities relative to activities that do not generate income. In a market setting, income-generating activities are those that lead to the production of goods and services. So the income tax penalizes work relative to leisure, and saving and investment relative to consumption. It is the latter that tends to be least understood and therefore will be the focus of this essay.

The broad choice facing an individual in choosing to allocate his or her income is to either spend it or save and invest it. This consumption/saving choice is distorted by the income tax in favor of consumption.

Using the traditional terminology, the income tax “double taxes” saving relative to consumption. It should be noted that this terminology is somewhat misleading. The tax does not explicitly double tax saving but *reduces the returns* to saving twice, while reducing the returns to consumption just once.

This can be shown with a simple example. Start with an individual who has \$100 of pretax income. In the absence of taxation this person has \$100 for either consumption—the purchase of goods and services—or saving. If the interest rate is a simple 10 percent per year, then the person can decide whether he prefers to spend \$100 or save the \$100 and have \$110 available for spending a year from now. The decision will be based on his preference for satisfaction now relative to satisfaction in the future. This is what economists call time preference.

Now assume that the individual faces a 10 percent income tax. His \$100 is reduced to \$90, cutting the amount available for consumption by 10 percent. Likewise the tax implicitly reduces his returns to saving by 10 percent. In other words, by taxing the principal the government is simultaneously reducing the entire stream of returns from the investment. So if he saves the \$90, because of the tax his interest income is reduced from \$10 to \$9.

In the absence of further taxation the individual’s choice is between spending \$90 now or waiting a year and having the opportunity to spend \$99. Returns to consumption spending and returns to saving have both been reduced equally by the tax. But under a standard income tax the returns to saving are reduced yet again.

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The income tax does not explicitly double tax saving but reduces the returns to saving twice, while reducing the returns to consumption just once.

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The \$9 in interest also is taxed 10 percent, leaving \$8.10.

So the tax reduces the returns to savings twice: first from \$10 to \$9 when the initial \$100 is taxed, and second from \$9 to \$8.10 when the interest is taxed.

Note that the return from consumption is only reduced once, from the level of satisfaction that could be obtained with \$100 to the level that could be obtained with \$90. The tax on interest or other returns to investment, including dividends and capital gains, biases decisions against saving, investment, entrepreneurship, and business expansion, and in favor of consumption.

In addition the government, at both the federal and state levels, further punishes investors with a separate corporate income tax. The corporate tax, which at the federal level is 35 percent, adds a third layer of tax on both dividends and capital gains.

The most straightforward way to remove the bias is to exempt from taxation all returns from saving. This is the approach that has been taken by those who advocate the flat tax. From this perspective, saving and consumption are treated symmetrically.

### Consumed Income Tax

An alternative way of removing this bias is by eliminating all saved income in the current time period from the tax base, taxing it only when it is withdrawn for consumption. A tax that deals with the bias against saving this way is called a “consumed income tax.” The idea would be to treat all savings and investment in the same way that IRA and 401(k) retirement investment plans are treated, except that there would be no penalties for withdrawing funds before any legally specified age.

In reference to our example, if the person decided to spend his \$100 in pretax income, he would be subject to the 10 percent tax immediately and would have \$90 available for consumption. If instead he decided to save or invest the \$100 for a year, he would not be taxed on it until it was taken out of savings and used for con-

sumption. At the end of a year, if he chose to withdraw the money from savings or to cash in his investment, the original \$100 and the return of \$10 would be taxed 10 percent. This would leave him with \$99 for consumption, or the equivalent of a full 10 percent return on \$90. The point here is that only income that is used for consumption is taxed, hence the name “consumed income tax.” It should also be noted that this gives the same result as the flat tax, which would exempt the interest income from the tax base. The individual would save \$90 (\$100 minus the 10 percent tax) and earn \$9 in interest.

The consumed income tax suggests that all expenses incurred to generate future income, which is the definition of investment, should be eliminated from the tax base. This implies that all work-related expenses, including commuting expenses, educational expenses incurred to enhance future income, and day-care expenses, should be excluded from the tax base. These expenses are analytically equivalent to saved income. They represent forgone current consumption in an attempt to generate future income. This approach also implies that all business expenses (labor, plant, and equipment) should also be deducted in the year they are incurred rather than depreciated over time. This ensures that the full cost of the investment, rather than a time-discounted cost, is realized in the tax deduction.

A word of warning is in order. It needs to be made clear that there is no such thing as a tax that does not damage productivity and economic growth. To invoke a term often used by economists, a “neutral tax” does not exist. At the very least all taxation transfers the control of productive resources from the free market to government control—that is, from an institutional setting that will generate a more efficient use of resources to an institutional setting that will generate a less efficient use of resources. What this means is that overall the economy, and therefore human welfare, always suffers as a result of taxation. **FEE**

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There is no such thing as a tax that does not damage productivity and economic growth.

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## Ludwig Lachmann: A Belated Appreciation

BY DONALD J. BOUDREAUX

Regrets pile up as years pass, and sometimes they aren't revealed until long after they should have been noticed. That's the case with my connection to the economist Ludwig Lachmann (1906–1990) and his works.

Lachmann's was among the first work I read when I had the good fortune to be exposed to the Austrian economics tradition by my mentor, Bill Field, as an undergraduate in the late 1970s. But while I was immediately gripped by the writings of F. A. Hayek, Israel Kirzner, Gerald O'Driscoll, and Roger Garrison, I never "got" Lachmann. I recall reading his 1956 book, *Capital and its Structure*, and getting very little out of it.

In the early '80s as a grad student at New York University (NYU)—where Lachmann served as an economics professor during the spring semesters—I got to know him a bit because we attended the same seminars. I liked him personally, and still to this day recall fondly his extraordinarily unique voice—as raspy in tone as it was measured in cadence. I even took a seminar that he taught. Yet back then I never really got him.

In contrast to me my brighter NYU classmate Roger Koppl was openly enthusiastic about Lachmann's work. Roger and I often talked over coffee until late in the night about Lachmann's "radical subjectivism." Roger praised it. I didn't get it. My respect for Roger—and for the other folks involved in NYU's Austrian program—was such that I never doubted that there was merit to Lachmann's work. But I didn't get it.

The last time I saw Lachmann was in the late 1980s, during my first stint on George Mason University's economics faculty. He was in Fairfax, Virginia, to address a

seminar of GMU's Austrian faculty and students. I cannot think of this occasion without embarrassment.

I was a young assistant professor then consumed with law-and-economics scholarship as it was done especially in the *Journal of Law & Economics*, a flagship publication of the University of Chicago. In the seminar Lachmann said something (I forget just what) that struck me—I'm sure accurately—as being inconsistent with Chicago-school economics.

Feeling superior to this old man who sat serenely in

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Lachmann's writings might be especially relevant in this post-bubble-burst age when economists are again embracing Keynesianism as a source of indispensable insights.

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front of the room going on about the importance to economic theory of divergent expectations and radical subjectivism, I challenged him with some "insight" that I fancied I'd gleaned from Chicago-school law-and-econ scholars. He replied merely by reporting that he was "unfamiliar with the latest papers in the *Journal of Law & Economics*." Beyond that he said nothing in reply to my question.

I felt superior to him.

But how inferior of me. How utterly stupid and childish of me.

Not long after that encounter I started feeling bad about what I realized was my rudeness toward a scholar and a gentleman who deserved far better—particularly from the unaccomplished kid I was then. But I still didn't get Lachmann's work.

Recently, however, I've begun to revisit Lachmann's writings. Fortunately for me I recalled enough of these works to realize that they might be especially relevant in this post-bubble-burst age when economists are again embracing Keynesianism as a source of indispensable insights.

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Omigosh! What a treasure! (Many of Lachmann's essays are collected in *Capital, Expectations, and the Market Process*, a 1977 volume edited by Walter Grinder. It's a splendid collection.)

I know now that the only reason I didn't get Lachmann when I was younger is that I was too undeveloped as an economist to appreciate the nuance, depth, and potentially revolutionary significance of his scholarship.

Lachmann wrote at a highly abstract level. Not mathematical, but highly abstract nevertheless. And he stuck largely to abstract economic theory, seldom following Hayek and Mises into popular analyses of issues motivating current policy debates. His style neither stirs the soul nor carries the reader away with its beauty.

But he wrote clearly and concisely. And his engagement with the heart of economic theory as it beat in the middle decades of the last century—and as it still frequently beats today—was full, open-minded, and (I see only now) impressively creative.

Perhaps his single finest essay is his 1947 article from *Economica*, "Complementarity and Substitution in the Theory of Capital." It's easy to talk about capital not being a lump of homogeneous clay—that is, capital not being what it is assumed to be in standard macroeconomic theories—but it's far more difficult to describe what capital *specificity* means and how some pieces of capital work productively in tandem with each other while other pieces compete with each other. Even more difficult is explaining why an understanding of capital substitutability and complementarity is indispensable for an adequate understanding of economic growth and of booms and busts.

In this article from 65 years ago—usefully expanded years later into his book *Capital and Its Structure*—Lachmann analyzes capital with a sophistication that has rarely been matched, and the importance of which has yet to be grasped by most economists. Capital's structure, value, and what the economist Arnold Kling might call its "sustainability" in patterns of productive trade and specialization are all determined by the plans for-

mulated by entrepreneurs, investors, and consumers. The more consistent these plans are, especially as assessed over time, the more productive are the machines, inventories, infrastructure, worker skills, and all the other goods and services lumped under the heading "capital."

Capital, in this understanding, isn't chiefly stuff whose productivity is determined by its engineering specifications or by anything else reducible to the laws of physics. And capital is emphatically not clay-like stuff that can be remolded instantaneously from one form (say, a locomotive) into another form (say, wi-fi signals) when its usefulness in its current form proves to be less than its now-expected usefulness in some different form.

The above might seem trivial. In one sense it surely is. No one can look at an espresso machine in a Starbucks or an inventory of jeans in Abercrombie & Fitch without understanding that, if too few consumers demand espresso or jeans, entrepreneurs who invested in these things will suffer losses. These entrepreneurs won't be able to convert *these* specific pieces of capital into *other* more productive pieces of capital with a mere wave of their hands.

Yet the reality is that modern macroeconomic theory, which *should* be particularly focused on capital heterogeneity, is oblivious to this reality. Save for the work of a few Austrians, capital theory as done by Ludwig Lachmann is simply not today part of economics. (In an irony that would not be lost on Lachmann, the value of the "human capital" of most modern economists would plummet were they to take Lachmann's insights into capital theory seriously.)

To all you young economists out there seeking understanding, I cannot recommend highly enough that you lay your hands on Lachmann's writings, study them carefully, reflect on them deeply, refine them with your own creativity, and—please—do your level best to incorporate those insights into your own contributions to economic literature. That would be a capital achievement!

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Modern macro-economic theory, which *should* be particularly focused on capital heterogeneity, is oblivious to it.

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# Comparing the Morality of Government and Markets

BY DWIGHT R. LEE

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Beyond a very limited role in our economy and our lives, further expansions of government retard economic efficiency and reduce human liberty. The most important contribution of the Public Choice school of political economy has been to use economic analysis to realistically compare the efficiency of government and markets and to explain the tendency to substitute government activity for market activity far beyond the point where economic efficiency is reduced. Yet this substitution continues.

I shall argue that by limiting its concern almost entirely to efficiency comparisons, Public Choice has limited its influence over the prevailing political ideology, which has made the continued growth of government possible. Economic efficiency is important, but efficiency arguments are less convincing than moral arguments. As Joseph Schumpeter observed, “The stock exchange is a poor substitute for the Holy Grail.” So even if people are convinced that markets generate more efficient outcomes than government, it will still be favored over markets as long as most people believe it is more moral than markets. Unfortunately, convincing them otherwise is difficult.

Economists have argued that markets are moral, but they almost always do so by pointing to the desirable, but unintended, outcomes that result from people pursuing their private interests. Economists are rightly impressed with the ability of markets to motivate self-interested individuals to unintentionally serve the inter-

ests of a multitude of others they don't know, much less care about. The result is a truly impressive pattern of individual freedom, social cooperation, and prosperity. But people are emotionally programmed to judge morality on the motivations that produce outcomes rather than on the outcomes themselves. If people make personal sacrifices with the intention of benefit-

ing others, their actions are seen as moral. When the effort is directed toward identifiable people, this sense of morality is intensified. The outcome of the effort carries less moral significance than the intention motivating it and the personal sacrifice involved.

For example, if a man risks his life by jumping into a rapidly flowing river to save a child from drowning, his action would be credited as moral whether he is able to save the child or not. On the other hand, he would receive little if any moral credit if he saves the life of the child by accidentally providing him something to hold on to as he steers his boat to shore.

Not only are the benefits of markets the unintended byproducts of people motivated primarily by self-interest, but they are widely dispersed over the public (or no one in particular) and generated by an indirect process of market coordination that obscures the connection between the benefits created and the actions that make

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them possible. Such a process is unlikely to be seen as moral; many see it as immoral and are unaware of the benefits it provides. Even those who recognize the beneficial outcomes of markets commonly consider them contaminated by a morally tainted process. In other words, they don't believe the desirable ends justify the market means.

In contrast to the market process it is easy for people to see morality as an inherent feature of the political process. Political rhetoric emphasizes the intention of doing good, not for personal advantage but because it is the right thing to do. The good is directed toward deserving groups whom we should care for, such as the poor, the elderly, the sick, and operators of family farms. And the political process allows us to care for these groups in direct and easily understood ways, such as mandating a minimum wage, providing a pension program, subsidizing medical care, and creating price supports for agricultural products. Also, the means by which most people make political decisions—voting—encourages them to be responsive to moral claims for government programs and to reject evidence that those programs often do more harm than good.

It is useful to consider an important difference between “voting” in the market with dollars and voting at the polls with ballots. When you “vote” for something in the market you get what you “vote” for, and you get it and pay for it only because you “vote” for it. This is very unlikely when you vote at the polls. At the ballot box you often get, and have to pay for, what you vote against. And except in elections with only a few voters, you almost never get what you vote for because you vote for it. This feature of voting is often interpreted to mean that your vote doesn't count. Wrong. Your vote will be counted. If you vote in Chicago it might be counted several times. The important characteristic of an individual's vote, as just described, is that it is almost never decisive.

The probability that any one vote will decide the outcome in a state or national election is far too small

to take seriously. Indeed, it is much smaller than the probability of winning millions of dollars in a state lottery or being killed by a shark. A few people win millions in lotteries every year, and in an average year there are 16 people attacked by sharks in the United States, with one fatality every two years. But I am not aware of any state or national election that was decided by one vote, with one exception—but it is the exception that proves the rule. I'm referring to the 2000 presidential election between George W. Bush and Al Gore. That election came down to a 5–4 U.S. Supreme Court decision to end the vote recounting in Florida, with Bush 327 votes ahead. So in that instance one vote did decide

the election, but it was a vote with only nine voters.

The minuscule probability that an election will be decided by one vote explains why people are more influenced by moral considerations when voting in an election than when making purchases in markets. Consider a voter who is convinced that an increase in government transfers would help the poor escape poverty, but because she is in a high tax bracket, she knows that if the transfer policy is enacted it will increase her lifetime tax burden by \$10,000 in present value. Furthermore, the only benefit she will receive from voting for the transfer is the moral satisfaction from intentionally making a sacrifice to provide what she

believes will be direct government help to an identifiable and deserving group. Will she vote for the transfer?

The answer obviously depends on a comparison of the perceived cost and benefit of voting yes. The common response is that she has to receive at least \$10,000 worth of moral satisfaction to vote in favor of the transfer. But this response is incorrect because even though it will cost our voter \$10,000 if the transfer policy passes, it will cost her almost nothing to vote yes. The cost of voting yes is an expected cost and it equals \$10,000 times the probability that her vote will decide whether or not the policy passes. Even if we assume a one-in-a-million probability her vote will be decisive

The means by which most people make political decisions—voting—encourages them to be responsive to moral claims for government programs and to reject evidence that those programs often do more harm than good.

(which is very much on the high side for most state and federal elections), the expected cost of voting yes is one penny. If the moral satisfaction she receives from voting yes is worth only the price of a designer cupcake, her yes vote is a bargain. Voting provides her with the opportunity to enjoy a sense of moral virtue at virtually no cost.

Benefiting from cheap virtue in the polling booth depends on more than the low cost of voting for expensive government policies that are claimed to achieve noble objectives. First, the voter has to believe that her vote contributes to passing the policy she favors, and that it represents her willingness to make a personal sacrifice. It is difficult to feel particularly virtuous for doing something that costs and accomplishes almost nothing. The voter also has to believe the policy she votes for really will do all the wonderful things claimed. It is difficult to feel virtuous supporting a policy if you believe it will harm those you want to help. Therefore, it is not surprising that so many people are aggravated when economists point out that their vote has a meaningless effect on the outcome of most elections, and therefore casting their vote for an expensive government program represents a trivial sacrifice.

Also, expect those who get a sense of moral superiority by voting for a policy to be hostile to evidence casting doubt on the policy's ability to achieve the noble objectives claimed for it. Even when it is irrefutable that a policy causes great harm, many who voted for it will defend their vote by arguing that the policy is motivated by good intentions. The ends may be unfortunate, but because the political means are seen to be motivated by moral intentions, those ends should be overlooked, or euphemistically dismissed. For example, those who defended what they believed were the noble goals of Soviet communism initially rejected the evidence that millions of people were being killed in the name of achieving those goals. When the evidence was overwhelming, the euphemism for killing millions of people was that "you've got to crack a few eggs to make an omelet." Those who find it morally comforting to trust in the good intentions of government have

been willing to condone outrageous immorality to maintain that comfort.

If those who vote to give government more power to do good things were as virtuous as they fancy themselves, they would do more than cast a vote and proudly walk out of the ballot booth wearing an "I Voted" sticker. They would realize that even if a policy is potentially desirable, voting for it (or for a politician who claims to favor it) is but the first step in realizing its potential. Good political outcomes depend on more effort and virtue than voting requires.

To make sensible decisions at the polls, voters would need to become well informed on a wide range of issues and consider alternatives to government for addressing particular problems. They would need to follow up their votes by paying attention to the type of legislation that the two branches of Congress passed

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Good political outcomes depend on more effort and virtue than voting requires.

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and find out what came out of the reconciliation process. This follow-up would need to continue when legislation goes to government agencies to be supplemented with thousands of pages of detail and then enforced with bureaucratic discretion. Finally, voters would also write letters, make calls, and work with genuinely public-spirited groups to pressure politicians and agencies to keep the legislation consistent with the lofty goals they voted for. Obviously, few voters can be expected to incur the cost of doing much if any of these tasks. And we would not want them to, given the productive opportunities they would have to sacrifice in their occupational specialties. It can be hoped, however, that more voters would recognize that there are some who are making the political effort just described but with less elevated objectives than voters want to believe they are achieving with their votes.

Members of groups organized around particular interests and their hired lobbyists will work to influence legislation that directly affects those interests. In many cases they are actively involved in writing the legislation for congressional committees. They will follow the legislation as it goes through both the House and Senate and is turned over to the bureaucracy for fine-tuning, interpretation, and enforcement. It should surprise no

one that the political efforts of special interests are invariably directed at serving their narrow objectives at the expense of the noble objectives voters had in mind when casting their ballots. Of course special interest groups and their lobbyists will use the rhetoric of moral concerns and the public interest in support of the legislation they favor. Their primary interest in high-minded objectives, however, is in determining which arguments for the legislation they favor are most likely to convince voters that supporting it at the ballot box is the moral thing to do.

Teachers' unions calculate that expressing concern for our children is the most effective way to motivate public opposition to policies that would improve education by subjecting government schools to competition. Similarly, corn farmers and agricultural firms calculate that expressing concern for the environment is the most effective ploy for securing government tax advantages for ethanol. And industries facing competition from imports calculate that expressing their desire to save American jobs is the best way to get public support for import restrictions that will increase consumer prices and reduce job creation in other industries. Most of the benefits from farm subsidies and agricultural price supports go to wealthy owners of large farms rather than small family farmers, while (in the case of price supports) increasing the prices the poor pay for food. Numerous interest groups seize the widespread public concern for the poor to create support for government transfers that are designed and implemented to benefit those very interest groups more than the poor who were supposedly the primary beneficiaries.

Voters are being enticed by the pretense of morality to vote to give government more money and power that will be captured largely by the politically influential for their personal gain, with government doing little to achieve the noble goals voters expected, and commonly undermining the achievements being made

without government. Government is a poor agent for those who hope to do good through the morality of good intentions and personal sacrifice.

The reality is that political behavior is no less motivated by self-interest than is market behavior. Voters are motivated by the desire for a low-cost sense of moral virtue to vote for noble-sounding policies while remaining oblivious to the morally appalling outcomes those policies often generate. Organized interest groups use the rhetoric of morality, supplemented by back-room deals, to manipulate the political process and capture privileges and protections at public expense. And incumbent politicians secure the support of naive voters

and campaign contributions from self-serving voting blocs. Where is the morality here?

Any realistic moral comparison of markets and government obliterates the fiction that political behavior is more moral than market behavior and compares politics and markets in terms of the desirability of their outcomes. Political self-interest is not nearly as productive as the self-interest pursued in markets. People serve the interests of others more effectively when they are spending their own money, subject to the information provided and the discipline imposed by markets, than they do when casting votes to spend other peoples' money and lobbying for political favors paid for by others.

Markets encourage a fundamental morality in terms of taking responsibility for the consequences of one's actions, being responsive to the concerns of others, and reciprocating value in return for value. This market morality is nowhere to be found in the political process when one looks behind the smokescreen that characterizes so much current political rhetoric.

Truly moral political behavior is voting against most proposals put forth by politicians. The most noble of all political objectives is limiting government's ability to erode our freedoms and reduce our prosperity under the pretense of noble-sounding objectives. **FEE**

Voters are motivated by the desire for a low-cost sense of moral virtue to vote for noble-sounding policies while remaining oblivious to the morally appalling outcomes those policies often generate.

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# The Road to Marondera

BY JOHN BLUNDELL

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Alice Chitumba Pangwai is a lovely African lady, just entering her sixth decade, with a big smile that belies her steely determination. Her mission: to deliver private high-quality education for those in the lowest economic bracket in Zimbabwe, some of the very poorest families in the world.

As one of several children of unemployed field workers back in 1975, her education was affected by constant fear of economic disruption and political rebellion.

“I had to work for my school fees at the age of 12 as well as those of my two siblings, who were too young to work on the school farm,” Alice tells me. “Such mission schools, now long vanished, at least back then allowed us to work our way through.”

The load was huge, and she says it is still with her today. She burns with a dream that no poor child should go through the roller-coaster education she suffered. She also has an ironclad belief that in education the private sector clearly outperforms the government sector.

The result is both counterintuitive and astonishing—a private school for mostly poor boys and girls located in a deeply rural part of a basket-case country.

As James Tooley’s ground-breaking and award-winning book, *The Beautiful Tree* (Cato Institute), informs us, millions of poor children are getting a superior private education thanks to educational entrepreneurs such as Alice. (See Tooley’s *Freeman* article on the subject at [tinyurl.com/c86cxt](http://tinyurl.com/c86cxt).)

“Low-cost private education in developing countries in Africa and Asia is playing a hugely important role,” Tooley told me. “Research has shown that in urban areas such private schools are serving a majority of the poor and outperforming the government schools—at a fraction of the cost. Schools run by people such as Alice are part of a good news story coming out of Africa that deserves our attention and support.”

He named Alice as one of his most inspiring educational entrepreneurs for the poor because “she is a

woman entrepreneur who is battling against the odds in extraordinarily adverse circumstances with great tenacity and endurance.”



Alice Chitumba Pangwai is determined to provide Zimbabwe’s poor children with high-quality private education.

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On my recent visit to Zimbabwe, my driver Harold and I set off east on the “freeway” to visit Alice at her school in Marondera. The road, the major link to Mozambique, has one lane each way and is narrow and badly paved, albeit with tarmac.

We headed east through farm land that had once been hugely productive. Looking right and left the whole way I never once spotted a single fully functioning farm. “The soil is rich and the water is plentiful,” observed Harold, “but the war veterans are just not interested.”

This country has had a long voyage from its conception as Southern Rhodesia, then Rhodesia, through to the modern Zimbabwe. Its potential is astonishing, and given the right free-market incentives and property rights under the rule of law, this nation could rocket.

However, in 2000 President Robert Mugabe began a campaign that has so far driven out some 280,000 whites, many of them farmers. Today their population is reported to be a mere 20,000. Their confiscated farms have been handed over to black veterans of the so-called Zimbabwean National Liberation War, along with assorted cronies, judges, ministers, and girlfriends.

“The war veterans farm enough to subsist with a few small plots by their houses,” Harold told me. “The rest of the land they simply ignore.” It would not be unusual for a veteran to have received a 200-acre farm, work just 5 percent of the land, and let 95 percent go to rot.

“This used to be good for tobacco farming and cattle ranching,” observed Harold, who had driven the road often in earlier, more prosperous times.

We passed hundreds of traders by the side of the road. At least somebody was growing something, I thought. But I was mostly wrong about that. The wild honey, carrot, or lettuce vendors were selling locally produced items, as were the toy makers. But according to Harold, the same didn’t apply to the many women with sacks of potatoes or oranges on display.

“They buy from wholesalers—this food is not from here,” he explained.

Zimbabwe is currently ranked last of all countries for which data are available in the Heritage Foundation’s *Economic Freedom of the World Index*.

After passing through all this on a bone-jarring road amidst nerve-wracking traffic, the journey had left me depressed. We entered Marondera (population 30,000), passed a mass of Kombis (the ubiquitous white minibuses that provide most people’s only alternative to walking), and came to the agricultural show ground where the Early Bird Learning Centre is based.

Twenty years ago Alice, by then 30 and a qualified primary teacher, started her own school with three pupils in a log cabin at the back of her home. Five years later she had 15 students—nine primary and six secondary. She started searching for space to rent and hit on a great idea: The agricultural show ground sat unused and totally empty save for a few days in the middle of September each year. Its several acres of open area and various structures would provide an excellent site for a school. She cut a deal with the owners in 1998 and moved in with 30 pupils.

In the Zimbabwean school year August is normally a holiday month, but Alice saw no reason that it could not be September instead. And so each year in late August every single desk, chair, book, blackboard, computer, and file has to be moved into temporary storage to make way for the agricultural show. Everything is then returned in early October for the school’s reopening.

Most parents in Africa are poor. They struggle to feed, clothe and even house the children for whom they are responsible. They are often not the biological parents in a country where average life expectancy barely hits 40. “Easy access to a decent education is a difficult challenge,” Alice says. Education is often low in their hierarchy of needs. But to Alice it is imperative. “The eradication of poverty will remain a pipe dream without proper education,” she says. In her view a combination

Zimbabwe is currently ranked last of all countries for which data are available in the Heritage Foundation’s *Economic Freedom of the World Index*.

of academic rigor and some technical skills is the road to “total freedom, self esteem, and self reliance.”

The school enrollment soared to over 600 pupils in 2005. “But the conversion in April 2009 from the Zimbabwe dollar to the U.S. dollar hit us very hard indeed,” she explains. “People woke up one morning to find they had nothing in the bank.”

Today Alice still rules the roost at the agricultural show ground though with a lower enrollment of 200. But it has not dampened her infectious enthusiasm.

The pupils wear smart blue uniforms, except for the juniors and seniors, who are in red. As we toured the campus we entered half a dozen different classes. The entire room promptly stood. Their discipline and respect for Alice were impressive.

I reduced a class of 13-to-14-year-olds to a fit of giggles when I asked, “How many of you are driven to school and how many take a bus?” It turned out that of the current student body of 200, only five are carpooled in and the remaining 195 walk up to seven miles to school.

Alice is full of stories of alumni who have done well. Tirvanhu’s parents paid his fees in grain from a rural area over 100 kilometers away. He is now a banker, while his brother Blessing prospers as a caterer in a top hotel. Orphan Dunmore is now an accountant.

“Most parents come and help in some way,” Alice says. The most obvious contribution during my visit was from the local tailor, Mr. Diamond, who was busy sewing school uniforms to pay part of his children’s tuition.

So how does the Early Bird Learning Centre work? Alice’s enrollment appears to be 25 percent middle class paying \$600 a year and 75 percent poor paying \$150 a year. It is a system of cross-subsidization. Tooley commented to me, “In good times it is a for-profit concern. Given the bad times they’ve been through, it’s probably barely breaking even at the moment, but definitely it should be noted as a for-profit concern.” He continued: “In common with many of the low-cost private schools, the school manager, often on the advice of teachers, uses some discretion on what fees to charge.

The fees might be set at \$10 per month. In a typical school, 75 percent might pay the \$10, while the remainder have varying degrees of concession, depending on their perceived circumstances.”

Alice is disparaging about the State sector: “Government teachers are always on strike, sometimes for two terms at a time.” At such times her enrollment soars but then plummets once the strike is over. Understandably this pains her.

She claims that standards are a lot lower in the State schools and classes are huge, with as many as 40, 50, or even 60 being taught together. Her classes contain no more than 20 students at primary level and 35 at secondary. Not one of the classes I saw had more than 25, and some only contained 10 or 12 students. She also abhors the government policy of hot-sitting, which

teaches children in multiple daily shifts. This system explains why there had been so many children in different-colored uniforms walking to school as Harold drove me along at around 10:00 or 10:30 that morning—they were second-shift State-school kids on their way to class.

In contrast Alice’s school day begins at 7:30 a.m. (8:00 in winter so that even the children who live a long way from school are not walking in the dark) and finishes at 4:00 p.m.

Alice is achieving impressive results. Her pupils achieve a better pass rate than other local students with good grades. There is no dumbing down here. These are tough exams, which put her graduates at least at U.S. sophomore level. “I’m not handing out fish and making them dependent. I’m giving them all fishing rods,” she proclaims loudly with a big beaming smile.

“It used to be that the boy child had preference and that at the end of Grade 8 (age 13) the girls were married off,” she continues, “but that has changed.”

Early Bird alumni are now to be found in banking, catering, hotels, teaching, and abroad in South Africa, the United Kingdom, and Namibia. But many also graduate and “sit at home,” as Alice puts it, or work as house maids for \$30 per month because the cost of a university degree is far beyond them.

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There is no dumbing down here. These are tough exams, which put her graduates at least at U.S. sophomore level.

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The ever-restless and ambitious Alice has two new initiatives in hand. She has sold her own home to purchase a 12-acre stand next to the show ground and has started to build her own campus. Her home, she tells me, “was big and beautiful. Now I am living in a durawall temporary shelter with no electricity for the past five years. But that cannot be compared to the land I have for the new campus.”

She continues: “If only I get help to build, then my heart can go to rest. It is one thing to have great ideas but being poor they add up to nothing as they starve to death before your eyes. That is the situation I am in. With all this land strategically positioned in a central business district of a major town but with no money to complete the construction, this eats me up day and night since I live here on the campus.”

It is all on hold following the enormous inflation and ensuing dollarization. Even so, I came away surprisingly hopeful that Alice will succeed and create a great campus.

Her second project is to add a vocational or skills element while maintaining high academic standards. Welding, carpentry, and tailoring are planned. Computers and video are already on offer to a limited degree. An entrepreneurship element is soon to be launched.

I returned to Harare inspired and dusty.

Later, at his request, I met the minister for education, Senator David Coltart, a white member of President Mugabe’s much-vaunted “inclusive” government and a constitutional human-rights lawyer of distinct classical-liberal leaning. He expressed admiration for people such as Alice, though he had yet to meet her, and admitted that many of her sharp criticisms of the State rang true.

He explained how the collapse of the currency and dollarization in 2009 had left the education system

with literally no resources. “We started charging for State schools because the education sector has been seriously underfunded by government for two decades,” he explained.

So there sits Alice Chitumba Pangwai in Marondera, Zimbabwe, a rural town in one of the poorest and worst-run countries in the world.

To one side of her there is a vibrant, independent private educational sector. These include boarding schools with names like those of Oxford or Cambridge colleges and whose rugby and cricket matches are reported in the sports pages of Zimbabwean national newspapers. They charge as much as \$15,000 a year, and their parents are the well-heeled elite—ambassadors, ministers, and expatriate businessmen.

To her other side is the State sector, which under Coltart’s leadership has been forced to introduce a form of pricing and is acting in a much more consumer-responsive manner. Good teachers are making twice what other teachers make, I was told. A State sector with fees is a very different creature from one where everything is “free” at the point of consumption.

In the middle is Alice, who for two decades has done all she possibly can—even selling her own luxury house and moving to a slab bungalow—to give the very poorest children a top-notch private education.

(She can be reached at [alicepango@gmail.com](mailto:alicepango@gmail.com).)

“I have a photograph of Alice on my desk, which I look at whenever things get difficult,” Tooley told me. “If Alice—and the many educational entrepreneurs such as her—can rise above everything that is stacked against them and serve disadvantaged children, then who am I to complain? She inspires me to keep up the struggle and to help liberate education from the dead hand of the State.”

**FBE**

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For two decades Alice has done all she possibly can—even selling her own luxury house and moving to a slab bungalow—to give the very poorest children a top-notch private education.

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# The Strange Presidency of Warren G. Harding

BY BURTON W. FOLSOM, JR.

Who is the worst president in U.S. history? The answer is Warren G. Harding if you believe most presidential polls. For example, in the prestigious Arthur Schlesinger poll, conducted in 1948, 1962, and 1996, the participating historians ranked Harding each time as the worst U.S. president ever.

Should we trust the judgment of these historians? No, we should not. Actually, Harding was often a successful president, and his actions helped trigger a decade of prosperity for America.

Harding was a newspaper editor from Marion, Ohio, who was elected U.S. senator in 1914. He won the Republican presidential nomination in 1920 and went on to a landslide victory over the James Cox-Franklin Roosevelt Democratic ticket in November. His biggest issue was the economy, which was suffering from World War I and its aftermath. The soldiers came home in 1918 and 1919 and faced an 11.7 percent unemployment rate in 1920.

Some politicians recommended that Harding enact a kind of stimulus package and put soldiers to work building roads for the rapidly growing numbers of cars being driven. Harding rejected that approach for a two-fold strategy of cutting federal spending and cutting tax rates. Before his death in 1923, Harding's program was showing signs of success. From 1920 to 1923 the federal budget was cut in half from \$6.4 billion to \$3.1 billion. The top tax rate was sliced during these years from 73 percent to 56 percent, and, when Harding died in 1923, his vice president, Calvin Coolidge, cut that rate further to 25 percent.

Some might scratch their heads at the notion that less government creates more jobs, but that is exactly

what happened under Harding. By the year Harding died unemployment had plummeted from 11.7 percent to 2.4 percent. Entrepreneurs were responding to Harding's refreshing idea that they should get more and the taxman less—radios, air conditioners, zippers, talking movies, and even sliced bread became popular during the 1920s. Coolidge continued Harding's policies, and the United States increased its industrial dominance throughout the world.

Most historians have a worldview that more government is good, and therefore Harding's move to more free enterprise was actually a backward step for the nation. In Arthur Schlesinger, Jr.'s coauthored textbook, *The National Experience*, he makes this point. "Foremost among Harding's advisers," Schlesinger wrote, "was Secretary of the Treasury Andrew Mellon. . . . The only business principle he considered relevant to government was economy. With small regard for the services that only government could furnish the nation, Mellon worked unceasingly to reduce federal expenditures. . . ." Thus Harding's was a failed presidency.

Historians also make a second criticism—that Harding's administration was corrupt. Robert K. Murray, who has written two books on Harding, begins *The Politics of Normalcy* by noting "[t]he Harding administration . . . [was] riddled with government scandals."

That second criticism has merit. Character in a president is important. As George Washington insisted, "[M]orality is a necessary spring of popular government." Integrity among leaders is vital to a free society. Harding's

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Most historians have a worldview that more government is good, and therefore Harding's move to more free enterprise was actually a backward step for the nation.

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two major scandals—at the Veterans’ Bureau and in the Department of Interior—both reflect poorly on his choice of administrators and on his supervision of their actions.

Let’s look at these scandals in more detail. The first thing we see is that they were triggered not by greed on Wall Street, or by corruption in the private sector, but by the growth of the federal government.

The Veterans’ Bureau, for example, was created in 1921 as a perk for wounded soldiers. During the war politicians chose not to pay soldiers the full value of their service, which might have included insurance policies. Instead Congress chose to give free medical care to wounded soldiers through a Veterans’ Bureau. Doing that masked the costs of war by spreading them (and pension costs) out over the entire twentieth century.

In market situations entrepreneurs who build a hospital, or a chain of hospitals, have to be competitive in price and service. They try to buy land, construction materials, and hospital supplies cheaply to compete with existing hospitals. Any builder who fails to do that loses money and risks going bankrupt. But when government provides a service, these same incentives for economy are often absent.

Harding appointed Charles Forbes, a political friend with experience in construction, as the first head of the Veterans’ Bureau. Forbes was in charge of building and supplying dozens of new hospitals for veterans in major cities throughout the country. With government picking up the tab Forbes accepted high noncompetitive bids from two construction companies, which kicked back to Forbes some of their profits from building the hospitals. Forbes also made money by personally buying cheap land in different cities and then selling that land at jacked-up prices as sites for the new hospitals. He made further profits through a middleman by buying and selling supplies—sheets, towels, and gauze, for example—for the new hospitals. Neither Congress nor Harding gave much scrutiny to Forbes because they had not funded the Veterans’ Bureau from their own money, but rather from the taxpayers’ money.

When Forbes’s chicanery came to light Harding fired him, and Forbes spent two years in prison—but not before hundreds of millions of dollars had been added to the national debt. Even if Congress had simply given medical cards to veterans for use at existing hospitals, the costs would have dropped sharply.

Harding’s second scandal, the Teapot Dome affair, also occurred because the federal government inserted itself in economic matters usually left to free markets. Land in the Midwest, for example, was sold or given to farmers by various federal land acts. In the West, however, Congress decided to keep under federal control valuable oil land in Elk Hills, California, and Teapot Dome, Wyoming, rather than sell it to oil companies at auction. Albert Fall, Harding’s secretary of the interior, decided to lease some of the federal oil land in noncompetitive bids to Edward Doheny (at Elk Hills) and Harry Sinclair (at Teapot Dome).

Congress decided to investigate these strange leases and discovered that a suddenly rich Albert Fall had received a \$100,000 “loan” from Edward Doheny and “an undetermined number of Liberty bonds from Sinclair.” At trial Fall did not provide illumination; instead he testified, “I

decline . . . to answer any questions on the ground[s] that it may tend to incriminate me.” As a result Fall went to jail for a year and was slapped with a \$100,000 fine.

How then should we assess Harding’s presidency—which launched an economic boom but which also saw two major scandals? We can say Harding was successful when he slashed the role of government through cuts in federal spending and in tax rates. And we can say he failed when he expanded the role of government by creating a Veterans’ Bureau and by maintaining federal control of western oil lands. Harding is an underrated president because he is being ranked by those who overrate the capabilities of the federal government.

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How then should we assess Harding’s presidency—which launched an economic boom but which also saw two major scandals?

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# The Utopian Vision of Frederick W. Taylor

BY HAROLD B. JONES, JR.

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“A MILLION DOLLARS A DAY!” the headlines roared.

That is what attorney and future Supreme Court justice Louis Brandeis said the railroads could save by giving up familiar methods and adopting the latest efficiencies. Increase rates for the sake of purchasing rolling stock and repairing the roadbeds? Nonsense. The rates are too high already, Brandeis told the railroads; just do a better job of managing your workers, and you will have more than enough.

This was the substance of the winning argument in what is now remembered as the Eastern Rate Case. The Hepburn Act of 1906 had empowered the Interstate Commerce Commission (ICC) to put a ceiling on rates, and in 1910 the railroads were trying to get the ceiling raised. Brandeis, already famous for his ability to cloud the issues with great masses of data and the latest terminology, said their request was out of line. They did not need to charge more, he insisted. They just needed to apply the principles of “scientific management.”

Brandeis had never used the term before, and neither had anyone else. He seems to have invented it on the fly. It caught on, though, and the man to whose ideas it referred was catapulted to international renown. His name was Frederick W. Taylor, and his story is worth retelling because of what it teaches about modern statism.

## The Age of Utopias

Taylor’s ideas must be understood against the background of the world in which he grew up. It was a

time of breathtaking improvement. Real wages doubled between 1865 and 1890 and would double again by 1921. In 1890 industrial laborers worked an average of 60 hours a week; by 1910 the figure was down to 55 hours, and by 1929 it would be down to 50. Merchants like A. T. Stewart brought household luxuries within the reach of millions. George Gilman and George Huntington Hartford’s A&P stores put a wide variety of groceries within an easy walk of many homes. Singer

Sewing Machines became a household fixture. In the 60 years after the Civil War American life expectancy increased rapidly, in some states by as much as 50 percent. Progressive propaganda notwithstanding, child labor had all but disappeared. Thanks to the efforts of John D. Rockefeller the price of kerosene—already an incredible bargain when compared to the whale oil that preceded it—fell by over two-thirds between 1860 and 1885.

Paradoxically, this was also a time in which many were unable to recognize the improvement for what it

was. Henry George, whose *Progress and Poverty* came out in 1879 and sold more than 2 million copies in the next 20 years, believed that technological progress had dramatically worsened the situation of the average worker. “Wherever the new forces are anything like fully utilized,” he wrote, “large classes are maintained

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by charity . . . men die of starvation and puny infants suckle dry breasts.” Washington Gladden told his increasingly well-heeled congregation about the tendencies “of wages to sink to starvation point” and “of the workman’s share of the national wealth to grow constantly smaller.” Walter Rauschenbusch described the economy as a “gladiatorial game in which there is no mercy and in which ninety per cent of the combatants finally strew the arena.”

According to Robert Heilbroner, such sentiments were part of a critical mindset that was the inevitable correlate of rapid progress. It might be better said that they were the result of a mindset so insistent on sheltering itself from the clearing breeze of historical perspective that it always remained in a fog. From what earlier period, asked Clarence B. Carson, were the circumstances of the late nineteenth century actually a decline? Compared to where in the world or to what time in history did things seem so bad? Nineteenth century China? Antiquity? Medieval Europe? In all these and in every other historical situation we know about, the actual life of actual people was far less fortunate than in the world against which George, Gladden, and Rauschenbusch raised their protests.

Reality, though, never comes off well when compared to the perfect world of our grandest dreams. A future from which imagination has removed the constraints has a distinct advantage over the present. About this world and this future there were many late-nineteenth-century writers who could tell the story. The most popular was Edward Bellamy, whose *Looking Backward* hit the bookstands in 1888 and by 1890 was selling at the rate of 10,000 copies a week. It was the account of a man who was put to sleep in 1887 and awakened in 2000 to discover that everything the Progressives dreamed about had come to pass. Early in the twentieth century, he explained, the economy had been entrusted to “a single syndicate representing the people, to be conducted in the common interest for the common profit.” The result was a world in which human creativity had climbed to new heights and in which

there were no wars, no crime, no poverty, no political corruption, and no labor disputes. Incomes had been equalized, competition had disappeared, and everyone enjoyed all of life’s material benefits.

As to the processes that gave rise to this state of affairs, Bellamy offered only tantalizing hints. One of these was that in the world as he envisioned it, production would be “scientifically” organized. A second was that labor would be provided by an “industrial army,” for which every male between the ages of 21 and 45 was expected to volunteer. Even as he wrote, there were some who saw that an army of this kind could measure up to expectations only if it had the right commander. One of the first to suggest himself was Frederick W. Taylor.

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### Enter Taylor

A future from which imagination has removed the constraints has a distinct advantage over the present.

Taylor was the son of a prosperous Quaker lawyer. His mother’s close friendships with people like Lucretia Mott suggest that he was raised in an environment of relentless chatter about the need for social reform. He was homeschooled until he was 12, and then he studied for two years in France and Germany. He next set out for a European tour very much like the one on which Adam Smith had accompanied the young Duke of Buccleuch a century earlier. Taylor was 16 when he began his studies at New Hampshire’s prestigious Phillips Exeter Academy. His parents were expecting him next to matriculate at Harvard and were shocked to learn that he had taken an apprenticeship with the Enterprise Hydraulic Works.

Taylor had not been working for long before he discovered, as every one of history’s other employees has discovered, that his bosses were making a lot of mistakes. It was on these mistakes that he put the blame for poor labor-management relations and the workers’ tendency to turn out less than he knew they could. When he had risen through the ranks, however, and found himself in a position of authority at Midvale Steel, he discovered that what managers ought to do was less obvious than it had seemed when someone else had been giving the orders.

Rather than earning a regular salary or an hourly wage, the men working under him were being paid according to the number of pieces they produced. Taylor tried to help them earn more by suggesting better techniques. The Panic of 1873 (which before the 1930s was what people meant by “The Depression”) was unfortunately still in their minds, and they were afraid that reaching their quotas too quickly would lead to layoffs. Some of the more experienced among them may have resented this well-placed young whipper-snapper’s opinion that he knew more about their work than they did. In spite of his admonitions they returned to their old methods. Apparently hoping that it would force them to adopt the recommended efficiencies and turn out more, Taylor cut the amount they were paid for each piece. They responded by jamming the machines. He responded by fining them.

### The Tyranny of the Thumb

As to whether this see-saw settled at last into a happy balance, we have only Taylor’s account, and his other reports have been discovered to contain enough modifications of the truth as to raise some doubts about this one. However that may be, it was at this point that he discovered his purpose in life. He would henceforward dedicate himself to a battle against the old familiar methods, which he called the “tyranny of the thumb.” Experience had taught him the difficulty of fighting this battle with the people who were actually doing the work, so he turned to their employers. (If one cannot do a thing, there is always the possibility of teaching someone else to do it.) He had by means of a correspondence course earned a degree in engineering, and during his years at Midvale he had acquired an understanding of accounting, so he was ready to go on. Thirty-seven years old, he set himself up in 1893 as a specialist in “Systematizing Shop Management and Manufacturing Costs.”

The system he shared with his clients may be described as an ellipse, for which the first of the two

foci was “the one best way.” Taylor taught that the ways in which a job might be performed fell into two categories: the right one and all the others. To discover the right one, he watched men working and created files of (a) the movements involved and (b) the time they took. He then developed breathtakingly elaborate formulae showing how to minimize the (a) and the (b) of every job. The application of this formula, he said, would lead to the lowest possible costs and the maximum possible productivity. Trained to use the “one best way,” workers would become more valuable not only to their employers but also to themselves.

### The First-Class Man

The second focus of the ellipse was what Taylor called “the first class man.” Taylor described this individual as a normal person who was mentally and physically suited to his job and willing to give his best. There was for everyone, in Taylor’s thought, some task for which he or she was perfectly suited and therefore capable of becoming a “first class” person. Not everyone, though, was perfectly or even approximately right for every task. For the scientifically designed job it was necessary to select scientifically the person who was ideally suited to learn to do it perfectly.

Outside the ellipse determined by these foci were competition, injustice, and strife. Within it were joy and prosperity. Taylor said that that scientific management substituted peace for war, friendly cooperation for heated arguments, pulling in the same direction for pulling apart, and “mutual confidence” for “suspicious watchfulness.” Assigned to jobs that were perfectly designed and for which they were perfectly suited and perfectly trained, first-class workers would be both productive and content. Workers and capitalists could then “take their eyes off the division of the surplus as the all-important matter, and together turn their attention toward increasing the size of the surplus” until it becomes so large “that it is unnecessary to quarrel over how it should be divided.”

Experience had taught him the difficulty of fighting this battle with the people who were actually doing the work, so he turned to their employers.

The Progressives read this description with a wide-eyed and even tearful wonder. It was just what they had always wanted: an economic system that, because it did not depend on self-interest or competition, could never lead to unjust riches, undeserved poverty, or labor violence. It was exactly what Bellamy had predicted, a “scientifically organized” system of production that elicited the highest possible level of effort from the worker and provided him with all he needed. Among Taylor’s breathless admirers were Ida M. Tarbell, Walter Lippmann, and Theodore Roosevelt. As many of them as still believed in Heaven could almost believe that they had died and gone there. Morris L. Cooke, a leading proponent of the “Social Gospel,” wrote that “neither the visions of Christianity nor the dreams of democracy” would be realized until “the principles of scientific management have permeated every nook and cranny of the working world.” Of scientific management’s many advocates, though, the one who understood it best was Lenin.

### Lenin’s Seal of Approval

Lenin had read as much about Utopia as anyone else, probably more, and he believed he could bring it into being. He thought of himself as a hero, not a villain. The Soviet national anthem talked about “the new path where Great Lenin did lead” and “the righteous cause” to which “he raised up the peoples.” He planned at first to ruin only “the oppressors” but soon ran into resistance from the very people he wanted to help. They unfortunately had their own ideas about what was best for them, and Lenin hoped that Scientific Management might be of some aid in dispelling their illusions. “We must arrange in Russia the study and teaching of the Taylor system,” he wrote, “and systematically try it out and adapt it to our own needs.”

He would have been well advised to consider Taylor’s own experience in attempting to apply these principles. The opinions of the acting individual are shaped by things of which not even the person himself is fully conscious and of which an external observer has not

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Taylor never stopped to consider that the real expert about any job is usually the person performing it.

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the slightest hint. Taylor never stopped to consider that the real expert about any job is usually the person performing it. The agonies of early Soviet history sprang almost entirely from the fact that, like Taylor, Lenin was acting on the basis of how he wanted people to behave rather than an understanding of why they behaved as they did. Both systems failed because of the false assumptions on which they were based.

Centuries earlier, Plato had seen that the realities of human nature would always be a problem for the social planner. The solution, he said, was education. Teach people that the majority are made of bronze or iron, are therefore suited only for economic tasks, and should leave the thinking to the few made of gold. Such indoctrination takes a long time, though, and revolutionaries rarely have much time. Lenin liked Taylor’s solution because it was more direct. Taylor thought that if the orders were sufficiently precise it would be enough simply to issue them. “Our scheme does not ask for any initiative in a man,” he said. “We do not care for his initiative. It is up to us to do all the talking, and John all the listening.”

This is the military solution, and there are some situations in which it does seem to work. When artillery roars in the distance and bullets fly through the bushes and the screams of wounded men fill the air, precise commands and instinctive obedience

may be the best options. While valuable and perhaps even necessary in the face of a terror that isolates the individual from his past, these become less effective as the emergency recedes. People habituated to them begin to idle when there is a break in the stream of orders: thus the expression “soldiering,” one of Taylor’s favorites, which he discovered in Henry V. Poor’s record of how Major General Daniel C. McCallum built railroads to supply Sherman’s Atlanta campaign.

In the complexity of real work situations and in the infinitely greater complexity of the economic order, the qualities most in demand are precisely those that the military solution sets aside: individual experience, motivation, and insight. Scientific management was impractical because these were the qualities it aimed to

eliminate. It came close to working as advertised only one time. In this case the worker selected was a man to whom Taylor referred as “Schmidt.” Schmidt’s qualifications? Taylor said that they were being “mentally sluggish” and “about as intelligent as an ox.” Taylor pointed to one of his assistants and told Schmidt to “do exactly as this man tells you from morning til night.”

The “first class man” turns out in practice to have been a person who was capable of nothing greater than mindless obedience. If it is impossible to rely on the intelligence and motivation of the people actually doing the work, however, resort must be had to a large number of administrators, and costs rise. Commenting on the Nazi use of slave labor, Albert Speer said it would have been less expensive to just let the guards and supervisors do the work. If the real Schmidts of the real workforce had in fact possessed the requisite stupidity, they would have been prohibitively expensive employees. A

### Scientific management was statism writ small.

real-world employer would have had to pay not only the laborers’ piece rates but also the salaries of what Taylor called the “college men” who were given charge over them.

Its appealing ad copy notwithstanding, scientific management was never about efficiency. Nor was it about the workers, for whom Taylor felt a thinly veiled contempt: Schmidt, he said, was really not much more than “a trained gorilla.” It was not even “scientific,” at least not in the sense of discovering from experiment what will work and what will not. Learning of that kind is impossible if one already knows “the one best way.” scientific management was about having a plan and being sure that everyone complied with it. It was statism writ small.

Scientific management is a historical case study on the failure of social planning. Utopians, though, are so busy with their dreams about the future that they have no time for the facts of history. **FBI**

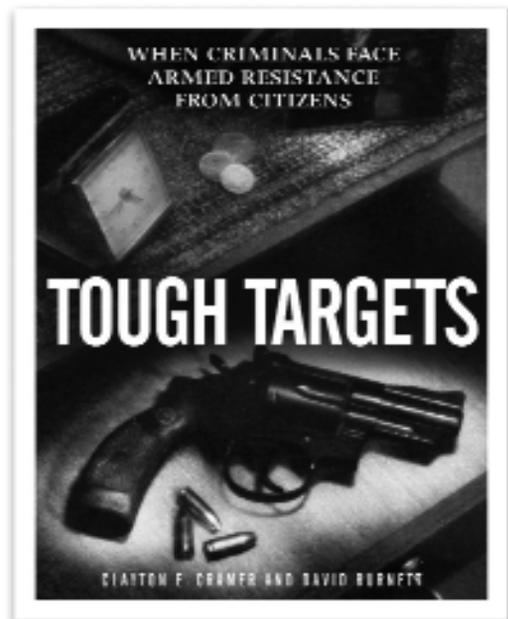
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# The Albatross of 1917 and Related Travesties

BY JOSEPH R. STROMBERG

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American federal administrations sometimes wish to “get” someone who has bruised their self-esteem or doubted their sovereignty. On some occasions, alas, there is no obvious legal way to do so; then the search is on, with great rewards for the apparatchik who can find the next best thing to an actual law. In the case of Julian Assange—an Australian citizen not located on U.S. soil but answerable nonetheless (some say), to universal American law—Justice Department spokesmen are hinting that the rusty old Espionage Act of 1917 may do the trick. It is lethal enough, certainly, and Americans shot enough of their own toes off with it (and its amendments in 1918) during a bender of ruling-class and popular psychosis between 1917 and 1919.

On June 15, 1917, Congress assaulted American freedom with an Espionage Act providing that anyone who, with harmful intent, should “obtain information” about any defense establishment, piece of equipment, repair shop, wireless station (and many other things); or having acquired copies of any photograph, plan, blueprint, or such—that is, “*anything connected* with the national defense [emphasis added]”—should then lose them or give any of them to unauthorized parties (perhaps aiding the enemy), could be fined up to \$10,000, or imprisoned up to two years, and “in time of war,” given the death penalty. Someone who, intending to inform the enemy “in time of war,” learned something about American military organization and planning (and much else), such knowledge being conceivably “useful

to the enemy,” would be rewarded with death or up to 30 years imprisonment. For false reports that interfered with the war effort, or caused (or attempted to cause) insubordination, and so on, in the armed forces, or obstruction of military recruitment, the penalties were fines up to \$10,000 or imprisonment up to 20 years, “*or both* [emphasis added].” “Conspiracy” to do any of the above, or “harboring” someone who did (or might do) any of them, earned fines up to \$10,000 and/or imprisonment up to two years.

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The statute’s rhetorical overkill was well crafted to enable the dumbest prosecutor in the land to make a case.

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The statute’s rhetorical overkill, haunted by the nagging fear that some microscopic detail had been overlooked, was well crafted to enable the dumbest prosecutor in the land to make a case. Somewhere between zero and a handful of actual foreign spies were caught under the 1917 Espionage Act. The Sedition Act of 1918 accounted for most of the convictions of Americans during the war. The 1918 additions, which told Americans *in great*

*detail* what they could think, believe, or say, were dropped after the war, although the federal government has since sought to achieve their effect by other means.

And now we call our chief witness, John W. Burgess, an East Tennessee Unionist who fought in the Civil War. From the mid-1870s he reigned for many decades as head of Columbia University’s department of political science. He held Hegelian views on State and government, capped by the absolute sovereignty of the

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union. But while these rather ominous-sounding propositions defined the basis of the political system, Burgess's actual notion of everyday governing was a kind of laissez-faire liberalism. He reacted badly to the Spanish-American War (1898) and rising Progressivism, writing in 1915 (*The Reconciliation of Government with Liberty*): "The Jingo and the Social Reformer have gotten together and have formed a political party, which threatened to capture the Government and use it for the realization of their programme of Caesaristic paternalism."

### Burgess and Opposition

After war broke out in Europe in 1914 the German-educated Burgess dared to defy in print a solid Anglophile, pro-Ally consensus within America's northeastern elite for several years. For his trouble he found himself on Secretary of War Newton D. Baker's list of authors deemed "pro-German," pacifist, and likely to undermine the war effort and destroy the morale of the troops. (There was a lot of deeming in those years.) Burgess was one of many thoughtful people who lived through the madness, repression, and constitutional inventiveness enjoyed by Americans during World War I.

Wartime experience concentrated Burgess's critical faculties and increased his preference for continental isolation over foreign adventures.

His *Recent Changes in American Constitutional Theory* (1923) set the stage for later Old Right thinkers. Burgess was quite eloquent on Congress's inventive notions, from April 1917 onward, respecting conscription, free speech, and war powers. (A reprint of *Recent Changes* was sold by FEE as late as mid-1956 for one dollar.)

In his book Burgess noted that in 1917 Congress undertook conscription for a *foreign* war. But the Constitution only allowed "universal military duty and service, under the form of the militia of the States"—and

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The Constitution only allowed "universal military duty and service, under the form of the militia of the States"—and then only "in defense against invasion, suppression of insurrection and executing the laws of the Union."

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then only "in defense against invasion, suppression of insurrection and executing the laws of the Union." If government could conscript Americans for any overseas conflict that it could itself precipitate, it could "hold the people of the country under permanent military law power . . . [and] put the last drop of blood of every man, woman and child in the country at the arbitrary disposal of the Government" ([tinyurl.com/7j43wh2](http://tinyurl.com/7j43wh2)). Naturally the Supreme Court approved the new-modeled conscription.

No federal power existed, Burgess continued, to suppress speech or suspend habeas corpus in the states; this was a point of territorial jurisdiction, and the federal government did not have the required jurisdiction over the states, except in the two cases named in the Constitution: invasion or insurrection. Here Burgess found a use for the states (not previously his favorite political bodies) and soon found one for the *Milligan* decision (1866), in which the Supreme Court concluded that suspension of habeas corpus "did not contain, in itself, any power to suspend any of the *other constitutional immunities of the individual* against governmental power" (Burgess's words; emphasis added). As a matter of territorial jurisdiction, Burgess argued, the federal government could only restrict speech in the District of Columbia or in federally administered territories—*not* in the states. And

where federal authorities had jurisdiction, they could constitutionally do little more than enact ordinary libel and slander laws. Burgess stressed the supposed enumeration of federal powers in Article I—no other powers being granted.

Under the *war power*—"generally . . . a very hazy notion"—Congress had passed the Espionage Act, where "the word war is used designating the time and occasion for its enforcement and not the words invasion or rebellion. . . ." In this manner, Burgess wrote, the government claimed powers that it could use constitu-

tionally only *in two cases* for use in a speculative and self-chosen adventure “on foreign soil three thousand miles away.” If it could do so Americans were living under “autocracy, not constitutionalism.” Burgess had little hope for the future and thought that Americans could look forward to Caesarism tempered by elections. (By now it’s not especially tempered.)

Along the way Burgess made a particularly striking argument against certain amendments to the Espionage Act passed in 1918. These sections pretended to make unlawful “any abusive language” about the American “form of Government” intended to bring it “into disrepute.” But, Burgess observed, Congress could not suspend Article 5’s amending power merely because it had found Americans a foreign war; therefore it could not suspend freedom of speech and of the press, which were essential to actual use of the (unsuspended) amending power. Amendment involved suggested changes, and those necessarily implied criticism of existing forms. Q.E.D. (John Taylor of Caroline made a very similar argument from fundamentals against the late-eighteenth-century Alien and Sedition Acts. See his *Inquiry into the Principles and Policy of the Government of the United States*.)

Concluding the book, Burgess put his Hegelian terminology to good use. He said that the underlying sovereignty of the State (= the Union) had passed from the American *nation* to the day-to-day governmental apparatus. Sovereignty, once lost, might not be recovered without revolution. To avoid that drastic solution Burgess recommended an amendment to exclude Congress from the amending process, and an amendment clearly making all suspensions of Americans’ liberties during foreign wars unconstitutional. Since most twentieth-century American wars (and, using the Obama administration’s word, “kinetic” spasms) have been, or are, *foreign*, strictly speaking, this was an appealing idea.

Younger scholars saw Burgess’s failure to become a Wilsonian War-Liberal as a terrible blot on his reputation. Those who agreed with Burgess repositioned him as a prophetic, if somewhat conservative, classical lib-

eral. It seems possible that Burgess’s distinction between the abstract Hegelian State and ordinary government lived on in a more critical, revisionist form in the work of Albert Jay Nock, former *Freeman* editor Frank Chodorov, and John T. Flynn.

Putting federal power first, the U.S. Supreme Court found all the World War I experiments damned by Burgess to be self-evidently constitutional. That alleged liberal Justice Oliver Wendell Holmes adjusted them microscopically in some famous cases that did very little for free speech and a free press. It fell to the American Civil Liberties Union to do any real work on this front.

In 1944 Lawrence Dennis and 29 codefendants withstood charges that as “isolationist” and “fascist” writers, they had aided the enemy. They prevailed, in part, because the prosecution could not show that the defendants had written anything intended to “cause insubordination, disloyalty, mutiny, refusal of duty, in the military or naval forces of the United States.” The government had a speculative “theory” rather than a case.

### The Total American State

Bad enough in its original context of war as “the health of the State” (Randolph Bourne) and America’s first experience of “the total, or totalitarian, state” (Robert Nisbet), the Espionage Act of 1917 quietly survived and its provisions now reside in Title 18 of the Federal Code. Consider one hardy survivor: the transfer from Any One to Any Other One of information of any kind “relating” to national defense. This vague language could be of some aid in prosecuting present-day leakers. Official leakers need not worry: It isn’t really leaking when the government does it, just as it isn’t perjury when the prosecution does it.

While the Act lost some of its bite when the 1918 sedition provisions lapsed, government gained new weapons with the Smith Act (1940), and today Title 18 contains at least seven very tedious and promising chapters dealing with, among other things, conspiracy; malicious mischief (“interference with the operation of a

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Putting federal power first, the U.S. Supreme Court found all the World War I experiments damned by Burgess to be self-evidently constitutional.

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satellite”); terrorism; treason, sedition, and subversion; wire and electronic communications interception; stored electronic communications; and much else besides.

Now we are near the heart of it. A government that insists on global domination will have many projects, enemies, and operations, and therefore many secrets. Eventually it “classifies” the number of paper clips in every office. Yet America’s nineteenth nervous breakdown or some enemy’s victory in a war (when it even is a war) will hardly follow from accidental or deliberate exposure of such “secrets.” Instead the public might well learn things it had every right to know in a largely hypothetical democracy.

As things stand, the executive branch makes secrets out of nothing at geometric rates of expansion. Deferring to the executive as always, the courts play phony balancing games, weighing the mere public’s “interest” in free speech, freedom of the press, and the like, against the government’s “interest” in world rule, keeping its secrets, not being disappointed, and so on. For the foreseeable future, government will prevail. It has all statutes and most of the judges, and we—Americans—don’t. (For current trends, see Stephen I. Vladeck, “Inchoate Liability and the Espionage Act,” *Harvard Law & Policy Review*, 2007.)

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Deferring to the executive as always, the courts play phony balancing games, weighing the mere public’s “interest” in freedom against the government’s “interest” in world rule.

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These days a president can declare his legal “right” to target anyone in the world (Americans included) *said* to be connected to vaguely outlined enemies with a drone or a cruise missile. Under the NDAA (National Defense Authorization Act), recently signed by the President after a phony show of disagreement, the executive may indefinitely detain alleged terrorists (Americans included) without ever having to show anyone—not Congress, not the courts—the least evidence in favor of the claim. We have a Super-Espionage-and-Sedition Act by other means. The situation insults Americans’ intelligence, and rightly so. On the upside certain ambitious projects to export American “freedoms” to deserving but deprived foreign lands will now become cheaper. With only one or two freedoms actually on hand, the packaging and shipping costs will plummet. A net gain for American

frugality! Perhaps even the military budget will be trimmed.

John W. Burgess would not be entirely surprised. But we mustn’t repeat here the other remedy he mentioned should his proposed constitutional amendments fail to go forward. Mentioning that one might conceivably constitute “sedition.” **FEE**





## Austrian Economics Hits the Headlines

BY SHELDON RICHMAN

When a presidential candidate declares, as Ron Paul has, “We’re all Austrians now,” it’s inevitable that his critics would try to discredit him—whether they understand what he’s talking about or not. That’s what Matthew Yglesias does in his *Slate* piece “What Is ‘Austrian Economics?’” ([tinyurl.com/792eb76](http://tinyurl.com/792eb76)).

I recommend the piece because it’s highly informative—about what Austrian economics is not.

We’re off to a rocky start with this: “The Austrian school originally referred to a set of classical liberal thinkers with diverse interests who came out of the Austro-Hungarian Empire.”

The earliest Austrian economists did not make their marks by advocating free markets and other classical-liberal ideas. In fact most of them were not classical liberals. They made their marks by proffering a revolutionary *positive* (not normative) theoretical approach to understanding how markets work, focusing on value, price, and capital theory. What Wikipedia says is consistent with my understanding of the matter: “When Carl Menger, Eugen von Böhm-Bawerk, and [Friedrich von] Wieser began their careers in science, they were not focused on economic policy issues, much less in the rejection of intervention promoted by classical liberalism. Their common vocation was to develop an economic theory on a firm basis.”

Yglesias thus conflates Austrian economic theory with libertarian political theory. In fairness, he is not alone in committing this error. Many libertarians do the same, which is unfortunate. Austrian economic theory describes how purposive action by fallible human beings unintentionally generates a grand, complex, and

orderly market process. An additional ethical step is required to pronounce the market process good. Economic theory *per se* cannot recommend but only explain markets. This is what Ludwig von Mises meant when he insisted that Austrian economics is value-free. Anyone of any persuasion ought to be able to acknowledge that economic logic indicates that imposing a price ceiling on milk will, other things equal, create a shortage of milk. But that in itself is not an argument against the policy. Mises assumed the policymaker would have thought that result bad, but the economist *qua* economist cannot declare it such.

Yglesias writes: “Austrians reject the idea that there is anything at all the government can do to stabilize macro-economic fluctuations.” It’s odd to say this without also pointing out that Austrians believe that government *causes* the instability of inflationary booms, recessions, and depressions. In light of that point, the suggestion that government is capable of stabilizing the economy may be properly assessed.

That said, Yglesias’s statement is not quite right. Some prominent Austrian macroeconomists think that in a second-best world, the central bank (which of course wouldn’t exist in a first-best world) should counteract a sudden and substantial monetary contraction. In other words, deflation is not necessarily a cure for inflation. Mises made the point metaphorically in 1938: “If a man has been hurt by being run over by an automobile, it is no remedy to let the car go back over him in the [opposite] direction.” (Though let us not forget the knowledge problem that plagues the Fed under any circumstances. See Steven Horwitz’s *Freeman*

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article “Deflation: The Good, the Bad, and the Ugly,” [tinyurl.com/ycqzzyv](http://tinyurl.com/ycqzzyv).)

“In the view of the Austrians,” Yglesias goes on, “practically every economic policy pursued by the federal government and Federal Reserve is a mistake that distorts markets. Rather than curing recessions, claim Austrians, stimulative policies cause them by producing unsustainable bubbles.” Well, yeah, and it’s amply demonstrated by George Selgin, William D. Lastrapes, and Lawrence H. White in “Has the Fed Been a Failure?” (See my summary, “‘F’ as in Fed,” [tinyurl.com/27s5a9e](http://tinyurl.com/27s5a9e).) As they put it:

Drawing on a wide range of recent empirical research, we find the following: (1) The Fed’s full history (1914 to present) has been characterized by more rather than fewer symptoms of monetary and macroeconomic instability than the decades leading to the Fed’s establishment. (2) While the Fed’s performance has undoubtedly improved since World War II, even its postwar performance has not clearly surpassed that of its undoubtedly flawed predecessor, the National Banking system, before World War I.

Yglesias understands that the Austrian theory of the business cycle has something to do with artificially low interest rates breeding malinvestment, but he thinks that can’t be right because “it’s hard to understand why business people would be so easily duped in this way. If Ron Paul and Ludwig von Mises know that cheap money can’t last forever, why don’t private investors? Why wouldn’t firms avoid making the supposedly dumb investments?”

Gerald P. O’Driscoll and Mario Rizzo addressed this long ago in *The Economics of Time and Ignorance*:

[T]here are profits to be made from exploiting temporary situations. . . . Though entrepreneurs understand [the macro-aspects of a cycle] they cannot predict the exact features of the next cyclical expan-

sion and contraction. . . . They lack the ability to make micro-predictions, even though they can predict the general sequence of events that will occur. These entrepreneurs have no reason to forswear the temporary profits to be garnered in an inflationary episode. . . . From an individual perspective, then, an entrepreneur fully informed of the Austrian theory of economic cycles will face essentially the same uncertain world he always faced. Not theoretical or abstract knowledge, but knowledge of the circumstances of time and place is the source of profits.

Puzzlingly, Yglesias also thinks he can refute the Austrian theory by noting that “[s]pending patterns shift all the time without sparking a recession.” To which Peter Klein replies, “Of course, Yglesias’s breezy summary of the theory skips over the time structure of

production, the difference between consumption and investment, the role of interest rates in securing intertemporal coordination, the problem of expectations, and the other basic elements of the theory, which ten minutes of Wikipedia browsing could have explained.”

Yglesias reveals his unfamiliarity with the Austrian literature when he writes, “Many of the original Austrians found their business cycle ideas discredited by the Great Depression, in which the bust was clearly not self-correcting.” Considering that Herbert Hoover’s and Franklin Roosevelt’s New Deal *impeded the market’s correction process*, one wonders how the 1930s could possibly have discredited the Austrian theory of the *origin* of recessions.

Finally, Yglesias contends that “the Austrian school . . . preaches despair and demands no action at all.”

Balderdash. Since it explains that busts are central-bank-caused and hence avoidable through market-based money and banking, its implicit message is one of hope and optimism. And as for demanding no action, on the contrary, it puts forth a long list of actions for those who want stable economic growth—all of them designed to dismantle the interventionist State. **FEE**

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Because the Austrian school teaches that busts are inherently avoidable, its message is one of hope and optimism.

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# The Progressive Roots of Zoning

BY SAMUEL R. STALEY

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Before the twentieth century land-use and housing disputes were largely dealt with through courts using the common-law principle of nuisance. In essence if your neighbor put a building, factory, or house on his property in a way that created a *measurable and tangible harm*, courts could intervene on behalf of a complainant to force compensation or stop the action. This pro-property rights approach maximized liberty and minimized the ability of citizens and elected officials to politicize the development process.

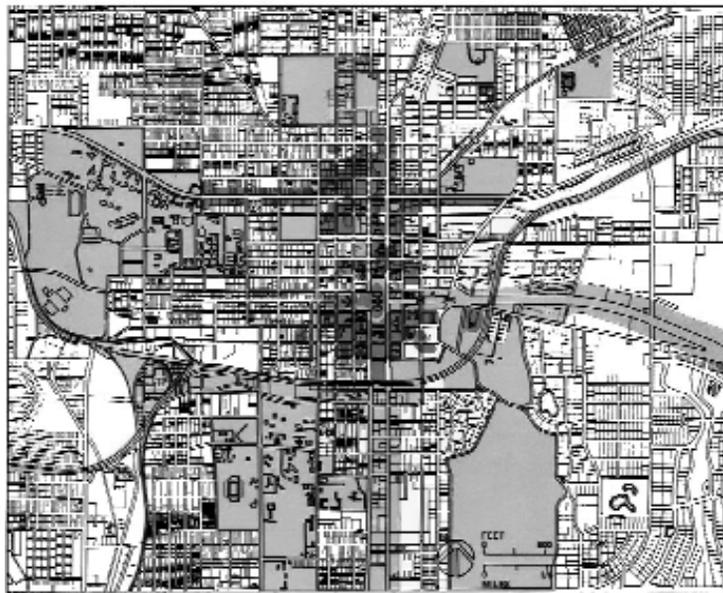
This changed with the Progressive movement. Beginning in the late nineteenth century, Progressives argued that government should become more professional. Rather than being limited, government should use its resources to pursue the “public interest,” loosely defined as whatever the general public decided through democratic processes was the proper scope of government. Legislatures and, by extension, city commissions made up of elected citizens would set policy and goals while a cadre of trained professionals would use the techniques of scientific management to implement policies. One of the leading Progressives of the day,

Woodrow Wilson, was skeptical of the value of elected bodies such as Congress because they interfered with scientific management of government.

While many in the 21st century might be tempted to dismiss this public-interest view of government—indeed an entire academic subdiscipline, Public

Choice, has emerged to demonstrate the foibles of governments and explore “government failure”—Progressive ideas held a lot of appeal at the turn of the twentieth century. In addition to national concerns over industries such as oil, steel, and railroads, local governments were rife with corruption, waste, and inefficiency. Reforms, such as the city-manager form of government, civil-service exams, and in

some cases even municipal ownership of utilities, were thought to provide more transparency and accountability than the patronage-laden times of political bosses. (Today municipal ownership is associated with higher costs, less transparency, and little accountability.)



Tallahassee, as seen by a zoning board.  
Gotty [Wikipedia] <http://tinyurl.com/7gannuv>

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The Progressive movement, however, had another, darker side that would end up being much more important to understanding the widespread acceptance and persistence of government land-use regulation: social control. Jonah Goldberg notes in his contemporary political history, *Liberal Fascism*, that the Progressive movement was also a social movement. The emergence of Prohibition and immigration restrictions at the same time (during the presidencies of Theodore Roosevelt, William Howard Taft, and Wilson) was not a coincidence. Not only could government professionalize public service, Progressives believed it also should mold the community along “progressive” social norms and goals (collectively decided).

This political climate provided the context for zoning and helps explain the rapid increase of zoning and urban planning more generally throughout the United States. Conventional planning history tends to minimize the political reasons why zoning was broadly accepted, seeing urban planning instead as an application of a more scientific and rational approach to land development. Rather than letting private markets decide what housing should be built, at what heights, at what densities, and where, the “community” would decide through a combination of democratic choice (elected officials developing and approving a zoning plan and code) with professional planning and code enforcement. Ideally the zoning code would be tied to a central comprehensive plan, which would establish the “vision” for the community. Zoning would be used to implement the plan.

Importantly, zoning was a Progressive alternative to the more traditional (and conventional) nuisance-based approach. The first zoning code, for example, attempted to address spillover impacts of property development—externalities—by segregating land uses. The proverbial slaughterhouse in the residential district wasn’t a myth; these juxtapositions of “noxious” uses were common in low-wealth, low-mobility societies and communities. As incomes increased, wealthier households tended to

move to neighborhoods that were healthier and safer; incomes afforded greater mobility—first with horses and buggies, then horse-drawn and electric trolleys, and ultimately with the automobile. Those left behind were forced to use the courts—which required money, time, and expertise—to marshal arguments and win cases. Zoning was an alternative that promised lower costs and consistency with social goals established at the municipal level through scientific land management.

But the acceptance of zoning wasn’t all about scientific management and the implementation of the public interest. Zoning, in effect, collectivized property rights. The zone established in the code determined what kinds of homes could be built, their size, sometimes

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The acceptance of zoning wasn’t all about scientific management and the implementation of the public interest. Zoning, in effect, collectivized property rights.

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even their outward appearance, and the density of neighborhoods. Similarly, zones determined where businesses could locate. Proposals to develop property for uses not designated by the zoning code required an amendment to the zoning map or plan. The amendment process was intended to be cumbersome and laborious because the presumption was always in favor of the publicly approved plan and against spontaneous modifications based on individual initiative.

Overestimating the detail of a zoning code is difficult. Even cities of 10,000 or fewer can have dozens of zones, often a half-dozen or more devoted just to housing types. Separate zones may exist for neighborhood business, commercial office space, neighborhood retail, or regional shopping malls. While some cities and towns have adopted a “pyramid approach,” where the base of acceptable uses is broadened as land is “upzoned” (with commercial and industrial development representing “higher” zones to reflect higher densities), many have adopted “exclusive use” zones that specify in detail what uses are permitted. If your proposed use (say, a home-based doctor’s office or tax preparation service) is not listed as a permissible use, it’s illegal.

One of the consequences of adopting a zoning code is the implicit politicization of all land use by making it

a community decision. The decision to “grandfather” a use (such as your home) is a political decision, not one based on private property rights. In fact there is no enforceable individual property or civil right to land use under zoning; courts have routinely upheld the legal right of cities to rezone properties regardless of the wishes of individual property owners. Citizens can object as a matter of due process but cannot challenge the substance of the regulation itself, which is presumed to serve the general welfare of the community. Zoning establishes a legal entitlement granted by government to use property in designated ways.

Thus two forces led to the rapid adoption of zoning throughout the United States in the twentieth century: concerns about the nuisance effect of incompatible land uses and the political desire to control property development. Research by political scientist David Clingermayer, published in the academic journal *Public Choice* in 1993, found evidence that both the market-failure and political-interest justifications were important to understanding the spread of zoning. The conventional history focuses on nuisances and the “failure” of common law. Edward Bassett, an attorney and reformer in New York City, advocated the nation’s first city-wide zoning ordinance when the iconic Equitable Building was erected in Manhattan. The building was tall enough to block sunlight into neighboring buildings and properties, prompting calls to restrict the size and height of buildings. A zoning ordinance would do the trick, Bassett said, taking inspiration from European style “districting.”

The second force, however, may have been equally important, according to Clingermayer. Externalities may have prompted some actions, but the economic interests of the politically powerful were also at play. The skyscrapers popping up along Manhattan’s toney Fifth Avenue troubled upscale clothiers, who were not excited about their wealthy clients mixing it up with the immigrant sweatshop workers toiling away in the high-rises. So Fifth Avenue property owners used the political device of zoning to prevent encroachment by

uses they thought were “undesirable” or could lower their property values.

The same scene played out later near industrial Cleveland, Ohio. The suburban village of Euclid was concerned that industrial development radiating outward from Cleveland would encroach on the primarily residential character of its community. So it enacted a zoning ordinance to prevent industrial development. In a landmark 1926 decision by the U.S. Supreme Court, *Village of Euclid v. Ambler Realty Corp.*, the zoning ordinance was upheld as a proper exercise of the police powers of local government to protect the general health and welfare of the community. Ironically, in the wake of the zoning ordinance, Ambler Realty’s property lay vacant until World War II, when an aircraft factory was built by General Motors to support the war effort.

Even before the Supreme Court blessed zoning, the federal government was busy encouraging it as part of a general effort to professionalize development control. Bassett helped the U.S. Department of Commerce (under Herbert Hoover) draft a model zoning ordinance called the Standard State Zoning Enabling Act, which provided a blueprint for cities across the nation. Clingermayer notes

that 55,000 copies of the report were printed and distributed during the 1920s. By 1930 800 cities, towns, and villages—covering three-fifths of the nation’s urban population—were governed by a zoning ordinance of some kind.

Regardless of the initial intent, however, the effect of zoning was to fully politicize land-use decisions, as economist William Fischel puts it in the classic, *Economics of Zoning and Land Use*. This was not surprising: Since zoning hinges on the control over land uses rather than free use of property, the complexity of the zoning maps and the development-approval process has increased exponentially.

Euclid’s first zoning ordinance had six districts based on classes of uses. By 2011 the village had become a city of nearly 50,000 residents with 12 zoning districts, including six residential, three commer-

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Regardless of the initial intent, however, the effect of zoning was to fully politicize land-use decisions.

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cial, two industrial, and a campus-institutional district. The initial modest control of land use quickly proved ineffective because democracies are not particularly good at predicting the future. As land uses became more complex and the impacts themselves became more diffuse and hard to categorize, zoning became more layered and sophisticated, with cities and planners attempting to anticipate and accommodate more uses. Euclid's zoning is relatively modest by national and midwestern standards. San Antonio's zoning districts have grown from 22 in 1938 to 30 in 1958 to 53 in 2009. New York City has adopted hundreds of zoning districts, including ten residential, eight commercial (plus overlays), three manufacturing, dozens of special districts such as street-specific designations for mixed land uses, and environmental districts such as scenic view districts.

For many cities, zoning has become a never-ending cycle of adding complexity to already complex planning procedures as existing zones fail to accommodate innovations in land use and economic development.

Is there an alternative?

While most American cities, towns, and villages have adopted some form of zoning and comprehensive planning, several counties and municipalities have resisted the Progressive call to centrally plan their cities. Chief among these is Houston, Texas, a city of 2.1 million people in the nation's sixth-largest metropolitan area of six million. Zoning has gone to popular referendum three times (1948, 1962, and 1993) and failed. Most recently a pro-planning city councilman lost his bid to become mayor, in part because of citizen skepticism of zoning (and its modern-day cousin, Smart Growth).

Despite the lack of zoning Houston is hardly a land-development free for all. Development is regulated through three different processes. The city regulates development through an approval process that focuses mainly on the impact of land development on public services. New developments, for example, must conform to performance criteria for public services

such as sewer and road capacity. The second regulatory mechanism is private restrictions on land use adopted through legally enforceable land covenants, or voluntary restrictions on future land uses by current property owners. Covenants can (and often do) exclude specific uses, such as commercial enterprises or businesses. Yet a surprising number of parcels are "unrestricted," particularly in the older neighborhoods and sections of the city, effectively allowing informal market forces, the third mechanism, to regulate the timing, intensity, and place of development.

By avoiding zoning Houston is able to dramatically speed up the approval process while ensuring the land market responds effectively to economic trends. Under conventional zoning securing a rezoning for a major project can take years. In Houston substantial developments such as multifamily housing can be approved through the performance-approval system and be fully constructed within a year.

All three mechanisms have effectively combined to encourage and manage the growth of one of the nation's most dynamic cities. Houston, for example, builds housing at

higher densities and closer to the traditional urban core than competing cities such as Dallas and Phoenix. Its market-oriented approach to land use has also allowed it to adapt, building multiple employment centers to accommodate new economic challenges and opportunities. While Houston was not immune to the housing market collapse, its housing market has tended to be more resilient and adaptable to changing circumstances.

In sum, many citizens of contemporary U.S. cities take the Progressive foundations of zoning and land-use planning for granted. Yet these Progressive principles on which modern-day zoning rests, and its broad cultural acceptance at the grassroots level, have helped undermine alternative ways of regulating development more consistent with individual liberty and markets. Many of those seeking to roll back federal government encroachment should also be casting a skeptical eye into their own political backyards.

**FREEMAN**

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Houston is able to  
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economic trends.



## Ideas Have Sex, and We're Better for It

BY JOHN STOSSEL

**A**n idea walks into a bar. She meets another idea. They get together, and nine months later (or maybe it's nine minutes or seconds? It's not clear how it works with ideas), a new idea is born. A baby idea with the best traits of both parents.

When this happens a lot, everyone gets smarter and the world gets better.

Did you know that ideas have sex?

It's a weird concept, but the more I think about it, the more right it seems. I learned it from British journalist Matt Ridley.

Ridley, author of *The Rational Optimist*, says the reason life gets better is that ideas have sex.

"Ideas spread through trade," he told me. "And when they meet, they can mate, and you can produce combinations of different ideas. I think a good example is a camera pill, which takes a picture of your insides on the way through. It came about [during] a conversation between a gastroenterologist and a guided missile designer . . . a process very similar to sex in biology, because through sex, genes meet and recombine, and you get new combinations of genes. That's what causes innovation in biology, and innovation in culture."

And life improves.

"Our living standards have shot up in my lifetime. The average income of the average person, corrected for inflation, is three times what it was when I was born [in 1958]. And life span is 30 percent longer."

This didn't happen because of central planning. It's the spontaneous market generated from free individuals that sets and keeps it in motion.

Ridley goes on to argue that even sex between the ideas of dumb people produces better results than those of a brilliant central planner.

"If you look at human history . . . lots of people in a room who are talking to each other, however stupid they are, can achieve a lot more than a lot of clever people in the room who never talk to each other. So it's not individual intelligence that counts in how well a

society works. It's how well people communicate and exchange ideas with each other."

He reminds me of the late, great economist Julian Simon, author of *The Ultimate Resource*, who for years stood virtually alone in explaining the benefits of population growth, free exchange, and the mixing of ideas.

"I was fed up with the pessimists," Ridley explained. "When I was a student in the 1970s, the grown-ups told me that the future of the world was bleak, that the oil was running out, that the population explosion was unstoppable, that famine was inevitable. I feel kind of cross that nobody said anything optimistic to me about how these resources might not run out. They might become more abundant because of human ingenuity. They might actually get cheaper rather than more expensive and that it might be possible for us to have higher living standards and actually do less damage to the environment as we do so, that the air might get cleaner, the rivers might get cleaner!"

"All of these things have happened. We've got healthier, happier, cleaner, kinder, cleverer, more peaceful and, indeed, more equal, if you look at the picture globally over that time."

In a debate Bill Gates pushed back against Ridley's optimism. Gates argued that worrying about the worst case can help drive a solution.

Ridley doesn't buy it.

"If you look at where the solutions come from, they come from optimistic people living in rich places, like Steve Jobs, or Archimedes in ancient Greece, or Leonardo in Renaissance Italy. . . . It's the pessimists who are the complacent ones these days, because they're the ones saying: 'This is as good as it can get. We can't make it any better.'" **FEE**

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*John Stossel hosts Stossel on Fox Business and is the author of Myths, Lies, and Downright Stupidity: Get Out the Shovel—Why Everything You Know is Wrong. Copyright 2012 by JFS Productions, Inc. Distributed by Creators Syndicate, Inc.*

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# Book Reviews

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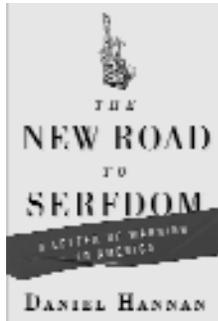
## **The New Road to Serfdom: A Letter of Warning to America**

by Daniel Hannan

Harper/Broadside Books • 2010/2011 • 240 pages

\$24.99 hardcover; \$14.99 paperback

Reviewed by George Leef



F.A. Hayek’s most famous book, *The Road to Serfdom*, was written as a warning—to “socialists of all parties”—that socialism, the intellectually fashionable trend of his day, would lead to the loss of both liberty and prosperity. He was right, but the nature of the threat has changed from the time of his writing in 1944. Politicians today are not so enamored of government takeovers of business and industry as when the theories of Marx and Lenin were still ringing in their ears. Now they are more infatuated with socioeconomic control through regulations, bailouts, endless government “services,” and, especially in Europe, supranational planning.

That is the witches’ brew that Daniel Hannan warns us against in this book. Hannan is the British member of the European Parliament who became famous for a remarkable dressing-down he gave to then-Prime Minister Gordon Brown after a speech in which Brown tried to paint a pretty picture of Europe’s future. Hannan replied that the future was bleak, due to the embrace by politicians of unsustainable collectivistic policies. In this book Hannan explains why Americans must avoid the road that Europe is on and return to the original “British liberties” that our revolution sought to preserve.

“The United States is Europeanizing its health system, its day care, its welfare rules, its approach to global warming, its foreign policy, its federal structure, its unemployment rate,” Hannan writes. Unless we change course abruptly, we will bitterly regret it. The severe financial problems that have beset much of Europe

since the book’s publication strongly amplify Hannan’s message. In truth the United States is already far along in the “Europeanizing” process, but not yet at the point of no return, he suggests.

Health care is Exhibit A in his case. Although the State has been invading this crucial field in America, in most of Europe it is a near monopoly by government. “Britain,” he writes of his native country, “is pretty much the last place in the industrialized world where you’d want to be diagnosed with cancer, stroke, or heart disease.”

In the nineteenth century, British doctors and scientists were leaders in medical research and treatment, and the health of the populace improved dramatically. Today, however, the nation is stuck with the National Health Service (NHS), a state-controlled system that demolishes the incentives for quality care—when patients can get any care at all. Distressing stories about the suffering of neglected, misdiagnosed, or maltreated patients abound in Britain, but any criticism of the NHS is met with ferocious counterattacks from its personnel and political defenders, who claim that criticism is an “insult” to the dedicated workers and an affront to the nation’s “caring values.” Even though the NHS produces miserable results, reform is proving to be impossible. That is why Hannan advises us to stop the politicization of our health care system before it’s too late.

Hannan also counsels against abandoning federalism. He observes that the most free and vibrant country in Europe is Switzerland, which is still a federation of largely autonomous cantons. Federalism protects against the manifold evils that result from unchecked power in the central government, and Hannan shows his grasp of Public Choice theory in explaining that the problem of factionalism becomes more and more acute as a nation becomes more politically centralized. Again America has already begun down the road that Hannan cautions against—our commitment to federalism has been steadily eroding ever since the New Deal—but we will suffer increasingly severe consequences if we continue moving toward omnipotent central government. Hannan argues that the European trend toward supranational government is especially to be avoided. Whereas Americans still can vote out of office politicians who

displease them, in Europe many critical social and economic decisions are now made by the bureaucrats of the European Union, who are accountable to no one.

Most of *The New Road to Seifdom* is solid, but libertarian readers will find some of Hannan's advice discordant. In particular he favors an America that "projects global military power" as opposed to the weakling foreign policy of Europe's major nations. Like most conservatives Hannan sees imaginary benefits in a policy of acting as the world's policeman and is oblivious to its heavy costs, including its nasty habit of creating the very antagonisms that then seem to demand our further military presence to quell. It's a vicious circle, but Hannan dismisses the idea that a militaristic foreign policy causes trouble rather than solves it.

Nevertheless it is valuable to have a book by a European intellectual that runs counter to the widespread notion that America can solve its socioeconomic problems through increasing the power of the State. Trying that will only make them worse.

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### Literature and the Economics of Liberty: Spontaneous Order in Culture

edited by Paul Cantor and Stephen Cox

Ludwig von Mises Institute • 2010 • 509 pages • \$20.00

Reviewed by Troy Camplin



*Literary Theory: An Anthology* (ed. Julie Rivkin and Michael Ryan) is one of the foremost anthologies of literary theory. Among its sections is one titled "Political Criticism: From Marxism to Cultural Materialism." With the exception of Hegel, all the authors are Marxists. This is the entirety of economic analysis in literature: Marxism. At least, it *was*.

Now there is *Literature and the Economics of Liberty: Spontaneous Order in Culture*, which introduces Austrian economics to literary criticism. This anthology's stated purpose—to "explore the possibility that forms of economic thinking sympathetic to capitalism may be able

to illuminate our understanding of literature in new ways"—is not entirely without precedent, but Cantor and Cox's book is distinct in its focus on one tradition of economic thought: Austrian economics.

In a pursuit as individualistic as writing, it may seem surprising that this is the first attempt to apply Austrian economics, with its methodological individualism, to literary production, while such anti-individualistic worldviews as Marxism have dominated. But if we understand that socialism is a top-down approach to economic organization, perhaps this is not so surprising. Authors engage in top-down organization whenever they write—so the application of this process to social processes seems, to many of them, logical. Even many experts in sociology or economics do not make the proper distinctions between top-down organizations and bottom-up orders, so why expect writers to do so?

The anthology authors' use of methodological individualism does not mean they view the artist as an isolated genius. Their approach rather places writers in their historical-cultural contexts. Writers are influenced by the world they live in. There is feedback, which informs the writer and influences future works. The Austrian approach to economics views the individual as a social being, and so too the artist. It emphasizes the subjectivity of value, which Cantor observes should make it more attractive than the objective theory of Marxism, since literature is particularly focused on subjective experiences. Spontaneous-order theory helps us develop a better idea of how literary artists create works of art. From it we can develop a sociology of artistic production superior to what is possible through Marxist-informed theories.

Cantor devotes his introductory essay to "showing how . . . Hayek's idea of spontaneous order can help to resolve one of the central dilemmas of literary theory, the conflict between the New Criticism and Deconstruction." According to Cantor, New Criticism, one of the earliest literary theories developed in the twentieth century, argues that everything the author puts in his work is intentional and that the finished work is therefore "perfect." In opposition to New Criticism, Cantor tells us, Deconstruction insists on the incoherence of literature and points out where authors have failed, left

gaps, and conformed to their culture in various ways. That idea led to the corollary of the “death of the author,” that there was no such thing as an author who created exactly what he intended. With spontaneous-order theory, we can reject the idea of the author as being in perfect control of his work while also rejecting the death of the author and the lack of authorial intention to coordinate a large organization to achieve the goals he has set for it, sometimes succeeding, sometimes failing.

While this book brings to light the way literature is produced by viewing literary production as a spontaneous order, it also provides a different approach to understanding the ways economics and economies are portrayed in literature. It investigates the economic views of authors such as Shelley, Wells, and Dickens. Marxist approaches have emphasized how authors have criticized the market economy; celebrations of it are ignored. In one chapter Cantor analyzes Percy Bysshe Shelley’s essay *A Philosophical View of Reform*, in which he discusses the problems with national debt—which Cantor uses to support the argument that Shelley was, contrary to previous literary scholarship, not a socialist.

In Cantor’s chapter on Thomas Mann’s short story *Disorder and Early Sorrow*, he discusses the problems of Weimar German hyperinflation and how it resulted in a degradation of all values. The Austrian understanding of the effects of monetary policy and the emphasis on subjective-value theory allow us to better understand this story.

Classical liberalism is not just a belief in a certain kind of political economy; it has implications for all of society, including culture, literature, and the fine arts. Literary analysis has been dominated by leftist scholars, but this insightful book gives libertarian scholars, particularly those influenced by Austrian economics, a foot in the door.

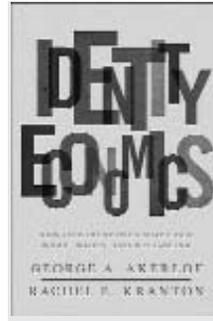
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## Identity Economics: How Our Identities Shape Our Work, Wages, and Well-Being

by George A. Akerlof and Rachel E. Kranton  
Princeton University Press • 2010/2011 • 192 pages  
\$24.95 hardcover; \$16.95 paperback

Reviewed by Art Carden



In *Identity Economics*, 2001 Nobel laureate George Akerlof and Rachel Kranton summarize years of work, taking something that scholars in the humanities and other social sciences have studied intensely and incorporating it into the model-and-measure framework of economics. They tweak the standard models that graduate students learn in order to incorporate the pleasure and pain people enjoy and endure by conforming to the norms and ideals associated with various social categories. The authors’ relatively simple model explains a lot about human action.

At the outset Akerlof and Kranton state that identity economics “makes economics a more useful tool for improving institutions and society” by focusing on people’s “notion(s) of who they are, which is associated with beliefs about how they and others are supposed to behave.” For leaders of organizations, they explain how providing workers with the opportunity to develop an attractive identity is, on some margins, more important than wages. Business leaders especially will be interested in their discussion of how identity matters in the sales field, on the shop floor, and in the corner office. Scholars across the social sciences and business leaders will find much of value in *Identity Economics*.

In chapters on educational achievement (and the lack thereof), poverty in minority communities, and occupational segregation, the authors explain how norms and identity help produce the outcomes we see. Their chapter on African-American poverty, for example, argues that it is a complex mix of social forces (the left’s favorite explanation) and bad personal choices (the right’s favorite explanation). They harmonize these explanations and highlight the practical difficulties confronting people interested in improving the lives of the poor. They offer a way of understanding social phe-

nomena that will provide other scholars with fresh perspectives on the problems they study.

An obvious question is “[w]here do norms and identity come from?” and the authors include this in a list of unanswered but important “deeper questions” on the last page. That needs to be pressed further before we start talking about policies to correct pathologies that may have their roots in “identity.” Readers of *The Freeman* might take issue with their claim that their “models show . . . why it took a social movement and *government intervention* [emphasis added] rather than a competitive marketplace to erode the discrimination against women in the United States.” Intervention itself has contributed to the problems they identify, and I am skeptical of the notion that more intervention will fix them.

Consider two examples. First, their discussion of “women’s work” examines the *Diaz v. Pan American World Airways* case, in which a Florida court held that gender was irrelevant to the tasks required of a flight attendant. Notable about this is that the *Diaz* decision came in 1971, seven years before airline deregulation in 1978. Before deregulation airlines were prohibited from competing on the basis of price, so they shifted to other margins (like attractive stewardesses). Airline flight attendants were almost all male when commercial aviation started, but that changed in the 1950s. That this occupation became “women’s work” was probably an unintended consequence of airline price regulation.

Second, Thomas Leonard’s research on Progressive Era and New Deal regulations on labor markets shows how government intervention institutionalized “women’s work” and marginalized women, African-Americans, and immigrants as “undeserving workers” to be kept out of competition as much as possible. Identity channeled through the political process likely creates “Baptist and bootlegger” coalitions of pure rent-seekers and observers who derive identity utility from keeping others limited to what they think should be their socially prescribed roles.

Our ability to use this new knowledge in the service of better institutions and a better society is more limited than some readers, particularly those of an activist bent, are likely to believe because any pathologies that identity norms introduce into the market will certainly be amplified through the political process.

This leads me to the view that Akerlof and Kranton have made an important contribution, but not in the way that many readers are likely to think. Some will see “identity economics” as another market failure requiring corrective intervention. What will ultimately emerge, I think, is a more robust critique of intervention. I agree with the authors that people derive utility from seeing themselves and others conform to socially prescribed identities and disutility from seeing deviations from them. Intervention, however, provides a mechanism by which people can impose large costs on deviators at little cost to themselves.

The authors discuss the political implications of their thesis to a degree, but acknowledge that it leaves many questions to be worked out. Follow-up research might investigate, for example, how identity norms affect the development of welfare programs and how they influence people’s willingness to go to war.

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### Political Philosophy, Clearly: Essays on Freedom and Fairness, Property and Equalities

by Anthony de Jasay

Liberty Fund • 2010 • 360 pages • \$24.00 hardcover; \$14.50 paperback

Reviewed by Doug Bandow



One of the great myths of society today is that life is too complex to leave unregulated. Liberty might have been fine for a simple, agrarian society a couple of centuries ago, but now, supposedly, we need vast intervention by the State to manage human affairs.

In fact experience demonstrates that it is even more important to rely on the decentralized decisionmaking of the marketplace as society grows more complex. The commissars had a passable chance at figuring out how to make steel, however inefficiently. In the midst of the information and other technological revolutions, though, creating an advanced economy is beyond any human’s ability. Instead we must rely on Adam Smith’s

“invisible hand” of voluntary action within the rule of law.

In this meaty book, Hungarian-born economist Anthony de Jasay explores the ability of individuals to privately organize their affairs and other issues relevant to the debate between statist and advocates of liberty. The essays collected in this volume span a broad array of questions, including the private provision of “public goods,” the viability of limited government, and the relationship between liberty and justice.

Jasay begins with a frontal attack on two traditional concepts of classical liberals: the social contract and constitutionally limited government. The basic problem, he contends, is that the “fictitious social contract” logically results in far more government than originally desired. That in turn is because “[t]here is an obvious potential gain to the government, or to be pedantic, the persons in charge of it, from exceeding this mandate, and the means are available for doing so.” That is to say, paper guarantees that are meant to constrain the growth of government and protect the liberties of the people are almost certain to fail. America’s unhappy experience with the theory that governmental power can be contained by writing words on paper strongly supports Jasay’s position.

It is true that limits on government are sometimes respected—for a time, at least—but Jasay notes that this is mostly for idiosyncratic reasons. He points, for example, to the once generally held belief that government should abide by the same financial rules that individuals do as having restrained government spending in the past. “For about a century and a half before Keynes’ General Theory became common currency for the literate and semiliterate, it was widely believed that repeated deficits in the state household were mortally dangerous, liable to lead to the country’s ruin, and to be countenanced only in desperate circumstances.” Once that belief among the mass of the citizenry eroded, no paper rules could restrain the deluge of federal spending and debt.

Another key issue that attracts Jasay’s attention is the matter of what rights we hold. He asserts that “liberties are not rights, and rights are not liberties,” and proceeds to show that many artificial claims of “rights” conflict with natural liberties. In fact mistakenly calling things

that people desire—medical care, housing, education, and so on—“rights” is at the heart of the destruction of limited government in America. That problem takes us back to the difficulty of putting limits on government. Politicians can and will build voting coalitions to enhance their electoral prospects by conferring new “rights” that entail taking property and liberty from some people to make others better off. Most voters see this growth in “rights” as progress and generosity, but fail to see the consequential shrinking of freedom. Keep expanding these so-called rights for a few generations and the idea of limited government becomes meaningless.

In recent months, the European Union has been much in the news, and several of the essays in the book deal with the EU. While the author is no friend of nationalism, he observes that in the case of Great Britain, nationalism has performed a salutary role by encouraging resistance against the tendency toward continental political consolidation. That consolidation—the centralization of power in the hands of EU officials and bureaucrats—will have harmful consequences both for freedom and prosperity. (One strong example Jasay gives is the propensity for officials to interfere with business efficiency through their zealous antitrust enforcement.) Any reasons why people might oppose it, including “gut feelings” rooted in nationalism, are good. Americans have the same sensible, gut reaction against ceding sovereignty to transnational organizations such as the United Nations.

Politicians fight over policies, but those policies are shaped by broader public philosophies. It is those philosophies that Jasay ably dissects and explains. Although his essays often make for deep, difficult reading, their substance makes the effort worthwhile. They give an important boost to the cause of liberty.

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## The False Civil Rights Vision

BY WALTER E. WILLIAMS

For all intents and purposes the civil rights struggle is over and won. At one time black Americans did not have the constitutional guarantees afforded other Americans; now we do.

I think it is fair to say that black Americans, as a group, have made the greatest gains, over some of the highest hurdles, in the shortest span of time of any racial group in history. If we were to think of black Americans as a nation and add up their spending power, they would be the 17th or 18th richest nation on earth. Black Americans have been chief executives of some of the world's largest and richest cities. Black Americans rank among the world's most famous personalities, and a few black Americans are among the world's richest people.

In 1865 neither a former slave nor a former slave owner would have guessed that such progress would have been possible in the mere space of a century and a half, if ever. Such progress speaks well of the intestinal fortitude of a people. But just as significant, that progress speaks well of a nation where such progress was possible. It would have been unachievable anywhere else on earth.

Despite these monumental gains, there is a large segment of the black community for which these gains remain elusive. Moreover, given the status quo and today's civil rights vision, there is little prospect for progress. The root causes of today's devastating problems are either ignored or dealt with ineffectively because there is too much attention and energy spent on yesteryear's problems—racial discrimination. Most of today's problems have little or nothing to do with discrimination. That's not to suggest that every vestige of racial discrimination has been eliminated, but

today's discrimination pales in comparison to that of yesteryear.

### Family Breakdown

One devastating problem is the state of the black family. What's so often called family breakdown is not a proper description. Families are not forming in the first place. Only 35 percent of black children have the benefit of growing up in a home with both parents. Black illegitimacy stands at 75 percent. You do not have to morally condemn single parenthood to acknowledge

that it is better for children to be reared in a two-parent family. Children raised by a single parent are five times more likely to be poor. They are more likely to do poorly in school, become dropouts, engage in antisocial behavior, and become single parents themselves. It is difficult to lay the breakdown of the black family at the feet of racial discrimination, considering that as early as the mid-1800s 75–85 percent of black children, depending on the city, lived in two-parent families. Even during slavery more black children were raised in two-parent households than are now.

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### Crime

The high rate of crime takes a devastating toll on black neighborhoods. It has the full effect of a law mandating that there shall be little or no economic development in black neighborhoods. It acts as a massive tax on those least able to pay it. Because of the high crime costs, businesses such as supermarkets and banks

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are reluctant to locate in such neighborhoods. That means poor people must bear the additional costs of transportation to downtown and suburban malls or settle for the higher prices charged at mom-and-pop shops.

The way we see business done in many black neighborhoods merely reflects what is necessary to survive. Security guards, restricted access, higher prices, less convenient hours, and lower-quality merchandise are all methods of responding to the higher costs of doing business—all of which must be passed on to the consumer. Anger shouldn't be directed at merchants. Instead, it should be directed at lawless people who prey on the economic lifeline of black communities. Black neighborhoods must become a more hospitable economic climate through law enforcement. The high crime and disrespect for private property lower the economic value of everything in black neighborhoods. It is worth noting that most black communities were safer and more economically viable at a time when there was far greater racial discrimination.

## Education

Another devastating problem, having strong socioeconomic implications, that can hardly be laid at the feet of racial discrimination is the fraudulent education received by most black children. Some of the worst education is delivered in the very cities where a black is the mayor, a black is the superintendent of schools, and a large percentage of the teachers and principals are black. Money is not the answer. There is nearly a perfect negative correlation between money spent and the quality of education. Black neighborhood schools in New Jersey, New York, and Washington, D.C., spend more education dollars per student than anywhere else, yet they have just about the lowest educational achievement. Fraudulent education has made many black youngsters virtually useless for the increasingly high-tech world of the twenty-first century. According to the National Assessment of Educational Progress (NAEP), most black youngsters who

graduate from high school have an academic achievement level around that of a white seventh or eighth grader.

Part of the solution is to examine those islands of black educational success and try to duplicate them—black-owned schools like Marcus Garvey in Los Angeles, Ivy Leaf School in Philadelphia, former Marva Collins's schools in Chicago and Cincinnati, and Frederick Douglass Academy, a charter school in West Harlem, New York. At these schools up to 85 percent of students from low- and moderate-income households score at grade level and in some cases up to three years above.

Academic success at these schools is devoid of what education "experts" say is necessary for black academic

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The high crime and disrespect for private property lower the economic value of everything in black neighborhoods.

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achievement. They have not found busing necessary for academic excellence. Their annual tuition ranges from \$3,000 to \$5,000, a fraction of what the government schools spend per kid, such as the \$15,000 spent in Washington, D.C. One might ask what makes them successful? I have personally visited some of these schools and seen that the kids show up sober and have left their weapons at home. When you walk down the

halls while classes are in session, there's silence. There are no guards or metal detectors. Parents make their children do homework and get to bed and get up on time. There is a community spirit: Some parents provide custodial and clerical services as partial payment for their kids' tuition while other parents and friends of the school simply donate services. The policy question is how can we get more black children out of high-cost/low-quality schools into lower-cost/higher-quality schools.

Frederick Douglass's suggestion, offered many years ago, is probably applicable today: "Everybody has asked the question, 'What shall we do with the Negro?' I have had but one answer from the beginning. Do nothing with us! Your doing with us has already played the mischief with us. Do nothing with us! Give [the Negro] a chance to stand on his own legs. Let him alone." **FRE**