
THE FREEMAN

IDEAS ON LIBERTY

VOLUME 61, NO 5

JUNE 2011

Features

- 8 Money and Inflation: What's Going On in the World? *by Gerald P. O'Driscoll, Jr.*
- 11 Don't Worry About the Yuan *by Robert P. Murphy*
- 16 How Intellectual Property Hampers the Free Market *by Stephan Kinsella*
- 20 Abolitionist Sisters *by John Blundell*
- 27 Is a Nation Something That Can Be Built? *by Steven Horwitz*
- 30 "Big Meat" and Big Government *by Paul Schwennesen*
- 35 Jury Nullification: Right, Remedy, or Danger? *by Wendy McElroy*



Page 8

Columns

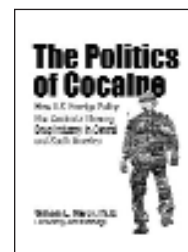
- 4 Ideas and Consequences ~ Liberty and the Power of Ideas *by Lawrence W. Reed*
- 14 Thoughts on Freedom ~ Stop the Bad Guys *by Donald J. Boudreaux*
- 25 Our Economic Past ~ Economic Analysis and the Great Society *by Robert Higgs*
- 33 Peripatetics ~ The Wrong Lesson from Egypt *by Sheldon Richman*
- 38 Give Me a Break! ~ Gun Owners Have a Right to Privacy *by John Stossel*
- 47 The Pursuit of Happiness ~ Crony Unionism: Private Sector *by Charles W. Baird*



Page 14

Departments

- 2 Perspective ~ Had Enough Yet? *by Sheldon Richman*
- 6 We Need to Build Society for "Shared Prosperity"? It Just Ain't So! *by George Leef*
- 40 Capital Letters
- Book Reviews
- 42 Were You Born on the Wrong Continent? How the European Model Can Help You Get a New Life
by Thomas Geoghegan *Reviewed by Kevin A. Carson*
- 43 The Politics of Cocaine: How U.S. Foreign Policy Has Created a Thriving Drug Industry in Central and South America
by William L. Marcy *Reviewed by Ivan Eland*
- 44 Six Political Illusions: A Primer on Government for Idealists Fed Up with History Repeating Itself
by James L. Payne *Reviewed by George Leef*
- 45 The Politics of Happiness: What Government Can Learn from New Research on Well-Being
by Derek Bok *Reviewed by Bruce Yandle*



Page 43

THE FREEMAN

Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone: (914) 591-7230; E-mail: freeman@fee.org
www.fee.org

President Lawrence W. Reed
Editor Sheldon Richman
Managing Editor Michael Nolan
Book Review Editor George C. Leef

Columnists

Charles Baird David R. Henderson
Donald J. Boudreaux Robert Higgs
Stephen Davies John Stossel
Burton W. Folsom, Jr. Thomas Szasz
Walter E. Williams

Contributing Editors

Peter J. Boettke Dwight R. Lee
James Bovard Wendy McElroy
Thomas J. DiLorenzo Tibor Machan
Joseph S. Fulda Andrew P. Morriss
Bettina Bien Greaves James L. Payne
Steven Horwitz William H. Peterson
John Hospers Jane S. Shaw
Raymond J. Keating Richard H. Timberlake
Daniel B. Klein Lawrence H. White

Foundation for Economic Education

Board of Trustees, 2010–2011

Wayne Olson, Chairman
Harry Langenberg Walter LeCroy
William Dunn Frayda Levy
Jeff Giese Kris Mauren
Ethelmae Humphreys Roger Ream
Edward M. Kopko Donald Smith



The Foundation for Economic Education (FEE) is a nonpolitical, nonprofit educational champion of individual liberty, private property, the free market, and constitutionally limited government.

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.

The Freeman is available electronically through products and services provided by ProQuest LLC, 789 East Eisenhower Parkway, PO Box 1346, Ann Arbor, Michigan 48106-1346. More information can be found at www.proquest.com by calling 1-800-521-0600.

Copyright © 2011 Foundation for Economic Education, except for graphics material licensed under Creative Commons Agreement. Permission granted to reprint any article from this issue, with appropriate credit, except "Gun Owners Have a Right to Privacy."

Had Enough Yet?

Regarding the looming fiscal disaster, it's best to keep one's eyes on the forest and not get lost in the trees. It's easy to become overwhelmed by the numbers, but one thing looks certain: Most everyone understands the current situation is unsustainable *in the ruling establishment's own terms*. If nothing changes, in perhaps a little more than a decade all the central government's revenues will be consumed by Medicare, Medicaid, Social Security, and interest on the burgeoning debt, which, at more than \$14 trillion, is closing in on 100 percent of GDP. (The central government now borrows 40 cents of every dollar it spends.)

Imagine how upset the ruling elite will be when it can spend money on *nothing but so-called entitlements and interest*? That would leave nothing for the military-industrial complex, nothing for business and farm subsidies, nothing for all the ways that politicians buy off constituents so they can be reelected over and over. If they try to keep spending on *everything*, total government expenditures would have to rise to half or even three-quarters of GDP.

Thus the ruling elite's concern and the various reform fantasies. But the elite has few good options. Default on the debt would mean no more borrowing. Inflation won't work (tinyurl.com/68xdkx3). Raising taxes won't do it either. Revenues as a percentage of GDP have been virtually constant since World War II regardless of tax rates, indicating that people adjust to the tax environment. (Revenues are historically low now because of the recession.)

Why couldn't the politicians dramatically cut spending? The political system doesn't typically reward spending cutters. People say they want government to spend less—on the things they don't depend on. Among the biggest-ticket items are Social Security and Medicare (with tens of trillions in unfunded promises). Elderly people, made dependent on the State, vote in high numbers, and they will vote defensively. The special interests that live off a trillion dollars in annual "defense/security" spending—another big item—won't let go easily either.

Let us then acknowledge the debt of gratitude due every politician who put us in this predicament. Each

spending vote dug the hole deeper and made it harder to get out.

But aren't the voters ultimately to blame? In a way, yes, but there's more to the story. People are left no choice but to pay taxes, so when virtually every politician promises "benefits" in return for those coerced payments, what will most people do? The political establishment has implicitly sold the system as a big mutual-aid society. Most people don't realize that government's forced transfers are as much acts of robbery as those that occur in dark alleys. Nor do they understand the harm done or the opportunities forgone when government distributes the money. The well-heeled, well-organized, and well-connected have no trouble securing their subsidies and tax preferences, while sundry "benefits" are bestowed on others in return for their acquiescence in the corrupt process.

Some now call for spending cuts—modest in the scheme of things—while others would rather see higher taxes on the rich coupled with even more modest spending reductions. In its own way, each side seeks to preserve the welfare-warfare state. Several objections leap forth regarding the case for higher taxes: *It's not the politicians' money, so taking it is immoral*; hiking tax rates won't raise as much money as they think (people adjust); the politicians can't be trusted with the money anyway; and leaving it in the private economy would yield general benefits.

It's hard to be optimistic. Until there is a *deep rethinking of government*, the public will not accept the drastic near-term budget cutting required to head off a fiscal crisis, much less the longer-term structural steps needed to prevent a repetition of what we've been through. People will need to learn that while the wish for "social security" in an uncertain world is entirely reasonable, the route to it is not Medicare, Medicaid, and Social Security—which tether people to the political class—but freed markets and voluntary mutual aid.

The fiscal problems have more than a fiscal solution. People would be less attracted to government succor if the barriers that raise the cost of initiative and independence were removed and individuals were freed to live without having to kowtow to power and privilege.

★ ★ ★

Commodity prices are rising worldwide but the Federal Reserve chief claims he's not responsible. Gerald O'Driscoll says Ben Bernanke shouldn't be let off the hook.

Economic hardship engenders xenophobia, and the most popular target right now is China. Robert Murphy examines the charge that Americans are harmed by Chinese currency manipulation.

Patents and copyrights are often defended in terms of liberty, but they began as State privileges and have never been anything else. Stephan Kinsella explains.

Women have played key roles throughout the history of the struggle for liberty. Sarah and Angelina Grimké are prime examples. John Blundell tells their story.

A good deal of what the U.S. government does abroad these days comes under the rubric of "nation-building." Is that something we should expect government to be good at? Steven Horwitz says no.

Whenever the government wants to do you a favor, watch out. The more it meddled with beef cattle and meatpacking, for instance, the more consolidated those industries became. Paul Schwennesen speaks from personal experience.

Jury nullification—the principle that lets jurors acquit defendants when they find the law unjust—has been a popular cause with libertarians. Wendy McElroy sees the appeal but she also sees some risks.

Here's what our columnists have come up with: Lawrence Reed celebrates the power of ideas. Donald Boudreaux critiques the interventionists of all parties. Robert Higgs dissects the political economy of the Great Society. John Stossel says gun owners have a right to privacy, too. Charles Baird skewers crony unionism. And George Leef, seeing Paul Krugman's call for "shared prosperity," retorts, "It Just Ain't So!"

Books coming under scrutiny focus on European social democracy, the drug war abroad, political illusions, and happiness research.

Capital Letters asks the question: Must formal law precede prosperity?

—Sheldon Richman
srichman@fee.org

Liberty and the Power of Ideas

BY LAWRENCE W. REED



A belief that I stress again and again is that *we are at war*—not a physical, shooting war, but nonetheless a war that is fully capable of becoming just as destructive and just as costly.

The battle for the preservation and advancement of liberty is a battle not against personalities but against opposing ideas. The French author Victor Hugo declared that “One resists the invasion of armies; one does not resist the invasion of ideas.” This is often rendered as, “More powerful than armies is an idea whose time has come.”

In the past ideas have had earth-shaking consequences. They have determined the course of history.

The system of feudalism existed for a thousand years in large part because scholars, teachers, intellectuals, educators, clergymen, and politicians propagated feudalistic ideas. The notion “once a serf, always a serf” kept millions of people from ever questioning their station in life.

Under mercantilism, the widely accepted concept that the world’s wealth is fixed prompted men to take what they wanted from others in a long series of bloody wars.

The publication of Adam Smith’s *The Wealth of Nations* in 1776 is a landmark in the history of the power of ideas. As Smith’s message of free trade spread, political barriers to peaceful cooperation collapsed, and virtually the whole world decided to try freedom for a change.

Marx and the Marxists would have us believe that socialism is inevitable, that it will embrace the world as surely as the sun will rise in the east tomorrow. As long as men have free will (the power to choose right from wrong), however, nothing that involves this human volition can ever be inevitable! If socialism

comes it will come because men choose to embrace its principles.

Socialism is an age-old failure, yet the socialist idea constitutes the chief threat to liberty today. As I see it, socialism can be broken into five ideas.

1. *The Pass-a-Law Syndrome*. Passing laws has become a national pastime. Business in trouble? Pass a law to give it public subsidies or restrict its freedom of action. Poverty? Pass a law to abolish it. Perhaps America needs a law against passing more laws.

Almost invariably a new law means: a) more taxes to

finance its administration; b) additional government officials to regulate some heretofore unregulated aspect of life; and c) new penalties for violating the law. In brief, more laws mean more regimentation, more coercion. Let there be no doubt about what the word *coercion* means: force, plunder, compulsion, restraint. Synonyms for the verb form of the word are even more instructive: impel, exact, subject, conscript, extort, wring, pry, twist, dragon,

bludgeon, and squeeze.

When government begins to intervene in the free economy, bureaucrats and politicians spend most of their time undoing their own handiwork. To repair the damage of Provision A, they pass Provision B. Then they find that to repair Provision B, they need Provision C, and to undo C, they need D, and so on until the alphabet and our freedoms are exhausted.

The Pass-a-Law Syndrome is evidence of a misplaced faith in the political process, a reliance on force, which is anathema to a free society.

Lawrence Reed (lreed@fee.org) is the president of FEE. This column is reprinted, with some editorial revision, from the February 1979 issue of The Freeman.

The battle for the preservation and advancement of liberty is a battle not against personalities but against opposing ideas.

2. *The Get-Something-from-Government Fantasy.* Government by definition has nothing to distribute except what it first takes from people. Taxes are not donations.

In the welfare state this basic fact gets lost in the rush for special favors and giveaways. People speak of “government money” as if it were truly free.

One who is thinking of accepting something from government that he could not acquire voluntarily should ask, “From whose pocket is it coming? Am I being robbed to pay for this benefit or is government robbing someone else *on my behalf*?” Frequently the answer will be *both*.

The end result of this “fantasy” is that everyone in society has his hands in someone else’s pockets.

Everyone Else’s Problem

3. *The Pass-the-Buck Psychosis.* Recently a welfare recipient wrote her welfare office and demanded, “This is my sixth child. What are *you* going to do about it?”

An individual is victim to the Pass-the-Buck Psychosis when he abandons himself as the solver of *his* problems. He might say, “My problems are really not mine at all. They are society’s, and if society doesn’t solve them and solve them quickly, there’s going to be trouble!”

Socialism thrives on the shirking of responsibility. When men lose their spirit of independence and initiative, their confidence in themselves, they become clay in the hands of tyrants and despots.

4. *The Know-It-All Affliction.* Leonard Read, in *The Free Market and Its Enemy*, identified “know-it-allness” as a central feature of the socialist idea. The know-it-all is a meddler in the affairs of others. His attitude can be expressed in this way: “I know what’s best for you, but I’m not content to merely *convince* you of my rightness; I’d rather *force* you to adopt my ways.” The know-it-all evinces arrogance and a lack of tolerance for the great diversity among people.

In government the know-it-all refrain sounds like this: “If I didn’t think of it, then it can’t be done, and

since it can’t be done, we must prevent anyone from trying.” A group of West Coast businessmen once ran into this snag when their request to operate barge service between the Pacific Northwest and Southern California was denied by the (now-defunct) Interstate Commerce Commission because the agency felt the group could not operate such a service profitably.

The miracle of the market is that when individuals are free to try, they can and do accomplish great things. Read’s well-known admonition that there should be “no man-concocted restraints against the release of creative energy” is a powerful rejection of the Know-It-All Affliction.

5. *The Envy Obsession.* Coveting the wealth and income of others has given rise to a sizable chunk of today’s socialist legislation. Envy is the fuel that runs the engine of redistribution. Surely, the many soak-the-rich schemes are rooted in envy and covetousness.

What happens when people are obsessed with envy? They blame those who are better off than themselves for their troubles. Society is fractured into classes and faction preys on faction. Civilizations have been

known to crumble under the weight of envy and the disrespect for property it entails.

A common thread runs through these five socialist ideas. They all appeal to the darker side of man: the primitive, noncreative, slothful, dependent, demoralizing, unproductive, and destructive side of human nature. No society can long endure if its people practice such suicidal notions.

Consider the freedom philosophy. It is an uplifting, regenerative, motivating, creative, exciting philosophy. It appeals to and relies on the higher qualities of human nature such as self-reliance, personal responsibility, individual initiative, respect for property, and voluntary cooperation.

The outcome of the struggle between freedom and serfdom depends entirely on what percolates in the hearts and minds of men. At the present time the jury is still deliberating.

FEE

When individuals are free to try, they can and do accomplish great things.

We Need to Build Society for “Shared Prosperity”? It Just Ain’t So!

BY GEORGE LEEF

In a recent *New York Times* column (“Degrees and Dollars,” March 6), economist Paul Krugman surprisingly had an “it just ain’t so” moment of his own, taking issue with the widely accepted but erroneous idea that more education is the key to increasing prosperity. While he was right about that, his conclusion that technological changes will so “hollow out” the middle class that massive new government programs are needed to “directly” build a society of “shared prosperity” does not follow at all.

Proponents of the megastate like Krugman simply cannot acknowledge that the coercive, redistributive policies they love have adverse consequences. As we will see, his proposed “shared prosperity” will further undermine the prosperity we still have, reduce incentives for individual effort, and create new opportunities for political rent-seeking. If you would like to see America become more like Greece, Krugman’s ideas are a perfect recipe.

Let’s look first at what Krugman gets right, though.

One of the greatest conceits of modern liberalism is that more education (formal education, especially of the sort run and funded by government) is always good because it gives people “higher skills,” thus making the United States “more competitive.” To his credit Krugman joins a growing number of critics who argue that such education doesn’t necessarily produce good results. President Obama keeps saying the nation must make more “investments” in education to increase employment and keep up with other countries. Not so, says Krugman.

But why has Krugman broken ranks? In the last few months evidence has strengthened the contrarian case by showing that a large and increasing percentage of college degree holders end up having to take jobs that don’t call for any advanced academic preparation and that many college students coast through with little or no gain in human capital. Those are among the reasons why I long ago concluded that America has oversold higher education, principally by heavily subsidizing it.

Krugman, however, points to a different reason for his turn. He contends that technology and “globalization” are eliminating the middle-class jobs college-educated people used to take, thus “hollowing out” the middle class. As a result, he argues, we can’t rely on education for social mobility.

Exhibit A is Krugman’s discovery that technology is having an impact on the legal profession. Computers, he reports, are increasingly used in legal research, scanning cases and documents for possible relevance much faster than people can. He says that this shows how technology “is actually reducing the demand for highly educated workers.”

It’s perfectly true that technology is changing the legal profession. Decades ago, lawyers had to manually hunt for relevant cases and other documents, then read them. Beginning more than 20 years ago, that laborious work was made easier with the advent of computerized research engines that would almost

One of the greatest
conceits of modern
liberalism is that
more education is
always good.

George Leef (georgeleef@aol.com) is book review editor of The Freeman.

instantly compile lists of cases. Now computers can apparently even do some of the preliminary analysis.

Krugman’s conclusion that this is reducing the demand for educated workers does not follow, however. Just because technology has made a part of lawyers’ work faster does not mean there will be fewer lawyers—any more than the technological improvements that have made writing and editing easier and faster than in the days of typewriters and erasers has reduced the number of writers and editors.

America already has a surplus of lawyers, but that isn’t because of technology. It is because government subsidizes students who want to go to law school, and some law schools practice deception with regard to the employment and earnings prospects for their graduates.

Technological improvements certainly can lead to the elimination of some jobs in the legal profession (and others), but they simultaneously open up new jobs for educated workers elsewhere.

Krugman’s other argument is that globalization is going to wipe out some middle-class jobs because it is now possible to offshore work formerly done by American workers. He gives no examples or evidence of the magnitude of this phenomenon, but

let’s assume that he is correct. Do we need to worry and insist on government action?

No, we don’t. The number of middle-class jobs is not fixed, dictating that if some are done by robots or foreigners or computers, the number remaining must be lower. You might think an economics professor and international trade specialist with a Nobel Prize to his name would know that people have been wringing their hands over the supposed harms of free trade in goods and services for centuries, but despite the apocalyptic predictions, the dynamism of the economy always produces new jobs to replace those that are lost.

In sum there is very little support for Krugman’s claim that the middle class is being hollowed out, but

that doesn’t keep him from leaping to the conclusion that we need more government intervention.

He first declares that labor needs more “bargaining power.” That’s vague language, but what Krugman undoubtedly means is that the government should enact pro-union legislation. Make that *more* pro-union legislation, since existing law (unchanged since 1959) is already highly pro-union. Bargaining power has not been taken from unions over the last 30 years. Rather, many old, unionized companies have had to face increasing competition. They have shed workers and some have gone out of existence. Simultaneously, many new firms have come into existence, and their workers have often shown so little interest in unionization that union organizers have given up.

Furthermore, can Krugman believe that unions automatically and costlessly raise worker earnings? They can’t. As economist W. H. Hutt showed in his book *The Strike-Threat System*, even if unions can temporarily exploit invested capital (as was the case in the auto industry), in the long run investors will put their money elsewhere.

Finally, Krugman writes that government must “guarantee the essentials, above all health care, to every citizen.” Even if it were true that technology and global competition were

hollowing out the middle class, why should government assume this role? Back in the 1960s the federal government began a “War on Poverty” that entailed giving “the essentials” to the poor. Rather than conquering poverty, the policies exacerbated it, as recipients of government benefits reduced their own efforts at improving their circumstances and interest groups learned how to game the system. Krugman’s coercively shared prosperity ideas would give America more of that.

Instead of resorting to federal handouts and union threats to increase the middle class, I suggest we abolish the many governmental barriers to entrepreneurship and entry into occupations so that more Americans can succeed on their own.

FEE

The number of middle-class jobs is not fixed, dictating that if some are done by robots or foreigners or computers, the remaining number must be lower.

Money and Inflation: What's Going On in the World?

BY GERALD P. O'DRISCOLL, JR.

Are America and the world at risk for another inflationary episode similar to the 1970s and early 1980s? Or do current low rates of inflation portend low inflation for the foreseeable future?

David Wessel revisited this question in his “Capital” column in the February 24 *Wall Street Journal*. He correctly stated that the Federal Reserve under Chairman Ben Bernanke takes the position that the course of inflation depends on expectations: Inflation will stay low if people expect it to stay low. Wessel quotes Bernanke: “The state of inflation expectations greatly influences actual inflation and thus the central bank’s ability to achieve price stability.”

The Fed chairman has the causation precisely backwards. Fed policy systematically shapes inflation expectations. His statement focuses on the short-run and ephemeral over the long-run and permanent. In so doing, Bernanke follows in a long line of central bankers.

In *A History of the Federal Reserve* (volume 1: 1913–51), Carnegie–Mellon University Professor Allan Meltzer summarizes the central-bank mindset. To the

degree there is theory behind the policies of central bankers, it derived from the nineteenth-century banking school thinkers. Chief among them was Thomas Tooke, who “denied that money, credit, or base money bore any consistent relation to prices. Most Federal Reserve officials remained in this tradition in the 1920s. They denied that their actions affected prices” (57–58).

Unfortunately for defenders of current Fed policy, inflation is accelerating around the world. Singapore’s economy has benefited from revived global trade, but consumer price inflation is now running at an annual rate of 5.5 percent. In Vietnam, an emerging economy of note, consumer price inflation is running at 12 percent. Food riots plague India. Even American consumers

are starting to feel the lash of inflation, as anyone who goes to the grocery store can attest. It is not a question of whether inflation is on the horizon. Inflation is here.

Gerald P. O’Driscoll, Jr. (godriscoll@cato.org) is a senior fellow at the Cato Institute and a former vice president of the Federal Reserve Bank of Dallas. This article, which first appeared at TheFreemanOnline.org, expands on a post at ThinkMarkets (thinkmarkets.wordpress.com).



In a February 23 *Wall Street Journal* op-ed, retired *Journal* editorial writer George Melloan explained how economics has contributed to the turmoil in the Middle East. Consumer price inflation in Egypt rose to 18 percent annually in 2009 from 5 percent in 2006. In Iran inflation rose to 25 percent in 2009 from an already high 13 percent rate in 2006. Inflation surges hit family budgets hard, especially for the many in these countries living at the margin. Desperate people take to the street. As Melloan wryly observes, “About the only one failing to acknowledge a problem seems to be the man most responsible, Federal Reserve Chairman Ben Bernanke.”

Monetary policy is not the sole culprit in the rise of food prices. There have been a number of negative supply shocks affecting the supply of various foodstuffs, and these shocks have certainly contributed to higher prices. Central bankers often point the finger at these to deflect accusations that monetary policy is at fault.

Two points must be made. First, global food production and prices have been rising. Rising prices and output reflect rising demand relative to supply. Second, nearly all commodities, not just agricultural commodities, have been caught in a monetary updraft. Along with food prices we have seen rising prices of oil (even before the Middle East turmoil), gold, silver, copper, and a whole range of other commodities used in production. One noteworthy laggard is natural gas, whose price has been kept down by positive supply shocks of new discoveries. This, contrary to the narrative of central bankers, is the supply story.

Commodities, along with most globally traded goods, are priced in dollars. The Fed creates “base money”: bank reserves plus currency. Banks then

expand on base money by lending out reserves. The more base money and bank money produced, the higher the dollar prices of commodities and other goods. It is the old story of too much money chasing too few goods and driving up their prices. That is inflation conventionally defined.

The inflation story this time has been complicated by a weak U.S. economy, whose growth is still dampened by the consequences of the housing boom and bust. The bank expansion of the money supply through lending has occurred not in the U.S. economy but in emerging economies, particularly in Asia and Latin America. Bernanke promised his easy-money policy would create jobs, and it has—but not in the United States. Of course, to the degree that prosperity in these countries has depended on the Fed’s easy-money policy, it has been a false prosperity. The citizens of these countries are paying for it now in the form of inflation.

The Fed has been paying a low interest rate on reserves, which to some extent has restrained lending by banks. With loan demand weak or of poor quality, banks have chosen to keep money on deposit at their local Federal Reserve bank and earn a safe return. As

loan demand picks up, however, banks will likely begin lending out their reserves. That appears to be happening as this is being written.

Here are some details of the linkage between Fed policy and global inflation. The currencies of many countries are pegged to the dollar. Their exchange rates are either a constant or change only slowly. The Hong Kong dollar is an example of the former, the Chinese yuan of the latter. Even so-called floating currencies are not really floating. Central banks intervene to prevent their value from rising rapidly against a flagging U.S.



Inflation has already helped set off riots in Tunisia and elsewhere.

commons.wikimedia.org

dollar. The only important central bank that seems to be letting its currency float freely against the U.S. dollar is the Swiss, and the Swiss franc is appreciating against the dollar fairly steadily.

Thus, as a practical matter, when the Fed creates dollars it results in an increased money supply in other countries. It is not necessarily one for one, but it is proportional. The Fed's low-interest policy has fueled not only a commodities boom but a real-estate bubble in Asian countries and elsewhere. Some countries have imposed capital controls to counteract Fed policy, but these are seldom fully effective.

The Fed chairman argues that foreign central banks can offset Fed policy. Doing so confronts them with a

Hobson's choice. Foreign central banks pegged to the dollar can break the peg and let their currencies appreciate and domestic interest rates increase. If they act effectively they risk sending their own economies into the tank. Based on experience, it is equally likely that higher interest rates in those countries would attract more speculative capital, fueling asset bubbles, commodity prices, and eventually consumer price inflation. The last is what has in fact been happening. Small, open economies in practice are unable to offset a tsunami of dollars.

Bernanke is being disingenuous about the options foreign central banks and governments have to counteract the Fed's easy-money policy, which threatens a global outbreak of inflation similar to the 1970s. **FEE**

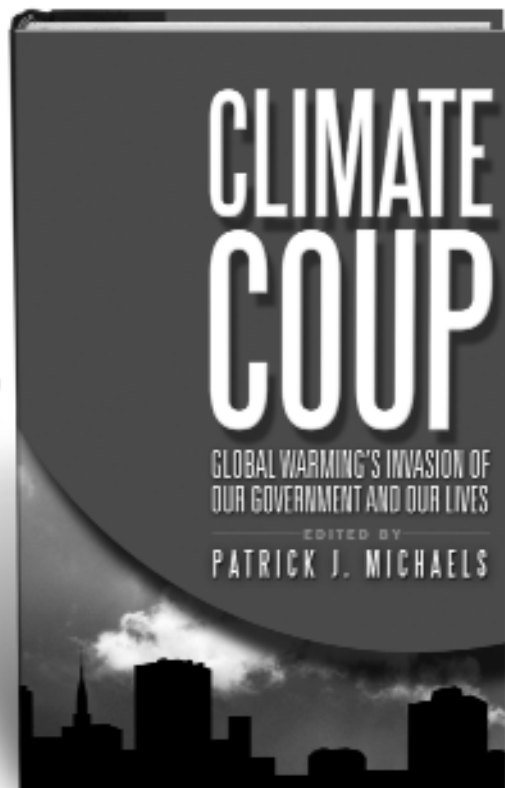
NEW BOOK FROM THE **CAIO**
INSTITUTE

“**This is a must-read compendium of the issue that has permeated virtually every aspect of life and public policy. Michaels and his high-powered team of experts address the exaggerations and outright falsehoods used to justify policy decisions.**”

—**JOSEPH D'ALEO,**
Fellow, American Meteorological Society

Despite convincing evidence that [observed] climate changes do not portend a calamitous future, global warming alarmism is invading nearly every aspect of our society. Leading climatologist Patrick Michaels gathers a team of first-rate experts to comprehensively document the pervasive influence global warming alarmism has on our lives—from national defense, law, trade, and politics to health, education, and international development.

HARDBACK: \$24.95 • EBOOK: \$14.95



Buy your copy at bookstores nationwide, call 800-767-1241, or visit Cato.org

Don't Worry About the Yuan

BY ROBERT P. MURPHY

Especially during dismal economic times, many Americans—goaded by media figures and politicians—look with suspicion on foreigners. This tendency is most obvious in anti-immigrant sentiment, but also manifests itself in a drive for protective tariffs and other trade restrictions.

Over the past few years China's "currency manipulation" has been a particularly hot-button issue. Pundits claim the Chinese government, by artificially suppressing the value of its currency, unfairly subsidizes Chinese exporters while destroying American jobs. Although there is truth to this claim it overlooks the benefits to American consumers from the Chinese policy. Americans should stop fretting about the Chinese currency.

To get a sense of the accusations leveled at the Chinese, we don't need to scour letters to the editor written by economic illiterates. We can turn to Paul Krugman, who won a Nobel Prize for his work on international trade theory. Krugman has been leading the charge for punitive action against China—including retaliatory tariffs unless its government changes its ways. In a particularly bellicose column last year, "Taking on China," Krugman wrote . . .

China's policy of keeping its currency undervalued has become a significant drag on global economic recovery. Something must be done. . . . This is the most distortionary exchange rate policy any major nation has ever followed. . . . [I]f sweet reason won't work, what's the alternative? In 1971 the United States dealt with a similar but much less severe problem of foreign undervaluation by impos-

ing a temporary 10 percent surcharge on imports, which was removed a few months later after Germany, Japan and other nations raised the dollar value of their currencies. At this point, it's hard to see China changing its policies unless faced with the threat of similar action—except that this time the surcharge would have to be much larger, say 25 percent.

Before continuing we should clarify Krugman's charges: The Chinese government uses some of its revenues in its own currency (collected from taxation, State-owned enterprises, and so on) to augment its stockpile of foreign currency reserves. In other words, in addition to spending its (yuan-denominated) revenues on tanks, bombers, and infrastructure, the Chinese government also spends some on acquiring more dollars, euros, and other currencies.

Just as the Chinese government's purchases of, say, gasoline for its military equipment would tend to push up the yuan-price of gasoline, its efforts to buy dollars with yuan will push up the yuan-price of a dollar. By having more yuan chase U.S. dollars in the foreign-exchange market, the Chinese government's purchases tend to make the dollar appreciate against the yuan.

Because China's currency is weaker than it otherwise would be, Chinese exports are cheaper: The

China's currency
policy benefits
American consumers.

Robert Murphy (rpm@consultingbyrpm.com) is an adjunct scholar of the Ludwig von Mises Institute and runs the blog Free Advice (consultingbyrpm.com/blog).

stronger dollar allows Americans to buy more Chinese goods, and so they will favor Chinese over domestic producers. On the other hand, *Chinese* consumers will view American goods as more expensive because they ultimately are priced in dollars and it takes more yuan to buy one dollar at the (allegedly) distorted exchange rate.

Consequently countries with overvalued currencies (such as the United States) tend to export less and import more, while China—having the supposedly undervalued currency—tends to export more and import less. This disturbs some people because it enlarges the trade imbalance between China and the United States.

Even if we classify the Chinese government's policies as nothing but a pure subsidy to its exporters, they benefit Americans *on net*. The harm imposed on U.S. exporters is more than offset in dollar terms by the benefits to U.S. importers and consumers.

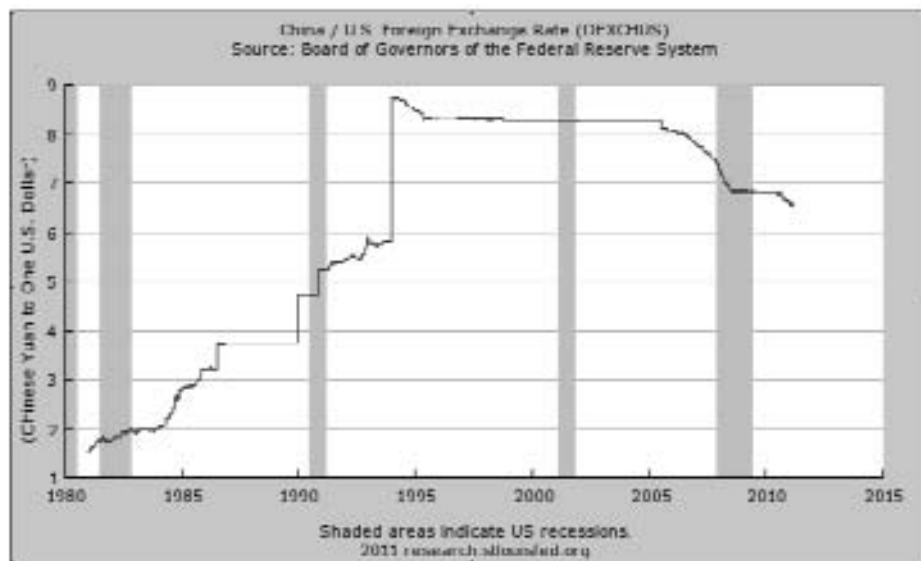
The standard arguments for free trade apply, even in cases where foreign governments give money directly to their exporters. For example, rather than using their revenues to prop up the dollar in the foreign-exchange market, suppose instead that the Chinese government told major Chinese exporters that they could cut their prices to foreign customers and it would make up the shortfall with tax-financed subsidies.

Note that this policy too would “destroy American jobs” *in particular sectors*—namely, the ones competing with the subsidized Chinese exporters—but it would generally make Americans richer. To see why, consider the extreme case, where the Chinese government used its tax receipts to buy TVs, cars, and computers from its own producers, then sent the goodies to the United

States *for free*. This would be an unambiguous gift to the American people. If the policy persisted, the U.S. economy would adapt itself to the new reality. Particular producers might be worse off, but Americans would clearly be richer in general, just as surely as if brand new cars magically fell from the sky. The American workers who previously made the goods that we could now obtain for free would be available to produce other items, increasing the total amount of consumption possible from the same amount of labor and other resources.

So if we analyze Chinese currency policies as merely a hidden subsidy to exporters, the standard arguments for free trade show that the U.S. government can only *hurt* Americans by retaliating (by, for example, imposing

tariffs on Chinese imports). This doesn't mean the Chinese policy is efficient on a global scale. On the contrary, *the Chinese* are poorer because the losses imposed on them as taxpayers and consumers are higher than the gains to the Chinese exporters, as measured in



terms of material output. But it is simply wrong to conclude that “China” is hurting “America.”

In fairness, Krugman has a sophisticated Keynesian twist to the accusations, whereby the “classical” analysis I’ve conducted here breaks down because the whole world is stuck in a “liquidity trap.” I’m going to ignore this subtlety of his argument, largely because most of the people complaining about the Chinese don’t rely on it.

Now that we’ve established that the “worst case” scenario is nothing to fear, we can introduce some further complications. In the first place, the Chinese haven’t made their own currency *fall* against the dollar, but have merely *pegged* the one currency to the other, so that the yuan/dollar exchange rate was constant (for long stretches).

As the graph on p. 12 indicates, from 1995 through 2005 the yuan/dollar exchange rate was roughly constant, and this peg was maintained by Chinese, not U.S., officials. If the yuan started to appreciate against the dollar the Chinese would sell yuan to buy dollars. On the other hand if the yuan started falling against the dollar Chinese officials would sell dollars to buy yuan and restore the exchange rate to the desired target.

To maintain their peg the Chinese needed to have a large stockpile of dollar-denominated assets. The safest such asset has been U.S. Treasury securities. To convince international investors that it is safe to put their money in China—especially after the wild currency fluctuations during the “Asian contagion” of the late 1990s—China quite understandably needed to accumulate more and more Treasury securities.

The Dollar Standard

The situation for China was analogous to when the United States was on the gold standard. To reassure investors of the integrity of the dollar, the government for a long period pegged it to gold at a constant “exchange rate” of \$20.67 an ounce. To back up the peg U.S. authorities obviously needed to accumulate large stockpiles of gold. If there had been only one country in the world that exported gold, the United States every year might have sent over tangible goods in exchange for the gold.

A similar analysis holds for China, with its “dollar standard.” To build up its reserves of foreign currencies—a perfectly sensible defensive move after the aforementioned Asian problems—the Chinese wanted to buy more foreign assets collectively than the rest of the world wanted to invest in Chinese financial assets. This is referred to as a “capital account deficit.”

As a matter of simple accounting, if a country (such as China) runs a capital account deficit, then it must simultaneously run a current account surplus (which is a broader category than the more familiar “trade sur-

plus”). Intuitively, if the Chinese want to acquire financial assets (on net) from the rest of the world, then the Chinese must export goods (on net) to pay for them. After all, it is a valuable asset to have an IOU from the U.S. Treasury promising to send future streams of dollars, and a purchaser has to give up something valuable in exchange for it.

Referring back to the graph, it's important to note that since 1995 the Chinese currency has either stayed the same *or strengthened* against the dollar. (When the line goes down it means the dollar buys fewer yuan; that is, the yuan appreciates against the dollar.)

When Krugman and others complain about the Chinese keeping their currency “artificially weak,” what they really mean is that the Federal Reserve—under both Alan Greenspan and Ben Bernanke—has

been out-inflating the rest of the world. Under those circumstances the dollar ought to be sinking against other currencies. (Indeed, from February 2001 to February 2011, the dollar fell 31 percent against a trade-weighted basket of currencies.) In this context, if the Chinese stubbornly refuse to let the dollar weaken against their own currency, *they* are accused

of “manipulation” to benefit themselves at the expense of the world.

To add yet more irony to the situation, notice that since June 2010 the Chinese have in fact been allowing their currency to steadily strengthen against the dollar. (This is the falling squiggly line at the end of the chart.) This has gone hand in hand with their slowdown in purchases of new debt issued by the U.S. Treasury. Yet rather than praising the Chinese for creating American jobs, most analysts are fretting over the fate of the dollar and U.S. interest rates if the Chinese don't resume financing more of Uncle Sam's deficits!

If U.S. officials really want to eliminate an “overvalued dollar,” they should tell Bernanke to stop printing so many dollars.

FED

Since 1995 the Chinese currency has either stayed the same *or strengthened* against the dollar.



Stop the Bad Guys

BY DONALD J. BOUDREAUX

It's not too much of a simplification to say that modern American conservatives believe the national government to be ignorant, bumbling, and corrupt when it meddles in the U.S. economy, but sagacious, sure-footed, and righteous when it meddles in foreign-government affairs.

Nor are the boundaries of acceptable simplification breached by saying that modern American "liberals" believe the national government to be sagacious, sure-footed, and righteous when it meddles in the U.S. economy, but ignorant, bumbling, and corrupt when it meddles in foreign-government affairs.

This striking contradiction in political viewpoints has not, of course, gone unnoticed.

I was prompted to ponder this contradiction not long ago after I read an op-ed in the *Washington Post* by the neoconservative William Kristol calling on Uncle Sam to attempt to influence the outcomes of the recent popular uprisings in North Africa and the Middle East. My ponderings produced a hypothesis: Modern conservatives and "liberals" are obsessively fixated on bad guys (just different ones).

For both conservatives and "liberals" the world is full of problems caused by bad actors—greedy, heartless, power-hungry autocrats who deploy illegitimately acquired power to trample the rights and livelihoods of the masses. Ordinary men and women seek liberation from these tyrants, but—being ordinary and oppressed—the typical person cannot escape the overlords' predation without help. Their liberation requires forceful intervention by well-meaning and courageous outsiders.

For "liberals" the oppressed masses consist of workers and the poor, and the oligarchs who do the oppress-

ing are business people and private corporations. What encourages this oppression are free markets and their accompanying doctrine of nonintervention by government into the economy.

However, contrary to the "liberals," nonintervention rests on at least three truths: First, the complexities of modern economies are so great, and hard to discern, that it is absurdly fanciful to suppose that government officials can intervene without causing more harm than good. Even the most well-meaning government is akin to a bull in a china shop: Out of its natural element, even government's most careful actions will be so sweeping and awkward that the net result will be unintentionally destructive.

Second, even if economic intervention begins with the best of motives, it degenerates into a process of transferring wealth from the politically powerless to the politically powerful. The interventions continue to sport noble names (such as the "Great Society programs" and the "Fair Labor Standards Act") and to be marketed as heroic efforts to defend the weak against the strong. But these, however, are nothing more than cynical and disingenuous

political marketing efforts aimed at hiding from the general public the actual, unsavory consequences of these interventions.

Third, many situations that appear to well-meaning outsiders to be so undesirable that someone simply must intervene to correct them are understood by many of the people most closely affected by these situations to be superior to likely alternatives.

Donald Boudreaux (dboudrea@gmu.edu) is a professor of economics at George Mason University, a former FEE president, and the author of Globalization.



J.J. [Wikipedia]

“Unequal income distribution” is perhaps the foremost such situation. While most “liberals” are obsessed with the “distribution” of income and believe that people of modest means must be especially disturbed by the fact that some other people earn more than they earn, in fact the typical American of modest means is far less bothered by “unequal” income “distribution” than are members of the “liberal” academy and punditry. This latter fact only further confirms to the “liberal” mind that ordinary Americans need third-party intervention to save them from their own naiveté; ordinary Americans just don’t know what glories they are denying themselves by acquiescing in the prevailing economic power structure.

Modern “liberals” dismiss these three objections to economic intervention as being fanciful excuses used by the economically powerful—and, even worse, also by the economically naive free-market faithful—to provide (flimsy) intellectual cover for predations by capitalist bad guys. The realistic assessments by modern “liberals” indicate to them that economic intervention is necessary and righteous.

A nearly identical debate plays out on the foreign-policy front, but with the sides switched.

For modern American conservatives the oppressed masses consist of foreign peoples yearning for American-style freedom and political franchise. But these unfortunate foreigners are oppressed by oligarchs who happen to control their governments. “Liberals” (and liberals) who adhere to a doctrine of U.S. government nonintervention in foreign affairs raise the same three objections that conservatives (and liberals) raise against government intervention in the economy.

First, the complexities of foreign governments’ relationships with their citizens are so great and hard to discern that it is absurdly fanciful to suppose that Uncle Sam can intervene without causing more harm than good. Even the most well-meaning intervention is akin to a bull in a china shop: Out of its natural element, even Uncle Sam’s most careful actions will be so sweeping and awkward that the net result will be unintentionally destructive.

Second, even if foreign intervention begins with the best of motives, it degenerates into a process of transferring wealth from the politically powerless to the politically powerful. The interventions continue to enjoy noble names (such as “Operation Iraqi Freedom”) and to be marketed as heroic efforts to defend the weak against the strong. But these, however, are nothing more than cynical and disingenuous political marketing efforts aimed at hiding from the general public the actual, unsavory consequences of these interventions in which corporations such as Halliburton and Blackwater rake in huge, undeserved profits at the expense of the American taxpayer and the foreign populations ostensibly being helped.

Third, many situations that appear to well-meaning outsiders to be so undesirable that someone simply must intervene are understood by many of the

people most closely affected by these situations to be superior to likely alternatives. As oppressive as Saddam Hussein’s Iraqi regime genuinely was, it’s not at all clear that merely disposing of this particular bad guy has liberated Iraqis from oppression. Saddam’s rule was very much a result—and certainly not the principal cause—of Iraq’s anti-liberal culture and dysfunctional

social institutions, not to mention earlier U.S. intervention.

Foreign countries’ political, economic, and social institutions are too complex and too deeply rooted in unique histories to be adequately grasped by American politicians and military leaders. Therefore American intervention—which is inevitably ham-fisted—adds to this mix only confusion and turmoil.

The two kinds of intervention situations aren’t analogous in all details; differences exist. But these differences are small when compared to the similarities. “Liberals” confidence that domestic markets can be improved by battalions of bureaucrats charged with keeping bad guys in line is surprisingly similar to conservatives’ confidence that the welfare of foreigners can be improved by battalions of U.S. military troops charged with keeping bad guys in line.



Foreign intervention is also subject to knowledge problems and perverse incentives.

How Intellectual Property Hampers the Free Market

BY STEPHAN KINSELLA

Advocates of free-market capitalism commonly believe in the legitimacy of intellectual property (IP) because IP rights are thought to be important to a system of private property.

But are they? There are good reasons to think that IP is not actually property—that it is actually antithetical to a private-property, free-market order. By intellectual property, I mean primarily patent and copyright.

It's important to understand the origins of these concepts. As law professor Eric E. Johnson notes, "The monopolies now understood as copyrights and patents were originally created by royal decree, bestowed as a form of favoritism and control. As the power of the monarchy dwindled, these chartered monopolies were reformed, and essentially by default, they wound up in the hands of authors and inventors."

Patents were exclusive monopolies to sell various goods and services for a limited time. The word *patent*, historian Patricia Seed explains, comes from the Latin *patente*, signifying open letters. Patents were "open letters" granted by the monarch authorizing someone to do something—to be, say, the only person to sell a certain good in a certain area, to homestead land in the New World on behalf of the crown, and so on.

It's interesting that many defenders of IP—such as patent lawyers and even some libertarians—get indignant if you call patents or copyright a monopoly. "It's not a monopoly; it's a property right," they say. "If it's a monopoly then your use of your car is a monopoly." But patents are *State grants* of monopoly privilege. One of the first patent statutes was England's

Statute of Monopolies of 1624, a good example of truth in labeling.

Granting patents was a way for the State to raise money without having to impose a tax. Dispensing them also helped secure the loyalty of favorites. The patentee in return received protection from competition. This was great for the State and the patentee but not for competition or the consumer.

In today's system we've democratized and institutionalized intellectual property. Now anyone can apply. You don't have to go to the king or be his buddy. You can just go to the patent office. But the same thing happens. Some companies apply for patents just to keep the wolves at bay. After all, if you don't have patents someone might sue you or reinvent and patent the same ideas you are using. If you have a patent arsenal, others are afraid to sue you. So companies spend millions of dollars to obtain patents for defensive purposes.

Large companies rattle their sabers or sue each other, then make a deal, say, to cross-license their patents to each other. That's fine for them because they have protection from each other's competition. But what does it do to smaller companies? They don't have big patent arsenals or a credible countersuit threat. So patents amount to a barrier to entry, the modern version of mercantilist protectionism.

Patents are *State grants* of monopoly privilege.

Stephan Kinsella (nskinsella@gmail.com) is an attorney in Houston, director of the Center for the Study of Innovative Freedom (c4sif.org), and editor of Libertarian Papers (libertarianpapers.org). This article is derived from remarks at last year's Mises Institute Supporters' Summit.

What about copyright? The roots literally lie in censorship. It was easy for State and church to control thought by controlling the scribes, but then the printing press came along, and the authorities worried that they couldn't control official thought as easily. So Queen Mary created the Stationer's Company in 1557, with the exclusive franchise over book publishing, to control the press and what information the people could access. When the charter of the Stationer's Company expired, the publishers lobbied for an extension, but in the Statute of Anne (1710) Parliament gave copyright to authors instead. Authors liked this because it freed their works from State control. Nowadays they use copyright much as the State originally did: to censor and ban books. (More below.)

IP, American Style

The American system of IP began with the U.S. Constitution. Article 1, Section 8, Clause 8 authorizes (but doesn't require) Congress "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

Despite modern IP proponents' claims to the contrary, the American founders *did not view intellectual property as a natural right* but only as a policy tool to encourage innovation. Yet they were nervous about monopoly privilege, which is why patents and copyrights were authorized only for a limited time. Even John Locke, whose thought influenced the Founding Fathers, did not view copyright and patent as natural rights. Nor did he maintain that property homesteading applied to ideas. It applied only to scarce physical resources.

Granted, some state constitutions had little versions of copyright before the American Constitution. (See Tom W. Bell, *Intellectual Privilege: Copyright, Common Law, and the Common Good*, part 1, chapter 3, section B.1.) On occasion, the language of natural rights was used to defend it, but this was just cover for the monopolies they granted to special interests. Natural rights do not expire after 15 years. Natural

rights are not extended to Americans only. Natural rights wouldn't exclude many types of innovation and intellectual creativity and cover only a few arbitrary types.

And what is the result of this system? In the case of patents we have a modern statute administered by a huge federal bureaucracy that grants monopolies on the production and trade of various things, which means holders may ask the federal courts to order the use of force to stop competitors. But the competitors have not done anything that justifies force. They merely have used information to guide their actions with respect to their own property. Is that compatible with private property and the free market?

Examples of Censorship

In the case of copyright the result has been actual censorship, as recent examples will show. According to Engadget, Russian authorities, with Microsoft's approval, used IP law as a "pretext for seizing computers and other materials from political opponents of the government and news organizations" (tinyurl.com/48dhv5e). In another case Susan Boyle, the English singer from *Britain's Got Talent*, was prevented from singing a Lou Reed song on *America's Got Talent* because of copyright (tinyurl.com/4qyfof7). Then there was the case in which a 1922 German silent film, *Nosferatu*, was deemed a derivative work of Bram Stoker's *Dracula* and ordered destroyed.

One of the most outrageous cases concerns the novel *Sixty Years Later, Coming Through the Rye*, Frederik Colting's sequel to J.D. Salinger's *The Catcher in the Rye*. Salinger got the courts to ban publication of the book on copyright grounds (tinyurl.com/4nxbwtp). "I am pretty blown away by the judge's decision," Colting said. "Call me an ignorant Swede, but the last thing I thought possible in the U.S. was that you banned books."

These examples will be dismissed as abuses of an otherwise good law, but it's the law itself that is the abuse.

Although natural rights are often invoked, the most common argument for IP, even among libertarians, is

The American founders did not view intellectual property as a natural right.

utilitarian, or “wealth-maximization,” which was the approach of the Founding Fathers: IP monopoly encourages innovation and therefore creates *net* wealth. In other words, the benefits outweigh the costs.

No doubt the patent system imposes costs on American society. I’ve estimated the *net* cost at \$38–48 billion a year, and this is probably conservative (tinyurl.com/4o6cl4l). The costs include patent attorney salaries, fees, litigation, increased insurance premiums, and higher-priced products—plus innovation and research lost when companies concentrate on patentable innovations and allocate fewer resources to more basic scientific research, or when an entire field is avoided for fear of patent-infringement lawsuits.

Anyone who argues that patents yield a net gain is obliged to estimate the total cost (including suppressed innovation) as well as the value of any innovation thereby stimulated. But IP proponents never provide these estimates. I’m no empiricist—my opposition to IP is based on principles of justice and property rights—but IP advocates make the empirical claim that we are richer because of the patent system. They say we have more innovation at a low price. Yet virtually every empirical study I’ve seen on this matter is either inconclusive or finds a net *cost* and/or a suppression of innovation. (I ignore here the valid Austrian objection that costs and benefits are subjective and not measurable.)

Thus a good utilitarian would have to conclude that patent and copyright laws are harmful.

Creation

Some IP advocates do make a serious natural-rights case on the grounds that the innovator has created some new, valuable thing—a song, a painting, a novel, or an invention. Because he created it, the argument goes, he is its natural owner. But this conflates the source of property rights with the source of wealth. As Ayn Rand—a strong proponent of IP—recognized (in “The Metaphysical Versus the Man-Made,” *Philosophy: Who Needs It*):

IP proponents make the empirical claim that we are richer because of the patent system. But they never provide estimates of the total cost.

The power to rearrange the combinations of natural elements is the only creative power man possesses. It is an enormous and glorious power—and it is the only meaning of the concept “creative.” “Creation” does not (and metaphysically cannot) mean the power to bring something into existence out of nothing. “Creation” means the power to bring into existence an arrangement (or combination or integration) of natural elements that had not existed before.

In other words, individuals create wealth by using their intellect, creativity, and labor to transform already owned *scarce resources* into more valuable configurations.

In a free society a producer owns the resulting products because *he owned the factors* transformed in the production process. The *idea* behind production adds nothing to the *ownership* claim that wasn’t already present.

Control of Physical Property

In fact, assigning property rights in ideas and other immaterial things, such as patterns or recipes, ends up restricting other people’s rights to control their physical property. Copyright and patent holders thus become, in effect, co-owners of others’ property, courtesy of the State. This is illustrated in the copyright censorship examples provided. And it is seen in cases where a patentee uses the courts to shut down competitors.

Another way to understand the error in treating information, ideas, and patterns as property is to consider IP in the context of human action. Ludwig von Mises explained in *The Ultimate Foundation of Economic Science* that “[t]o act means: to strive after ends, that is, to choose a goal and to resort to means in order to attain the goal sought.” Knowledge and information of course play key roles in action. As Mises puts it, “Action . . . is not simply behavior, but behavior begot by judgments of value, aiming at a definite end and *guided by ideas concerning the suitability or unsuitability of definite means*” (emphasis added).

Moreover, “[m]eans are necessarily always limited, i.e., scarce, with regard to the services for which man wants to use them.” This is why property rights emerged. Use of a resource by one person excludes use by another. In contrast, ownership of the information that guides action is not necessary for performing the action. Two people who each own the ingredients can simultaneously make a cake with the same recipe.

Material progress is made precisely because information is *not* scarce. It can be infinitely multiplied, learned, taught, and built on. The more patterns, recipes, and causal laws that are known, the greater the wealth multiplier as individuals engage in ever-more

efficient and productive actions. It is *good* that ideas are infinitely reproducible. There is no need to impose artificial scarcity on ideas to make them more like physical resources, which—unfortunately—*are* scarce. As Frédéric Bastiat observed, “All innovation goes through three stages. One possesses unique knowledge and profits from it. Others imitate and share profits. Finally, the knowledge is widely shared and no longer profitable on its own which thereby inspires new knowledge.”

Patents artificially prolong the first stage at the expense of the others. Thus, IP is inimical to progress, prosperity, and freedom. **FEE**

the **FEE INFORMANT**
a different kind of economics

The FEE Informant is a website designed specifically for high school students, parents and educators to connect them with free-market economics resources. The site includes reading recommendations, full economics curricula and will soon feature a discussion forum. For more information, email informant@fee.org

Education.FEE.org

Abolitionist Sisters

BY JOHN BLUNDELL

Sarah and Angelina Grimké were born into good fortune. Their father, John Grimké, had been a lieutenant colonel in the Revolutionary War and speaker in the South Carolina House of Representatives before becoming a plantation owner and judge on the state Supreme Court. The girls could look forward to a life of ease. In front of them lay a future of balls, concerts, picnics, rides, dinners, parties, and entertainments. They would spend their days in spacious rooms with high ceilings in beautifully decorated homes and stroll in well-manicured gardens. Their wardrobes would be of the finest kind, full of the latest fashions, and their tables would be laden with both local and imported food and wine. What's more, they'd hardly need to lift a finger, thanks to the house slaves on hand 24



The Grimké sisters.
commons.wikimedia.org

hours a day, seven days a week, to attend to their every whim. Outside, field slaves would work just as hard if not harder on the plantations that made all this possible.

But Sarah and Angelina were to reject the highly privileged existence spread out before them by the simple accidents of their births. Instead they both moved north, embraced principle, and devoted their lives to campaigning for the abolition of slavery and for women's rights.

They rejected the thinking of the day that blacks were inferior to whites; they rejected the idea that it was proper for one individual to own another; they dismissed the notion that slavery was acceptable as long as you treated your slaves well and did not beat or torture them; and they had no time for the belief that the solution to slavery was to send freed slaves back to colonize African states such as Liberia whether those were their countries of origin or not. The sisters became outright abolitionists.



Sarah Moore Grimké was born in 1792 and grew up in a magnificent house in the center of Charleston and on the family plantation inland at Beaufort. She had three elder brothers and one elder sister, and three younger brothers and two younger sisters. Her educa-

tion was to consist of reading, writing, and enough mathematics to run a household. Needlework, art, music, and a little French were featured on the curriculum, but the most important subject was the learning of manners. She craved more from her education, how-

John Blundell (JBlundell@iea.org.uk) is a visiting fellow at the Heritage Foundation. This article is adapted from a chapter of his forthcoming book, Ladies for Liberty: Women Who Made a Difference in American History (Algora).

ever, and started to learn secretly from her brother Thomas, six years her senior, studying his books at night. She delved into history, geography, science, Greek, and advanced mathematics. She was allowed to participate in the semiformal debates her father arranged for his sons as law school preparation. Judge Grimké reportedly commented that if Sarah had been a boy she would have been America's greatest jurist. But while Thomas went to Yale, Sarah was kept at home.

From an early age Sarah became aware of the unjust treatment meted out to slaves. When at the age of five she saw a slave being beaten, she tried to run away from home to a place where there was no slavery. Later, in her speeches, she recalled the many harrowing experiences of slavery she had witnessed, ranging from whippings to torture at the local workhouse where slaves were sent to be disciplined. She even witnessed the gruesome spectacle of the severed head of an escaped slave on a pole by a country roadside, placed there as a warning to other would-be runaways. What she saw was to turn her into a rebel.

Sarah's family was devoutly Episcopalian, and she taught Sunday school to younger slave children. When she asked why she couldn't teach them to read so they could discover the Bible for themselves, her father replied that the 1740 Better Ordering and Governing of Negroes and Slaves Act levied a fine of £100 (about \$10,000 today) for educating such people or employing slaves with these skills. Sarah's reaction was to teach her young black maid, Hetty, to read secretly at night until her mother discovered them; Sarah was severely admonished by her father, and Hetty was very lucky to escape a severe whipping. Sarah later wrote: "I took an almost malicious satisfaction in teaching my little waiting-maid at night, when she was supposed to be occupied in combing and brushing my locks. The light was put out, the key hole screened, and flat on our stomachs before the fire, with the spelling-book under our eyes, we defied the law of South Carolina."

In February 1805 Mary Grimké produced her 14th and last child, Angelina Emily. Sarah begged her parents to make her the new child's godmother and to give her

a major central role in raising the girl; they assented in part to relieve some of the child-rearing burden from Mary and in part to cheer up the morose Sarah.

Angelina became the focus of Sarah's existence and by the time the former started to talk she addressed her elder sister as "mother."

Time Among the Quakers

In 1818 Judge Grimké fell seriously ill, and in the spring of 1819 his Charleston doctor referred him to a Philadelphia specialist. Sarah accompanied her father on the sea journey. After two months the doctor could do no more than recommend the sea air and the bathing at Long Branch, New Jersey. Father and daughter traveled there, but to no avail. Judge Grimké died with Sarah as his sole mourner.

Looking after her dying father all alone and staying with Quakers in Philadelphia for months on either side of his death seem to have hardened and focused her, resolving many issues. On the ship back to Charleston she was befriended by a prosperous Quaker family called Morris, who gave her books and tracts. She started a correspondence with Israel Morris, the head of the family.

Back home, she threw herself into discovering all she could about the Quaker movement, also known as the Religious Society of Friends, and its outright opposition to slavery. She also took to wearing the plain habit of Quaker women, and in 1821 she relocated to Philadelphia to live alternately with Israel's family in the country and his sister Catherine Morris in the city, supported by the interest on her inheritance. In May 1823 Sarah Grimké became a full member of the Friends.

Angelina, meanwhile, was on her own spiritual and intellectual journey from the Episcopal Church, with its emphasis on the rule of the clergy, to the more democratic Presbyterian Church, and from a merely argumentative to a highly opinionated anti-slavery activist. But she could not abide the idea of Christians owning other Christians, and she too became attracted to the Quaker religion and its dedication to peace and equality.

From an early age Sarah became aware of the unjust treatment meted out to slaves.

It was not only the impact of slavery on the slaves that troubled Angelina but also its effect on their owners. Having everything done for you by house slaves and living off the work of field slaves, she observed, was deeply amoral and undermined families. She wondered what hope there was for affection to arise from familial duty if you could not even move a chair for your mother or open a window so she that she might enjoy the air.

In November 1829 Angelina stopped her one-woman crusade in Charleston and headed north to be with Sarah in Philadelphia. Soon she too had joined the Quakers.

Seeking a Niche

Both sisters still struggled to find their niche. Initially their mission to abolish slavery had little real direction, partly because the Quakers considered their views too radical. While Quakers might be against slavery, their social activism was unlikely to extend beyond praying for a solution. Angelina yearned for an activist role, while her elder sister was more cautious.

In the mid-1830s there was an explosion of anti-slavery societies in the North, as well as female versions of such groups in which women were able to play a leadership role previously denied them. Both sisters began to engage more and more in the antislavery movement, Sarah through reading and study, and Angelina by attendance at meetings of the Philadelphia Female Anti-Slavery Society.

The era also saw a great deal of violence directed at such activities, even in the North, where slavery for many people was little more than an abstract idea. Most had never witnessed it personally.

Against this background Angelina wrote to William Lloyd Garrison, editor of *The Liberator*, the leading anti-slavery periodical. Garrison had been editorializing strongly against mob violence and demanding that British reformer George Thompson be given a peaceful platform.

“The ground upon which you stand is holy ground; never—never surrender it,” she urged Garrison. “If you

surrender it the hope of the slave is extinguished.” She concluded: “This is a cause worth dying for.”

Without consulting her Garrison published the letter and identified its author as being from the prominent Grimké family of Charleston. It was widely read, reprinted, and admired, suddenly giving Angelina a public profile and deeply impressing the leading reform spokesman, Theodore Weld. Her future as a radical abolitionist was assured. At the same time, the letter was intensely embarrassing to Angelina. It outraged the Philadelphia Quakers, whose way of life Sarah and Angelina were finding more and more stultifying and at odds with their reforming zeal.

Meanwhile Angelina tried to purchase her former maid, Hetty, who now had children, in order to free her and her family, but to no avail—the requests were ignored. Angelina later rejected this purchase-to-free strategy as being insufficiently pure since it implied acceptance of the system.

In February 1836 both sisters attended the Quaker Convention in Providence, Rhode Island, where they met abolitionists from all over the northeast with whom they felt much more comfortable than their Philadelphia group. This resulted in an invitation to Angelina, a talented and passionate public speaker, to become a spokeswoman for the New York City-based American Anti-Slavery Society. While she considered this offer she penned a highly influential monograph, *Appeal to the Christian Women of the Southern States*.

In this publication she wrote as a southern lady, addressing her friends and their friends in their language. She took on every argument advanced in favor of slavery and refuted them all. Set your slaves free, she urged her fellow southern women. “If they wish to remain with you, pay them wages,” she continued. “If not, let them leave you. Should they remain teach them.”

Sales of Angelina’s monograph took off. This led to acclaim but also to trouble. Police in Charleston paid a visit to the sisters’ mother. The postmaster had burned copies of *Appeal* in public, and the police warned that Angelina was not to visit; if she did she would be arrested, imprisoned, and deported on the first available boat back north.

Angelina yearned
for an activist role,
while her sister was
more cautious.

The Quakers of Philadelphia disapproved too and insisted the sisters could not leave the city without their permission. Angelina resolved to move to New York City, and as Sarah wondered what to do, she received a letter from their mother begging her to accompany her sister so as to look after her. Sarah and Angelina were on their way to becoming America's first female agents for abolition.

New York City

Arriving in New York City in October 1836, the sisters were immediately thrown into an intense three-week-long training course for new agents run by the Society and led by Theodore Weld. Out of 40 participants, Sarah and Angelina were the only two women. Here the local Quakers were supportive, and for the first time they both felt part of a harmonious team in which everybody was pulling in the same direction.

The plan was for the Grimké sisters to address fellow women at the homes of members of the Female Anti-Slavery Society. However, the response to their lectures was so huge that no parlor was big enough to hold all those who wanted to attend. A room at a local church that could seat 300 was found instead, but that too proved inadequate, and the lectures were moved into the main body of the church itself.

Theirs was an impressive double act. Sarah dealt with the religious aspects of their case and Angelina the political. While Angelina's monograph had been aimed at the women of the South, Sarah now wrote and published *An Epistle to the Clergy of the Southern States*, urging southern religious leaders to take a stance. And while Angelina penned her *Appeal to the Women of the Nominally Free States*, Sarah wrote *An Address to Free Colored Americans*. Invitations to speak flowed in and they decided to target New England from a base in Boston. They were an instant hit: Between June 7 and June 23, 1837, they addressed 11 meetings of 3,500 people in total, including many men. But this appeal to men and the fact that they were speaking before a "promiscuous"—mixed-sex—group caused contro-

versy. It was one thing for women to talk with other women in small groups in private homes but quite another for them to address large groups in public with men in attendance.

First the Quakers and then other Christian denominations such as the Congregationalists closed their premises to abolitionists and women speakers; it was quite clear whom they were trying to gag. Sarah, unhappy that women could be denied a public platform, began to move beyond abolitionism and into the area of women's rights. Weld, however, advised the Grimkés to stick to the issue of slavery. As the fall of 1837 came both sisters fell ill from fatigue, but by then they had already spoken to 40,000 men and women at 80 meetings in 67 New England towns.

In 1838 Weld proposed marriage to Angelina. She was also invited to address the Massachusetts legislature in Boston's State House. She accepted both, and on February 21 she became the first woman in U.S. history to address a legislative committee.

She started her speech: "I stand before you as a Southerner exiled from the land of my birth by the sound of the lash, and the piteous cry

of the slave. I stand before you as a repentant slaveholder. I stand before you as a moral being."

One thousand people attended on both days. Such was the reception given to her speeches that Angelina wrote to her friend, the African-American abolitionist Sarah Douglass, "We Abolition Women are turning the world upside down." Next a series of six formal lectures was booked at Boston's huge Odeon theatre; Sarah gave the first, and Angelina, who was more of a natural orator than her elder sister, delivered the remaining five. Every square inch of space was packed out by an audience of up to 3,000 people.

The Female Anti-Slavery Society's annual convention was scheduled for mid-May 1838 in Philadelphia. Angelina and Weld decided to marry just before it so that their activist friends would not need to make a special journey. Weld viewed the law that assigned all the property of a wife over to her husband as pure vandalism and looked forward to a ceremony in which he

In 1838 Angelina became the first woman in U.S. history to address a legislative committee.

would make himself the exception. They had decided to live in Fort Lee, New Jersey, and invited Sarah to join them.

So on May 14, 1838, the “most mobbed man” in the United States, according to the Grimké sisters’ 1967 biographer, Gerda Lerner, married its “most notorious woman.” They invited scandal by having the ceremony performed before a mixed-race group, which included Grimké family slaves who had been freed and were now living locally. A black baker made the cake using slave-free sugar.

Two nights later, also in Philadelphia, 3,000 abolitionists—mostly women—braved a braying mob to enter the new Pennsylvania Hall, which had been funded by abolitionists. Inside blacks and whites mingled, and *The Liberator’s* Garrison gave the first lecture. Angelina then spoke for an hour, during which the mob outside hurled stones through newly broken windows. The mayor, perhaps not wanting to buck majority opinion, refused to intervene, and the convention had to resume the next afternoon. But the mob grew and became even more vicious and intemperate. In response the mayor ordered the evening session to be cancelled. Fearing in particular for the safety of the black women, Angelina asked the white women to link arms with their black sisters, and the mob reluctantly backed off as a line of reformers, alternately black and white, left the building. The mob soon looted the hall before burning it to the ground. In polite circles and newspaper editorials, the consensus was that the mob had been provoked by troublemakers who did not know their place in society.

The Grimké sisters were principled and steadfast, and made huge personal sacrifices.

By 1839 Angelina’s health had become a major concern and was to remain so the rest of her life. But she had three children, Charles Stuart Faucherauld Weld, born in 1839, Thomas Grimké Weld in 1841, and Sarah Grimké Weld in 1844.

By the time the Civil War broke out in 1861 the Welds had come to the conclusion that conflict was inevitable. “War is better than slavery,” Angelina wrote. The war energized the couple and brought them back into the public eye.

The Grimké sisters were to hit the headlines one last time when in March 1870, aged 77 and 65, they led a group of women in voting in a Lexington town election. They marched through the snow from a local hotel, each carrying a bouquet of flowers, and placed ballots into a box undeterred by the noisy barracking of male citizens. Of course the ballots would not be counted, but the sisters claimed to be the first women to vote—almost exactly 50 years ahead of the February 1920 passage of the Nineteenth Amendment, which gave women the right to vote.

Sarah died in 1873, aged 81; Angelina followed her in 1879, aged 74.

The Grimké sisters were principled and steadfast, and made huge personal sacrifices. They were courageous, generous, and caring. They were also gifted writers and public speakers, and clever strategists. But above all they were driven by an abhorrence of the idea that one individual could own another. To that end they were pivotal in the effort to see that notion pass from an unassailable part of American culture into the dustbin of history. **FEE**



Economic Analysis and the Great Society

BY ROBERT HIGGS



Although the Great Society should be understood as primarily a political phenomenon—a vast conglomeration of government policies and actions based on political stances and objectives—economists and economic analysis played important supporting roles in the overall drama. Even when political actors could not have cared less about economic analysis, they were usually at pains to cloak their proposals in an economic rationale. If much of this rhetoric now seems to be little more than shabby window dressing, we might well remind ourselves that the situation in this regard is no better now than it was then.

Regardless of how political actors in the 1960s might have sought to exploit economic analysis to gain a plausible public-interest rationale for their proposed programs, the most prominent body of economic analysis in those days—the sort taught by the leading lights at Harvard, Yale, Berkeley, and the other great universities—virtually cried out to be exploited in this way. During the mid-1960s the so-called Neoclassical Synthesis achieved its greatest hold on the economics profession.

This term “synthesis” refers to the combination of a microeconomic part, which contains the theory of individual markets that had been developed over the preceding two centuries, and a macroeconomic part, which contains the ideas about national economic aggregates advanced by John Maynard Keynes in his landmark 1936 book *The General Theory of Employment, Interest, and Money* and further developed by Keynes’s followers during the three decades after the book’s publication.

On the microeconomic side, the Neoclassical Synthesis incorporated the so-called New Welfare Eco-

nomics that had been developed during the 1930s, 1940s, and 1950s. In this form microeconomic theory advanced a general-equilibrium theory of the economy’s various markets, identified the conditions for the attainment of equilibrium in this idealized system, and demonstrated that various “problems”—springing from external effects, collective goods, less-than-perfect information, and less-than-perfect competition, among other conditions—would cause the system to settle in a state of overall inefficiency: The value of total output would fall short of the maximum that would have resulted from systemic efficiency, given the economy’s available resources of labor and capital and its existing technology.

Attainment of such an inefficient state was characterized as a “market failure,” and economists expended enormous effort alleging the existence of such market failures in real-world markets and in proposing means (mainly taxes, subsidies, and regulations) by which the government

might, in theory at least, remedy these failures and thus maximize “social welfare.”

Had economic theorists rested content with using the microeconomics of the Neoclassical Synthesis strictly as a conceptual device employed in abstract reasoning, it might have done little damage. However, as I have already suggested, this type of theory cried out for application—which, in practice, was nearly always *mis*-application. The idealized conditions required for theoretical general-equilibrium efficiency could not possibly obtain in the real world; yet the economists

The most prominent body of economic analysis in the 1960s virtually cried out to be exploited by political actors.

Robert Higgs (rhiggs@independent.org) is a senior fellow at the Independent Institute (independent.org), editor of *The Independent Review*, and author of *Neither Liberty nor Safety: Fear, Ideology, and the Growth of Government* (Independent Institute).

readily endorsed government measures aimed at coercively pounding the real world into conformity with these impossible theoretical conditions.

Closely examined, such efforts represented a form of madness. As the great economist James Buchanan has observed, the economists' obsession with general equilibrium gives rise to "the most sophisticated fallacy in [neoclassical] economic theory, the notion that because certain relationships hold in equilibrium the forced interferences designed to implement these relationships will, in fact, be desirable."

Great Society measures such as the Elementary and Secondary Education Act (1965), the Higher Education Act (1965), the Motor Vehicle Safety Act (1966), and the Truth in Lending Act (1968), as well as many of the consumer-protection and environmental-protection laws and regulations, found ready endorsement among contemporary neoclassical economists, who viewed them as proper means for the correction of purported market failures.

The assumptions that underlay these economic interpretations and applications, however, could be sustained only by wishful thinking. Economists presumed to know where general equilibrium lay, or at least to know the direction in which the quantities of various inputs and outputs should be changed in order to approach general-equilibrium efficiency more closely. But neoclassical economists cannot move the earth with a mathematical lever because they have no place to stand—no "given" information about (presumably fixed) property rights, consumer preferences, resource availabilities, and technical possibilities. What neoclassical economics takes as given is, in reality, revealed only by competitive processes.

If the microeconomic side of the Neoclassical Synthesis fostered government measures to remedy a variety of putative market failures, its macroeconomic side endorsed government measures to remedy the greatest alleged market failure of all—the economy's overall instability and its recurrent failure to bring about a condition known as "full employment."

The supposition that mass unemployment constitutes or reflects a market failure came easily to economists who had reached maturity during the Great Depression. By the early 1950s Keynesian ideas had entrenched themselves among the leading lights of the mainstream economics profession. Since then, some species of Keynesianism has been either in the professional saddle or clamoring to get there.

In the 1960s few economists disputed this general framework of analysis. Even critics such as Milton Friedman accepted it, arguing only that certain second-order aspects of the model differed from what the Keynesians assumed.

Few macroeconomists looked to monetary-policy changes as important means of pushing an economy out of what they viewed as a mass-unemployment equilibrium. For the typical macroeconomist of those days, fiscal policy—changes in government spending, taxing, and borrowing—held the key to keeping the economy on a steady growth path. By employing these instruments policymakers could effectively select from a menu of inversely related rates of inflation and unemployment, a tradeoff schedule known as the stable Phillips Curve. As if to certify the completeness of Keynesianism's conquest, in December 1965 *Time* magazine put an image of Keynes on its cover and featured a long, laudatory article titled, "We Are All Keynesians Now."

The Great Society programs, whether for microeconomic remedy of alleged market failures or for macroeconomic fine-tuning, had an important element in common: the presumption that technocrats possessed the knowledge and the capacity to identify what needed to be done, to design appropriate remedial measures, and to implement those measures successfully. In short, the Great Society amounted to social engineering—or worse, to sheer, groping social experimentation—on a grand scale. People ought not to have been surprised when its attainments failed to match its pretensions. FEE

What neoclassical
economists take for a
given is, in reality,
revealed only by
competitive processes.

Is a Nation Something That Can Be Built?

BY STEVEN HORWITZ

In the wake of both the collapse of the Soviet empire and the more recent U.S. interventions in Iraq and Afghanistan, we have seen a lively debate on nation-building. Many people who are ordinarily skeptical about the power of the U.S. government as a force for good, either at home or around the world, have come to believe that it can take on the supposedly noble task of rebuilding nations that have been plunged into chaos by political upheaval and/or war.

Although the phrase “nation-building” sounds much more constructive and well-intentioned than the destruction and death that have normally accompanied the use of American power, the reality is that attempts to build nations are likely to fail. What the nation-builders overlook is a distinction made by Ludwig von Mises almost 100 years ago: A nation is not necessarily the same as a “state.” In his underappreciated little book *Nation, State, and Economy*, Mises argued that “nations” are defined not by geography or by political institutions, but most fundamentally by language and other similar cultural institutions that provide a basis for “mutual understanding.”



U.S. Army photo/Spc. Eddie Siguenza

Therefore the nation, Mises argued, cannot be understood as a static object that we can manipulate as we wish: “Nations and languages are not unchangeable categories but, rather, provisional results of a process in constant flux; they change from day to day, and so we see before us a wealth of intermediate forms whose classification requires some pondering.”

This evolutionary perspective on what constitutes a nation suggests that it may be very difficult for an external observer to even know whether a given mass of people constitutes a “nation,” much less be able to know what it would take to build a nation out of their current “intermediate form.” As we know from F. A. Hayek, people learn

how to coordinate their behavior with one another via such evolutionary processes. In other words nations are spontaneous orders that emerge from the daily choices of people about the language they use and the other ways in which they participate in, or withdraw from, a variety

Contributing editor Steven Horwitz (sghorwitz@stlawu.edu) is the Charles A. Dana Professor of Economics at St. Lawrence University and a columnist at TheFreemanOnline.org.

of cultural forms. The people themselves constitute a “nation” by their individual choices.

States imposed on nations by princes, Mises contended, are doomed to fail because they normally attempt to eliminate all forms of community that lie between the prince and the people. Anything that doesn’t come from the State is to be dissolved. In other words imposed States dislike and destroy the delicate, complex, and evolved connections that comprise a true nation. This is why totalitarian regimes try to control language, religion, family, and all of the other intermediary institutions between individual and State: because those institutions help to define what it means to be a nation as distinct from a State. They provide a buffer between the evolving choices of individuals and the attempt to control those choices from the top down.

Like other attempts to control spontaneous orders, nation-building faces significant knowledge problems. It is no different in principle from attempting to plan an economy domestically. As Mises and Hayek pointed out decades ago, when planners attempt to allocate resources from the top down, they have no market signals to guide their behavior or to indicate what value people place on various outputs and inputs—that is, no prices with which to engage in economic calculation.

Nation-building is even harder than central planning at home. Once we understand that true nations are the unintended consequence of decentralized cultural processes involving millions of choices by millions of people, the absurdity of trying to build a nation as if it were a child’s toy or even a skyscraper becomes clear. Mucking around in processes that are too complex to understand in all of their relevant causal connections is almost certain to produce unintended and undesirable consequences. All the intermediary institutions that define a nation (such as language, customs, religion, and family) themselves have strong elements of spontaneous order to them because they grow out of the day-to-day practice of individuals with no overarching plan. These are ways in which individuals try to coordinate their

behavior, slowly evolving institutions to assist them. Such processes of coordination work best when individuals and small groups are free to use their own particular knowledge to determine what will improve their lives. To build a nation, in Mises’s terms, would require one to be able to do a better job than the decentralized social processes described above.

Economist Chris Coyne, in his wonderful book *After War*, confirms that postwar reconstruction (the form recent nation-building has taken) suffers from the same sort of knowledge problem that faces those who would “build” an economy domestically. If Mises and Hayek were right about the impossibility of socialist planning because economies are simply too complex to be surveyed by one mind without the help of signals

such as prices, then nation-building is equally impossible. Just as the intervention of economic planners inevitably produces results that run counter to their stated goals, leading them to intervene again to solve *those* problems, so will nation-building create pushback and new forms of culture and community that frustrate the designs of the builders. The quagmires of Iraq and Afghanistan are clear evidence for this argument.

Coyne articulates a number of propositions that explain the failure of attempts at “exporting democracy.” Three of those are of particular relevance to the argument here.

Why Democracy Can’t Be Exported

First, he argues that while economists and other social scientists have a pretty good idea of what constitutes a functional nation, they have much less knowledge about how to bring a “failed nation” to that point. How nations emerge is a process that is both complex and unique to each particular country. All that we can do is get out of the way and let people figure it out for themselves.

Coyne also distinguishes between the factors that nation-builders can control and those they cannot. He argues that the uncontrollable factors are what we generally call “culture” or the “informal rules and

Imposed states
destroy the delicate,
complex, and
evolved connections
that comprise a
true nation.

institutions” that constitute societies. These factors constrain those that we can control. In other words there are things nation-builders can attempt to do, such as initiate democratic elections as the U.S. government did in Iraq, but the success of those formal changes depends greatly on whether they are consistent with the underlying culture. Just putting formal changes in place because you can control them does not mean they will produce the desired result.

Nirvana-Building

Finally, Coyne points out that many attempts at nation-building suffer from what economists have long called the “Nirvana fallacy.” That fallacy lies in comparing the imperfection of existing reality to the perfect world they can imagine in their theories or on their chalkboards, then condemning reality for failing to measure up. In the chalkboard descriptions of how nation-building should take place, planners are presumed to be guided by the public interest with all the information they need to generate the desired outcomes. I have already discussed the problem with the latter. The former, though, also omits the imperfections of politics. The knowledge problem is compounded by perverse incentives.

There is a pitfall in assuming that those charged with using the political process to build, or rebuild, a nation will ignore their self-interest and be motivated solely by the public interest. Nation-builders need to correctly identify the public interest. Although they may know what the endpoint is, knowing what path will generate that socially desirable outcome is the fundamental challenge. It is not possible for them to know if any given nation-building action is actually in the public interest. With that constraint we should not be surprised to see

the self-interest of the nation-builders predominating. Coyne documents how political self-interest has ruled U.S. nation-building efforts in Iraq and Afghanistan, manifested in the cozy relationships American politicians and policymakers have with private-sector firms with whom they had preexisting associations. Nation-building is a fertile ground for the sorts of corporate-State partnerships that undermine genuinely free markets.

Liberalism and Anti-Imperialism

Coyne’s book and the broader arguments I have offered above are part of the long-standing classical-liberal tradition of anti-imperialism. Perhaps because of the accidental alliances created by the Cold War, many have forgotten that tradition. In fact, classical liberals have always believed that the best way to encourage national development is through trade in goods and services and ideas—not through political or military intervention, even in the name of helping others.

The arguments against nation-building are much the same as those against domestic intervention (which can be recast as “economy-building” or “morality-building”). Both spring from the mistaken belief that outsiders can do better than the arrangements that emerge spontaneously and evolve continuously as individuals engage with each other. Both suffer from insurmountable knowledge problems and the perverse incentives of the political process. A better choice is to encourage unhampered exchange—within and between nations. Failure to grasp the impossibility—and often brutal consequences—of nation-building can remove yet another bulwark against further domestic intervention. If we can build a nation to our liking overseas, after all, why can’t we do it at home? **FEE**

The rise of the Soviet Union and the Cold War significantly weakened the association between classical liberalism and anti-imperialism.

“Big Meat” and Big Government

BY PAUL SCHWENNESEN

Ranchers are a fairly independent bunch. We don't like overweening authority and prefer to fend for ourselves. We also find few things more objectionable than sitting endlessly indoors. Nevertheless, 2,000 of us did just that several months ago in the ballroom of Colorado State University. Our ballroom session wasn't very romantic, I'm afraid. While most of us had hats, an awful lot of them were in hands instead of on heads, and the only black hats to be found were of the very literal variety. If the setting wasn't exactly invigorating, the topic was even less so: understanding why the family-scale cattle industry is going broke and why either Big Meat or Big Government is helping it down the drain.

We had dragged ourselves from all over the country to provide testimony to Attorney General Eric Holder and Agriculture Secretary Tom Vilsack about “Competition Issues Facing Farmers in Today's Agricultural Marketplaces.” Despite the extravagant title the themes of the day were simple: Is the oncoming demise of a traditional way of life the result of malfeasance by multinational beef companies? Is the 30-year trend of lower prices for the calves we produce the result of consolidation and conspiracy in the meatpacking industry? Is the U.S. government complicit in this evolution or is it the kindly big brother, helping us take on the schoolyard bullies?



Subsidies have made vast feedlots possible.
NDSU Ag Comm [flickr]

I'm afraid that after six hours of public testimony I gained no sense of any nefarious manipulations by the corporate big boys. Instead I got an inkling that some of us in the industry would rather see higher prices for our cattle (no kidding?), that ranchers ought to get a “fair shake” (whatever that means), and that big beef companies should open the books to their private transactions (since Big is evil, privacy rights needn't apply).

The sad facts are indisputable, but how we explain them is not. It is true that well over 80 percent of the meatpacking industry is now in the hands of four conglomerates. Family cattle operations are disappearing at the rate of one thousand per month and over 40 percent of them have evaporated since 1980. The percentage

of the food dollar received by ranchers has dropped over 25 percent since 1970. In my hometown in 1969 a rancher could buy a new pickup with the profit from a trailer-load of 15 steers; it now takes a semi-load of 44, according to my calculations (with the help of the University of Arizona's agricultural economics department). Economics suggests that these little factoids tell us practically everything we need to know about the modern beef industry.

Paul Schwennesen (AgrarianLiberty.com) is a southern Arizona rancher and regular contributor to PERC, the Property and Environment Research Center. This article first appeared at TheFreemanOnline.org.

But what of it? Do these daunting numbers indicate illegal activity in the meat sector? If a federal probe were to unearth hard evidence that Cargill, Tyson, National, or JBS was engaged in fraud or theft, I would be the first to clamor for a swift legal response. After all, one of the few legitimate roles of government, as Jefferson put it, is to “prevent men from injuring one another.” Barring such evidence, however, it is my view that the consolidation of the meat industry is really due to a couple of problems unrelated to corporate meat processors. In fact Big Meat is simply the byproduct of two seemingly “good” government programs: agricultural subsidies and stringent processing regulations.

The Effect of Subsidies

According to the Cato Institute, the government funnels upwards of \$30 billion per year into cash subsidies to farmers and owners of farmland. Seventy-two percent of it goes to the largest ten percent of recipients, effectively (but not surprisingly) countering the original New Deal intention of supporting small family farmers. Chris Edwards writes:

The extensive federal welfare system for farm businesses is costly to taxpayers and it creates distortions in the economy. Subsidies induce farmers to overproduce, which pushes down prices and creates political demands for further subsidies. Subsidies inflate land prices in rural America. And the flow of subsidies from Washington hinders farmers from innovating, cutting costs, diversifying their land use, and taking the actions needed to prosper in a competitive global economy.

In the meat industry, in case you think we’re exempt, artificially subsidized feeder grain has significantly altered the cow-calf industry. Cheap feed grain encourages concentrated feedlot systems, and these systems naturally tend to conglomerate as the efficiencies scale up beyond imagination (500,000 head of cattle in one feed yard is not unheard of today). It’s difficult to quantify the price effects of subsidized corn on calf

prices (economists at the University of Arizona place it at 1 percentile or a bit more), but it’s safe to assume that the tremendous efficiency and scale of feedlots (the only ones doing any significant buying) lead to lower calf prices at the sale yard. By way of comparison, a locally processed, directly marketed steer can net around \$1,500 to the producer who raised it. In the commodity sector, where the rest of the cattle are marketed, the USDA estimates the average per-head return at \$15 *below* production cost! Subsidies contribute in large part to the market manipulations that allow such an incredible discrepancy to exist.

But are there any alternatives to agricultural subsidies? Won’t their removal be a catastrophic blow to an already ailing industry? How can we toy around with *food* production, arguably the most precious sector of our economy? Luckily an experiment has already been run for us, and the results are encouraging. Farm subsidies ended in New Zealand in 1984.

New Zealand ended food subsidies in 1984, with overwhelmingly positive results.

The effects on New Zealand agriculture have been overwhelmingly positive. According to the Rodale Institute, “New Zealand agriculture is profitable without subsidies, and that means more people staying in the business. Alone among developed countries of the world, New Zealand has virtually the same percentage of its

population employed in agriculture today as it did 30 years ago, and the same number of people living in rural areas as it did in 1920.”

New Zealand’s farmers and ranchers are significantly better off today than in the heyday of government “assistance.” We should take note.

Overregulation of Processing

Overregulation of food processing has done more to hurt ranching families than they even know. Heavy regulation makes it extremely difficult to enter the slaughter-and-processing sector since the risks are high and the regulatory hurdles immense. It’s easier to build a centralized feedlot/packing house if you are a Cargill with huge capital reserves and an army of technicians than it is to build a USDA certified mom-and-pop packing facility. The reason is simple: Reams of

paperwork, tests, constantly updated procedures, and risk create an almost insurmountable barrier to entry. The decline in the number of packinghouses is even more precipitous than the decline in family farms. According to the USDA, the number of cattle slaughter plants declined by over a third from 1996 to 2006.

Restricted Alternatives

The inability to process animals locally has guaranteed that cow-calf producers are locked in to the local auction yards and the attendant cattle-buyers. Alternative marketing opportunities such as direct-marketing are hugely more difficult without the processing facilities.

As both a cow-calf producer and owner of a tiny packinghouse myself, I can attest to the forbidding array of regulatory restrictions that hamper creativity and production. For instance, we thought that grassfed hotdogs would be a popular item to sell. It turns out that USDA facilities capable of making them will not accept our state-inspected meat (even though they would be happy to accept non-USDA inspected meat from abroad). Or take jerky: While all-natural grassfed jerky would probably be an excellent and desirable product, inspectors have dismissed the notion out of hand (“Have you seen the regs on *Listeria* alone? It’s three inches thick!” said one). Managing a packinghouse according to stringent regulation is a crushing burden for anyone, particularly if you are not terribly well connected or financially

backed. Government’s genuine concern over safe food has created a megalithic bureaucracy that aims to eliminate all foodborne risk, even if it comes at the cost of local, small-scale food production.

We all want to see the next generation be able to stay on the land and make a respectable living. Some suggest that we ask for government programs, grants, and artificial market manipulation. The rest of us need to ask the government to step away from the officious behavior that has caused the very problems we are trying to address.

We need to ask the government to step away from the officious behavior that has caused these problems.

Accusations of feedlot and packer “collusion” and “price-fixing” are unwarranted if these businesses are simply doing what everyone else is doing: buying as low as they can and selling as high as possible. That they’ve offered lower and lower calf prices over the years does not indicate illegal behavior; they’re not charities after all. While it’s doubtful that they maintain spotless records, we should be awfully suspicious of demands for govern-

ment guarantees of “fair” prices to their suppliers. We must keep in mind where the *true* culprit lies: squarely within the unintended consequences of government meddling in the marketplace.

Inviting authoritarian oversight into your competitor’s business always seems like a good idea at the time, but when the same authorities start pounding on *your* door the notion loses some of its charm. Asking government to break the back of Big Meat is like asking your hangman to pull the next guy’s lever first. **FEE**



The Wrong Lesson from Egypt

BY SHELDON RICHMAN

One *wrong* conclusion being drawn from last winter's popular uprising against the dictatorship in Egypt is that the American government could ignore such things if we were "energy independent." (It's unclear if this means independent of Middle Eastern oil or completely independent.) A moment's reflection should be enough to jettison that thought, but even if oil were all that were at stake, energy independence would be a terrible idea. It's perplexing that self-described free-market advocates would favor such a policy.

As a student of Austrian economics I know I cannot foresee what the domestic energy market would look like or what the relative prices would be if all U.S. regulations, taxes, and privileges were abolished. But I submit that those who think the United States would be energy self-sufficient have the same knowledge limitations. It seems highly unlikely that Americans would import no oil from the Middle East or elsewhere. (More on this below.)

Unwise and Unnecessary

But even *if* things should work out that way, it is not something to be sought. Making self-sufficiency a goal would only promote protectionism—to the benefit of privileged interests—and encourage interventionists. Let's not give them a helping hand.

What if freeing the domestic market did *not* produce energy independence? Should the government give it a nudge? Do banning imports, subsidizing alternative forms of energy, and mandating conservation sound like good ideas? Have we forgotten all that we know about bureaucratic ignorance, perverse incentives, and naked corruption? When one considers how pervasive energy is economically, one realizes that a

serious comprehensive energy policy would require squaring or cubing the current corporate state. No thank you.

Concerns about Middle East oil—which persist although only 24 percent of U.S. crude-oil imports come from that region—center largely on fears that an unfriendly ruler might cut off shipments. But these concerns are baseless. Any oil-producing country will want to sell to someone. What else is there to do with crude oil? The opportunity cost of leaving it all in the ground would be enormous (unless prices were expected to rise dramatically). And even if a ruler tried

Even if the government could make the U.S. self-sufficient, it's not something to be sought.

to embargo the United States, the additional oil he sold to other countries (at necessarily lower prices) would find its way here. Economic interest and the market process—*despite* all the impediments—guarantee it.

I've previously discussed the misconceptions about the 1970s OPEC oil embargo. I pointed out that the hardship of that period was strictly the result of the U.S. government's

price controls and other interventions in the oil and gasoline industries, which discouraged producers from bringing supply to market. Even so, "[d]espite the embargo," economist Donald Losman wrote, "U.S. oil stockpiles fell *only slightly*, and, by March 1974, they were growing again." ("Trading for Security," December 2010, tinyurl.com/28wzzh4)

In other words, the embargo failed. As the Saudi oil minister put it later, "[T]he embargo was more symbolic than anything else. . . . [T]he world is really just one market." Bingo.

Sheldon Richman (srichman@fee.org) is the editor of *The Freeman* and *TheFreemanOnline.org*.

Another fear is that Middle Eastern turmoil could disrupt oil shipments, and this is surely possible. The answer to that is diversification, which a freed entrepreneurial market would encourage and permit. We need not refuse oil from the region because someday it might not be available. That's Karl Pilkington logic.

That should dispel the fears of energy dependence. Indeed, as *Freeman* columnist David Henderson points out ("Let's Not Be Energy Independent," October 2008, tinyurl.com/na4wex), the case for the market is all *about* dependence. We gain from exchange through lower costs thanks to the division of labor and comparative advantage, which deliver the benefits of specialization. Self-sufficiency would be expensive and thus reduce our standard of living, harming the least well-off among us. How in the world can we account for apparently pro-market people looking to the government to "reduce our dependence on foreign oil"?

Let It Take Its Course

I don't wish to underestimate the distortions government intervention has wrought in the energy market or how it encourages consumption of Middle Eastern oil. Imagine that the oil companies could not count on the U.S. departments of defense and state or the CIA to protect their access to and transport of that oil—at hidden taxpayer expense. Imagine that they had to foot

that cost themselves and charge prices for their products that reflected those costs in competition with alternatives that did not have to recoup those expenses. Consumers would then make choices with their eyes wide open. Maybe oil from halfway around the world wouldn't look so attractive. As I said at the outset, I don't know what a freed energy market would look like. But nothing in this uncertainty supports a policy of energy self-sufficiency. Free the market of all impediments and privileges—and let it take its course.

Whether there are many years remaining of low-cost oil underground or not, the case for freeing the market is the same. As that Saudi oil minister also said, the Stone Age ended, but not because mankind ran out of stones. Likewise, the Oil Age will end, but not because mankind has run out of oil. I would only add: if

the market is *really* freed.

Events in Egypt and neighboring countries are only the beginning of a spreading resistance to dictatorship throughout the region. As inhabitants of a land born in rebellion against tyranny, we should view this with hope. Freedom will enable us to weather any turmoil as best as can be expected. There is no reason to wish for the unnatural state of self-sufficiency.

A final point: One way to help eliminate the need for uprisings such as we saw in Egypt would be for the U.S. government to stop supporting dictators. **FEE**

We need not refuse oil from the region because someday it might not be available.

Start your weekday morning with

In brief

One click of the mouse ... and FEE's popular news e-commentary will come to your computer five days a week.

Subscribe online: www.thefreemanonline.org or e-mail: Inbrief@fee.org!

Jury Nullification: Right, Remedy, or Danger?

BY WENDY MCELROY

Last December a “mutiny” occurred in a Montana courtroom. At least that’s what a stunned county deputy attorney called it. One of 27 members of a jury pool spoke up to ask why taxpayer money was being wasted to prosecute a man accused of possessing 1/16th of an ounce of marijuana. When polled, a large majority of the potential jurors indicated their reluctance to convict on such a minor possession.

The judge called a recess and the prosecutor worked out a plea deal, which read, “Public opinion, as revealed by the reaction of a substantial portion of the members of the jury . . . is not supportive of the state’s marijuana law and appeared to prevent any conviction from being obtained. . . .”

Technically jury nullification did not occur because no jury had been seated. Nullification occurs when a jury in a criminal case either acquits or refuses to convict a defendant despite the letter of the law or the weight of evidence. In effect the jury passes judgment on the justice of the law and refuses to facilitate what it deems to be unjust.

Nullification is often held up as a populist defense against oppressive or corrupt law, but many questions surround the legal procedure.

Natural Right, Necessary Legal Procedure?

The most basic question: Is jury nullification—or, more broadly, trial by jury—a natural right or merely a legal procedure to be judged on its utility in preserving justice? If trial by jury is a natural right, akin

to freedom of speech, then no other consideration should interfere with it. If it is a strategy, then other considerations become powerful.

Trial by jury has acquired the air of a natural right for several reasons.

The proceeding has been enshrined in some of Western civilization’s most venerated statements of individual rights. In *Trial by Jury*, the nineteenth-century American legal scholar Lysander Spooner translated Article 39 of Magna Carta (1215) as protecting all free men from the abridgment of liberty except “by the lawful judgment of his peers, and or by the law of the land.”

Among the “repeated injuries and usurpations” of King George listed in the American Declaration of Independence was “depriving us [colonials] . . . of the benefits of Trial by Jury.” The Sixth Amendment to the U.S. Constitution opens, “In all criminal prosecutions, the accused shall enjoy the right to a speedy and public trial, by an impartial jury. . . .”

In practice, trial by jury has sometimes served as a clear front-line defense against oppressive laws. Jury nullification was explicitly embedded into British common law in 1670, when an English jury refused to convict William Penn for preaching Quakerism; the jurors were imprisoned. In ruling on their imprisonment the English high court stated that juries must be able to

Nullification is held up as a populist defense against oppressive or corrupt law, but many questions surround it.

Contributing editor and FreemanOnline.org columnist Wendy McElroy (wendy@wendymcelroy.com) is an author and the editor of ifeminists.com.

reach their own decisions without fear of punishment. In 1735 jury nullification was affirmed in colonial America when jurors refused to convict publisher John Peter Zenger for printing criticisms of the governor of New York.

Moreover, prominent nineteenth-century libertarians viewed trial by jury as an indispensable weapon against injustice. The publisher Benjamin Tucker declared, “The truth is that jury service is of much higher importance than the right of suffrage.”

But others argued that trial by jury was neither a *right* nor a trustworthy service to liberty.

Certainly it is difficult to view the act of passing legally binding judgment on others or demanding others to pass such judgment on you as a direct right based on self-ownership. For one thing, if the procedure is a right, then others have a duty to provide it for you; in other words it would be an entitlement or positive right, not a natural or negative one. Instead advocates like Spooner and Tucker considered trial by jury to be a delegated right. Since an individual can properly weigh evidence and facts for himself—that is, can try his own case—he could properly delegate that right to others who were willing to assume it.

But the delegation of rights could not be presumed. Spooner wrote of the omnipresent need for explicit delegation of any right: “No one’s consent could be presumed against him, without his actual consent being given. . . . And to make it binding upon any one, his signature, or other positive evidence of consent, was . . . necessary.”

How, then, could a jury claim jurisdiction over a man who refused to delegate his right? Certain laws or societal conditions were so obviously beneficial that Spooner assumed everyone would agree to them. Nevertheless if some individuals objected to trial by jury, perhaps preferring a panel of experts, then “they must . . . form a separate association for that purpose.”

In short, even its staunchest advocates viewed trial by jury as neither a natural right nor an automatically delegated one. It was an active preference.

Is Trial by Jury Good for Liberty?

A key question for any strategy is whether it achieves its intended goal. With trial by jury or nullification the goal is to protect individuals against unjust law. Many critiques of its effectiveness are utilitarian and address how best to structure a jury. For example emphasis is placed on the need for a randomly chosen jury rather than a selected or screened one that can be sculpted by the State.

Other critiques are more fundamental. For example juries can easily achieve the opposite of their intended goal; they can further injustice by refusing to convict those who are guilty of violating just law.

Consider one historical type of jury nullification. In the early and mid-twentieth century, all-white juries in the South notoriously refused to convict whites who attacked or murdered blacks. The two early trials of Ku Klux Klan member Byron De La Beckwith for the 1963 murder of black civil rights activist Medgar Evers are shameful examples. Only in 1994, when the political climate had dramatically changed, was Beckwith convicted in a third trial.

Jury nullification is also cited as a factor in the acquittal of police officers who use excessive force. Even when the violence is videotaped, juries are flagrantly reluctant to apply the law to on-duty officers as they would apply it to the average citizen. In short whether a jury *likes* a defendant can easily determine a verdict.

Nevertheless it is often claimed that nullification results in justice more often than not. In his essay “The Jury: Defender or Oppressor,” contemporary libertarian Michael E. Coughlin described how effective jury nullification could be: “During the 19th century in England there were some 230 capital crimes, that is crimes which would result in capital punishment for the convicted. Because juries continually refused to convict many of the people charged with capital crimes, believing the punishment was far out of proportion to the crime itself, Parliament eventually was forced to reduce the number of capital crimes in England.”

Even its staunchest advocates viewed trial by jury as neither a natural right nor an automatically delegated one.

Unfortunately, no similar data on the rate of injustice from nullification seems to exist. The nineteenth-century libertarian Stephen Byington argued, however, that prejudice need not be widespread for it to disastrously impact the jury system. "If only ten per cent of the people were of this sort [unfair], more than sixty-four per cent of the juries would include one or more of these men to prevent a conviction."

In short, jury nullification can occur for reasons good or ill, from ingrained justice or from inbred prejudice. Just laws may be as vulnerable to nullification as oppressive ones.

A Cost-Benefit Analysis

As a strategy trial by jury or nullification has advantages; for example, it creates no law. Moreover, it can counter the corruption of individuals. Spooner argued that jury power was required precisely because "justices are untrustworthy . . . exposed to bribes, are fond of authority, and are also the dependent and subservient creatures of the legislature."

The strategy also has disadvantages. Consider one: The doctrine of the rule of law claims no one is above the law, which should be well-defined and stable rather

If one purpose of law is to provide a predictable society, jury nullification introduces a large element of uncertainty.

than arbitrary. Thus the average person is protected from the shifting will of an elite and able to act with some degree of certainty about the future. But if one purpose of law is to provide a predictable society, jury nullification introduces a large element of uncertainty. To the extent laws are just and evenly applied, there would seem to be tension between nullification and a proper rule of law.

Trial by jury and jury nullification are championed as a grassroots strategy for freedom by some and decried as a form of "thug tyranny," or majority rule, by others. Clearly, it can function as either. History demonstrates that juries can facilitate injustice.

Individuals are responsible only for their own actions, not for the misdeeds of others. But whenever possible, moral preference should be given to strategies like nonviolent resistance or education that do not carry the likelihood of harming innocent others. Not all strategies are equal; trial by jury may well be less equal than others.

Nevertheless, it is difficult to hold back applause at the mutiny in Montana, which demonstrated how the good will and common sense of a handful of fair people can defeat an unjust law. **FEE**

Economics

Of a Pure

Gold

Standard

by Mark Skousen

"The financial crisis of 2008 and the subsequent Great Recession shook the very foundations of our current leveraged fiat-money system."

In this classic work, Skousen examines gold's unique ability to retain its purchasing power and limit the havoc governments can wreak on the global economy. By examining the history and mechanics of gold-based monetary systems, Skousen lays out the case for a workable—and urgently needed—return to the stability of gold.

**4th Edition Now Available
at [www.FEE.org/store!](http://www.FEE.org/store)**



Gun Owners Have a Right to Privacy

BY JOHN STOSSEL

If you own a gun in Illinois, take precautions. The state attorney general, Lisa Madigan, wants to release the names of gun owners in response to an Associated Press request. Publication of that list would tell the criminal class where the guns are, which could be useful to two different sorts of lawbreakers: gun thieves who want to know where the guns are and burglars who want to know where they are not.

New York City released its list recently at the *New York Times*' request. It included "dozens of boldface names and public figures: prominent business leaders, elected officials, celebrities, journalists, judges and lawyers," the *Times* reported. It then named names.

People who want the lists made public say the disclosure is necessary to assure that government doesn't issue permits to felons. They point to an AP report that gun permits were given to hundreds of felons in Florida, Tennessee, and Indiana. So because government is not competent enough to obey its own rules, the rest of us must have our privacy compromised? I don't buy it.

As Richard Pearson of the Illinois State Rifle Association says: "There is no legitimate reason for anyone to have access to the information. The safety of real people is at stake here. Once this information is released, it will be distributed to street gangs and gun-control groups, who will use the data to target gun owners for crime and harassment."

Good point. One nice thing about concealed weapons is that even people who don't carry guns are safer because the muggers can't tell who is armed and who isn't. Releasing the list of permit-holders undermines that benefit. It's not unusual for a woman who has been threatened by an ex-husband or boyfriend to obtain a gun and a carry permit for self-protection. Why should the threatening male get to find out if the woman is armed?

The anti-gun lobby downplays this danger as though

it were inconceivable that someone would get names off a list in order to commit violence. However, we know of cases where people named on sex-offender registries were murdered.

We also know that lawful gun owners in New Orleans had their guns confiscated by government authorities after Hurricane Katrina.

No one should be soothed by assurances that publication of those lists poses no threat to law-abiding gun owners.

The only reason that governments have lists of gun owners is that they require licenses or concealed-carry permits. The right to self-defense, and therefore the right to buy and carry a handgun (the most effective means of self-defense), should require no one's permission. It is a natural right. The Second Amendment didn't invent the right to own guns. It merely recognized it: "[T]he right of the people to keep and bear arms shall not be infringed." It doesn't say, "The people shall have the right to keep and bear arms."

Unfortunately, the Supreme Court, while striking down outright bans on handguns, left room for permits. But it's hard to see how that is consistent with the natural right of self-defense.

I leave aside whether a felon who has served his sentence should be deprived of the means of self-defense because there's a more practical point: Gun laws have no effect on people who plan to break other, more serious laws. Guns are the tools of the criminal trade. If people in that business can't get them legally, they'll get them in the black market. And where there is prohibition, there has always been a black market.

The law of supply and demand is as reliable as the law of gravity.

FEE

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 2011 by JFS Productions, Inc. Distributed by Creators Syndicate, Inc.



Summer
Seminars



New editions:
*Anything That's
Peaceful, Economic
Sophisms,
The Foundations
of Morality*



Videos,
discussions,
FEE's archives:
www.FEE.org,
[www.TheFreeman
Online.org](http://www.TheFreeman
Online.org)



Kindle:
*The Freeman,
I, Pencil,
The Law,
MORE SOON!*



There are many ways to come
to liberty. Find yours at FEE.

www.fee.org | 1-800-960-4333

Capital Letters

Must a Formal Legal System Come before Prosperity?

It was disheartening to read John Stossel's uncritical endorsement of Hernando de Soto's diagnosis of the causes of poverty in Third World nations as their lack of street addresses and legal titles to property ("Why Do the Poor Stay Poor?," March 2011, tinyurl.com/4w4gq6c). The error of these claims in De Soto's *The Mystery of Capital* (2000) has been pointed out by several authors. . . .

First, people who have property that would qualify for a street address, if such address system existed, . . . are not among the poor. Second, in the same Third World country, there are rich as well as poor people. The lack of a street address thus cannot explain why the poor are poor. Third, in the formal and informal sectors of Third World countries, people acquire loans all the time without the presentation of government certified titles to property. Indeed, de Soto himself describes the vibrancy of economic activity in Brazilian *favelas* where, for example, "street cottage industries have sprung up . . . manufacturing anything from clothing and footwear to imitation Cartier watches and Vuitton Bags." Fourth, Stossel buys into de Soto's mistaken view of lawlessness in most of the Third World: "They need the rule of law. But many places in the developing world barely have law." But de Soto contradicts himself on that claim, too: "[A]sset owners in the extralegal sector are . . . relatively well organized [and] 'law-abiding,' although the laws they abide by are not the government's." Furthermore, people "in the undercapitalized sector do have . . . strong, clear, and detailed understandings among themselves of who owns what." (For more on de Soto's self-contradictory claims, see "Mystifying the Concept of Capital: Hernando de Soto's Misdiagnosis of the Hindrance to Economic Development in the Third World," *Independent Review*, Summer 2008, tinyurl.com/3zwnda7.) In fact, only in the most chaotic countries or failed states are crimes against private property not punished by law.

De Soto's claims have fascinated some in the libertarian community who find someone, originally from a Third World country, Peru (but who did not grow up there), arguing that adopting capitalism and the rule of law would eliminate poverty around the world to be a useful ally. But de Soto has an incorrect understanding of the economic history of the more developed countries, including such recent ones as South Korea and Hong Kong, as well as of the hindrance to economic development in the less-developed countries. He does not recognize that economic development or the growth of wealth preceded the development of legal titles to property in the now-developed countries. Thus he seeks to reverse the order of causality: Institute legal titles to property and economic development will follow! He also does not recognize that savings constitute the "capital" that may be borrowed with or without the presentation of legal titles to property. Titles to property may qualify someone for a loan, but without savings in the community, there would be nothing to lend. Indeed, de Soto believes that knowledge of the source of "capital" for economic development is a "mystery" for people in both the more-developed and less-developed countries. But Adam Smith explains that in the *Wealth of Nations* (1776), which de Soto fails to recognize.

Stossel would do better to point his readers to Adam Smith's explanation of the institutions and policies that promote the creation of wealth among nations than to endorse de Soto's mistaken and frequently self-contradictory views about the hindrance to economic development in the Third World.

—JAMES C.W. AHIKPOR

Department of Economics
California State University, East Bay
james.ahiakpor@csueastbay.edu

We will print the most interesting and provocative letters we receive regarding articles in *The Freeman* and the issues they raise. Brevity is encouraged; longer letters may be edited because of space limitations. Address your letters to: *The Freeman*, FEE, 30 S. Broadway, Irvington-on-Hudson, NY 10533; e-mail: freeman@fee.org; fax: 914-591-8910.

THE BEST READER COMMENTS

"America's Turning Point"

by Jeffrey Rogers Hummel, *The Freeman*, April 2011

Comment by Vernon 12 April 2011

No where does the Declaration of Independence claim "as a revolutionary right, the legitimacy of secession is universal and unconditional. That at least is how the Declaration of Independence reads." In fact, quite the contrary, secession or revolution IS conditional – specifically the condition is the new government must be derived from the consent of the governed to secure the rights of it's people: "to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed, — That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government"

The entire right of secession falls down like a house of cards in the South for two reasons:

1. African Americans did not give their consent, nor were their rights secured by the new Confederacy.
2. Even for northerners of the time who obviously did not appeal to the first reason above, the South could not cite any natural rights that were being abrogated by the Union. The South had chosen to secede purely due to their political preferences (or fears). As their government was not instituted to secure the natural rights of it's citizens against incursion, the act of disunion was invalid.

Revolution is a form of self defense. You need cause to justify it.

Comment by Eino on 13 April 2011:

The modern vision that The (War of Rebellion, Civil War, War Between The States) was about abolition of Slavery belongs to a convenient false narrative.

The attributed congruence among anti-slavery, anti-government, and anti-war radicalism was nonexistent. While these ideas certainly existed proponents of the separate concepts were unaware of the others.

At this point in our history 'Slavery' was still treated as an economic system compared to the industrialized North. Abolition was growing in power in the debates steering our culture, but it was as a system of economics on which The South was dependent that caused The South to view the discrimination of The North as damaging. The South was virtually locked into an economic slave culture as had been the Colonies before The Industrial Revolution. Even forces living in The South in favor of Abolition would have needed generations to effect the change without extensive disruption to their economy and lifestyle.

As history shows, freeing any slaves and trying to integrate them into society and the workforce is a major undertaking. In the Western Hemisphere the transition is still in progress.

Comment by Phillip Magness on 13 April 2011:

Vern – Whether the "right of secession" be one thing or another, this much is certain: it is a distinct question from whether the previous entity from which the secession occurs has a just claim of "right" to answer that act with invasion and coercion.

A morally suspect act of secession does not give free license to the previous government to use any and every means necessary to reestablish its authority, as doing so would constitute a greater wrong than the original seceding act and imperil the legitimacy of the previous government to a far greater extent than its former components. This was Lysander Spooner's point in his wartime letter to Charles Sumner, and while there is plenty of evidence to attest to the moral wrongs of the southern Confederacy, his critique of the Northern response is difficult to answer.

Join the discussion today at
TheFreemanOnline.org

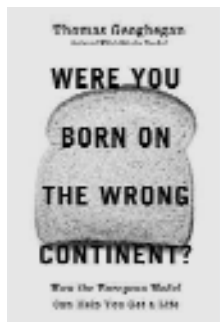
Book Reviews

Were You Born on the Wrong Continent? How the European Model Can Help You Get a New Life

by Thomas Geoghegan

New Press • 2010 • 336 pages • \$29.95; \$18.95 paperback

Reviewed by Kevin A. Carson



I like to compare the rival coalitions of organized capital represented by the major parties to two farmers. One farmer thinks it's more profitable in the long run to work his livestock in moderation and feed them well. The other figures he'll come out ahead by just working them to death and replac-

ing them.

I know which farm I'd rather live on. But I'd rather not be livestock at all.

I confess that my first reaction upon seeing author Thomas Geoghegan, a labor lawyer, on the talking-head circuit, was that I'd rather live under the European social democratic model he describes—with its six-week vacations and job security and all—than under what Tom DeLay and Dick Armey call “free enterprise” (that is, selling the country to Halliburton and remaking it in the image of the Marianas Islands). If I have to choose between two forms of corporate statism, I'll take the one that weighs less heavily on my neck.

But what an impoverished set of alternatives!

What kept screaming out at me as I read this book was that social democracy treats privilege as normal and leaves it intact—then regulates it to make it bearable to the subordinate classes without altering its fundamental nature as privilege. But most of the positive aspects of the European model simply duplicate what could be achieved by dismantling privilege altogether.

Rather than using progressive taxation and social benefits to redistribute part of the artificial scarcity rents accruing to the privileged classes, we could achieve Geoghegan's reduced inequality by ceasing to enforce artificial scarcity—that is, titles to vacant and

unimproved land, barriers to competition in the supply of credit, “intellectual property,” and assorted licensing regimes.

The second thing that struck me is that European social democracy, like American establishment liberalism, is very Schumpeterian. That is, it has a strong affinity for large bureaucratic organizations as the building blocks of a “progressive” society. According to Joseph Schumpeter and his “de facto disciple” J. K. Galbraith, the market power of the large organization enables it to finance innovation by pricing above marginal cost. To establishment liberals, the ideal economy is that of the postwar “Golden Age” idealized by Michael Moore: an economy of giant, capital-intensive manufacturing firms that can engage in administered pricing and prevent “destructive competition” so they not only can be guaranteed reasonable profits but also can afford to provide good wages with job security.

In every case the European model deals with the destabilizing effects of abundance from the demand side. The idea is to use artificial scarcity to prop up the price of everything in order to guarantee that capital can find a profitable outlet, then prop up demand with planned obsolescence so labor can be fully employed.

Geoghegan particularly celebrates the enormous embedded unit costs of the German economy: the capital-intensiveness, the bigness, the licensing and educational barriers to entering just about any field of self-employment. You can't just drop out and start a microenterprise on a shoestring: “[T]he Germans don't let just anyone make jewelry. . . . Sorry, girl, you have to go get a degree.”

The basic principle of the European model is to socialize living costs and provide security through guaranteed hours and wage levels. A great many basic goods are cheap or free for most people—obtained from the State independently of wage labor. But the same results could be accomplished by eliminating artificial scarcities, allowing competition to deflate the costs of basic goods, and providing security through reduced dependence on a job.

The German model's greater leisure time could be obtained in a free market by eliminating the hours we work to pay rents on privilege and artificial scarcity, and to pay the markups on subsidized waste and overhead.

Increased labor empowerment could be achieved by taking advantage of the imploding cost of the means of production and eliminating the “intellectual property” that enables corporations to retain control of outsourced production. When productive property was widely distributed a couple centuries ago, the resulting bargaining power of labor led to a practice (“St. Monday”) that anticipated modern German four-day weekends. Today the desktop revolution in the immaterial realm, and the availability of cheap CNC machine tools in the physical realm, are reversing the previous technological shift that led to factory production and the wage system: from expensive machinery back to affordable, general-purpose artisan tools.

The alternative Geoghegan celebrates is to socialize unit costs and guarantee workers sufficient hours digging holes and filling them back in at a good enough wage to pay the 300 percent markup on everything, so it doesn't matter. Welcome to *Brazil*. **FEE**

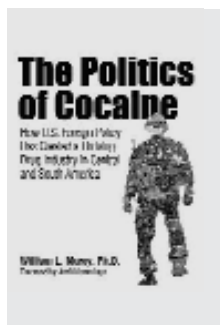
Kevin Carson (free.market.anticapitalist@gmail.com) is a research associate at the Center for a Stateless Society and author of Homebrew Industrial Revolution: A Low-Overhead Manifesto.

The Politics of Cocaine: How U.S. Foreign Policy Has Created a Thriving Drug Industry in Central and South America

by William L. Marcy

Lawrence Hill Books • 2010 • 336 pages • \$26.95

Reviewed by Ivan Eland



William L. Marcy has written an extensive and cogent historical critique of the U.S. war against the cocaine trade originating in Latin America. As the title indicates, he shows how this counterproductive war has led to a thriving drug industry in the Americas.

Marcy criticizes U.S. policy for conflating the drug war and the Cold War, assuming that only leftist forces were benefiting from the drug trade, pressuring South American governments to suppress cocaine supplies

using armed force, assisting those countries in eradication efforts by training and equipping their militaries, destroying coca crops by spraying dangerous herbicides without providing options for alternative crops, and ignoring the U.S. demand for cocaine as an important part of the problem.

Although Richard Nixon started the “war on drugs,” Ronald Reagan militarized it and believed the drug trade to be a unique transgression among leftist groups during the Cold War, despite the heavy involvement of his beloved Nicaraguan Contras and many nonleftist government leaders. Contrary to counterinsurgency warfare doctrine, the forced eradication programs turned the coca farmers away from their governments and toward leftist guerrillas. Sending the local military to eradicate farmers’ crops only strengthened the bond between the farmers and leftists, and led to corruption in the region’s militaries.

Bill Clinton weakly attempted to reduce U.S. drug demand, but he and George W. Bush both continued the failed, militarized supply-suppression policy aimed at Latin America. Marcy concludes that except for a slight decline in the late 1990s, drug production in the Andes has remained constant or risen since the inception of the drug war in 1970. Between 2003 and 2006, for example, Colombia’s coca production increased by almost 38 percent. In 2007 coca growers expanded land under cultivation and farmers were learning to adapt to eradication efforts.

Marcy’s critique of U.S. policy seems spot on, but his solution leaves something to be desired. He acknowledges that some experts have urged drug legalization but concludes that this option is not yet politically possible in the United States and may actually cause more problems than it solves in northern Andean regions. He argues that rich landowners would benefit from legalization by seeing coca-growing land become more valuable, or multinationals would swoop in and snap up the drug profits—leaving most coca farmers poor in a semifeudal system. But Marcy seems a bit oblivious to the economics of drug production, which would predict that legalization would decrease the price of drugs and therefore lower the value of drug-producing land. Furthermore, most of the profits earned on drugs derive from the risks taken in an illegal business, so

most of the losses would fall on cocaine laboratories and traffickers.

Marcy laments that eradication has always trumped providing markets for alternative crops. Yet even if U.S. policy could provide markets for alternative crops, the illegality of drugs likely would make profits from growing cocaine much more lucrative than any other possible crop. And legalization—by reducing drug profits and taking the fire out of the wars funded by them—is also the best way to provide incentives for guerillas to put down their weapons.

To his credit Marcy recommends decriminalization of drugs in the United States to put downward pressure on the price, and thus the production, of cocaine. Economists believe such demand-reduction strategies are superior to supply-suppression strategies. He notes that the northern Andean region is so large and remote that controlling drug production there is impossible. Cocaine growing, production, and trafficking just move around in response to futile efforts by authorities—whether local or a distant superpower—to stamp them out. While Latin American countries correctly complain about U.S. demand being the primary factor, the United States has maintained its costly and ineffective supply-suppression policy for decades. Thus Marcy usefully suggests limiting the U.S. military presence in the region and getting local militaries out of the counter-drug mission.

The flaw in Marcy's strategy is that it does not go far enough. True, drug legalization efforts are stymied by popular perceptions in the United States and, he observes, by entrenched antidrug bureaucracies in the United States and the northern Andes that garner jobs and large budgets from the war on drugs. But legalization is the only strategy that can work to eliminate the need for the costly—in lives, money, and corruption—war on drugs. Marcy, then, is wrong when he says that the war on drugs might ultimately be won by incremental changes in policy. The war must be abandoned. **FEE**

Ivan Eland (ind.inst.ieland@gmail.com) is a senior fellow and director of The Independent Institute's Center on Peace & Liberty.

Six Political Illusions: A Primer on Government for Idealists Fed Up with History Repeating Itself

by James L. Payne

Lytton Publishing • 2010 • 126 pages • \$10.95

Reviewed by George Leef



You don't believe in magic, do you? Magicians employ a variety of tricks to deceive audiences into thinking that something has happened that can't. They are masters of illusion. Adults know that they're being fooled when the rabbit seems to materialize out of an empty hat.

Magic is harmless fun, but the government is not. It squanders vast amounts of money while simultaneously whittling away at people's freedom. Instead of solving problems, it makes them worse, often creating brand new problems. Why don't more of us rebel or at least denounce the State? In his latest book, political scientist and *Freeman* contributing editor James Payne explains why not: Most Americans have fallen for six political illusions. Although opinion polls show that a large majority of the population is fed up with the government, most think we must continue to rely on it for a wide array of "services." They just want better politicians in charge. Those people aren't stupid; they're under the spell of the following illusions:

- *The Philanthropic Illusion*: the idea that government has money of its own.
- *The Voluntary Illusion*: the impulse to want to believe that government action is not based on force.
- *The Illusion of the Frictionless State*: the idea that the State can transfer resources with negligible overhead cost.
- *The Materialistic Illusion*: that money alone buys public-policy results.
- *The Watchful Eye Illusion*: the idea that the government has greater knowledge and wisdom than the public.
- *The Illusion of Government Preeminence*: the belief that the government is the only problem-solving institution in society.

In short, Payne admonishes people to start examining government as it really is, not the way children see magic. The book's cover, a reproduction of an 1842 painting by Thomas Cole, gives a visual analogy to its thesis. In the painting a lad in a boat on a river is entranced by an apparition in the sky—a gleaming temple. Unfortunately, he is oblivious to the reality that his boat will soon go over a waterfall unless he gives up on the apparition and grasps the truth confronting him. That's an excellent depiction of modern America.

Payne does a superb job of explaining and illustrating each of his illusions. I will focus my comments on the last two of them, as they are particularly critical at this juncture.

In the wake of the financial meltdown following the collapse of the housing bubble, politicians have been trying to capitalize on Payne's "watchful eye" illusion by telling voters that the debacle was all due to inadequate powers of supervision by the government. What we needed, they cry, was more federal oversight to prevent short-sighted and greedy decisions. Give us more regulatory authority and nothing like that will ever happen again!

Payne shows that there were in fact regulators whose job was to blow the whistle on excessive risk-taking by the federal housing giants, Fannie Mae and Freddie Mac, but politicians paid no heed to their warnings. Payne then takes the analysis a step deeper, arguing that people should never put faith in government officials to foresee danger and protect them. That is because government officials don't suffer the losses when they're wrong. Instead of expecting a watchful eye from the government, it's far more intelligent to rely on individuals and private institutions to detect and avoid undue risks because they *will* suffer adverse consequences if they are wrong.

Payne's sixth illusion encompasses the others. It is the erroneous view that we must look first (and perhaps exclusively) to government for the solutions to problems. Politicians encourage that illusion since they want citizens to regard themselves as impotent while the State possesses almost limitless capabilities. When a social problem arises, politicians almost never say, "The government should do nothing about that; it's a problem that should be dealt with by the voluntary sector."

Saying that would be almost suicidal in a nation caught in the grip of the illusion of government preeminence. Instead, politicians seldom miss an opportunity to show their great "concern" by introducing new legislation they claim will take care of everything, from the harm supposedly done by incandescent light bulbs to the drug trade.

Wise individuals, Payne contends, will look at the merits of the voluntary sector rather than leaping on the bandwagon for government activism. Currently, for example, many people are concerned about the possibility of catastrophic climate change and automatically assume that the only way of responding is to give government officials tremendous new regulatory powers. Anyone who reads Payne will contemplate both the possibility that voluntary responses might work better and that government will botch the job. **FEE**

George Leef (georgeleef@aol.com) is book review editor of The Freeman.

The Politics of Happiness: What Government Can Learn from New Research on Well-Being

by Derek Bok

Princeton University Press • 2010 • 272 pages • \$24.95

Reviewed by Bruce Yandle



“We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.—That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed. . . .”

Jefferson's beautiful and powerful words from the Declaration of Independence set out a fundamental premise for the founding of the new nation. Governments are organized to secure the rights of men to pursue happiness, not to provide them with happiness.

Derek Bok speaks to this point in the opening chapter of *The Politics of Happiness*, but strays beyond Jefferson's fence lines when he asks what government can

learn from new happiness research that might be adapted to national policy actions. To suggest that government learns, as indicated by the book's subtitle, is to assign a misplaced concreteness to the institution itself. People learn. And people participate in government. But governments seemingly never learn.

For those who have not become engaged in happiness research, Bok provides a well-organized survey. But disappointment awaits those who expect to find evidence of the emergence of a coherent field, characterized by clearly stated theories that evince refutable hypotheses and generalized findings. Instead one finds an array of ad hoc studies that, typical of fledgling fields of study, may offer insights. For example Bok puzzles over the finding that white women were happier than white men for many years, based on happiness surveys, but that their level of happiness has fallen relatively in recent years, even while career opportunities have improved. In contrast, black women have kept pace with black men in their level of happiness and unlike white women have not become unhappier. But the author offers no discussion of multivariable modeling with control variables that might help clear the air a bit.

Another difficulty relates to whether happiness scales are cardinal as opposed to ordinal rankings and can thus be compared across experiments. For example the effects of divorce or separation are found to generate on average an eight-point drop in happiness, on a scale of 100. Loss of a job generates a drop of six points, and belief in God, for Americans at least, lifts the level of happiness by 3.5 points. While all this is somewhat interesting, it isn't likely, in a methodological sense, that one would expect a person who has lost his job and his wife but has found God to have a net loss of 10.5 units of happiness.

Bok is aware of some of these difficulties and discusses them in terms of Jeremy Bentham's felicific happiness. He is cautious in recommending that government attempt to assess the happiness weight of pending legislation such as the complex health care

package. However, he is not bashful in urging government to build new "happiness protection," for example, by covering the cost of long-term home nursing care for everyone. While noting that such policies are costly, Bok indicates that cost shouldn't stand in the way of doing them. He never discusses government deficits nor debt, and how dealing with those burdens may reduce the happiness of future generations.

The book offers numerous suggestions to government leaders for policy actions that might make us all happier—instead of letting us find happiness on our own terms. The areas explored include reducing inequality, blunting the threat of financial hardship and other suffering, engaging in efforts to strengthen marriages and the family, and supporting education. Bok's abiding faith in government's ability to make life better is contradicted by the surveys he discusses. With that apparent paradox in mind, he recommends improvement in government's public relations efforts. He is convinced that over the decades, the federal government has improved overall well-being, yet somehow the same people who respond to happiness surveys in useful and apparently accurate ways miss the boat when responding to surveys about the efficacy of government.

The author ends with the claim that "researchers have succeeded in doing what Bentham could not accomplish: to devise a way of measuring how happy people are and how much pleasure or pain they derive from the ordinary events and conditions of their lives." I am left with just the opposite conclusion, that happiness scientists have many miles to travel before reaching Bentham's hoped-for destination.

In spite of Bok's overly optimistic conclusion, I find his book to be useful and one I would recommend to others who wish to tangle intellectually with the happiness literature. At least Bok's belief in government's ability to do good things is balanced with competing points of view that take the opposing position. **FBE**

Bruce Yandle (yandle@bellsouth.net) is professor of economics emeritus, Clemson University.



Crony Unionism: Private Sector

BY CHARLES W. BAIRD

In America competition from union-free enterprises is making private-sector unionism increasingly irrelevant. Only 9 percent of union-free workers desire to become union members (tinyurl.com/4lud2cm). The last redoubt for unions is government employment, and they are increasingly in peril even there. However, the unions are fighting back by running to politicians and bureaucrats for help. Unions needed their political cronies to enact the National Labor Relations Act (NLRA) in 1935 in order to gain any significant power in the labor market. Notwithstanding the efforts of their cronies, union power gradually waned. Now unions and their cronies are trying to discover effective strategies to reverse union decline. Here I note some of what they have done, and are doing, in the private sector.

In January the Bureau of Labor Statistics released union data that are almost all bad news for union bosses. In 2010 only 6.9 percent of people employed in the private sector were union members. In 2009 the figure was 7.2 percent. Unions now have a smaller market share of private-sector workers than they did prior to the enactment of the NLRA. Cronies to the rescue.

One union crony, Secretary of Labor Hilda Solis, is trying her best to revive private-sector unions. Her Strategic Plan FY 2011–16 promises “good jobs for everyone.” She defines “good jobs” in nine bullet points that echo union organizing propaganda. Later in the document she openly declares that “union jobs are, by and large, good jobs.” While there may be a few good union-free jobs, most union jobs are by definition good. So at least through 2016 the Department of Labor (DOL) will act as the Department for the Propagation of Unions. The principal means for achieving this fevered vision are spelled out in an accompanying

document that describes a “new approach” to deploying DOL’s six “labor protection agencies” (most importantly OSHA, the Office of Labor-Management Standards, the Wage and Hour Division, and the Office of Federal Contract Compliance Programs) to harass union-free employers. With scarce resources, Solis says, DOL can only closely monitor enterprises that are “most likely” to fall short of DOL standards. Since union jobs are defined as “good jobs,” one naturally infers that many union-free enterprises will be hit hard by “labor protection” enforcers determined to increase the cost of remaining union-free.

In my March column (tinyurl.com/4ldb3mq), I discussed another union crony, Craig Becker, who holds a recess appointment to the National Labor Relations Board (NLRB). Becker holds openly pro-union, anti-worker, and anti-management sentiments. He has even written that no worker should be able to refuse to be represented by a union. Two days after the State of the Union address, wherein President

The last redoubt for unions is government employment, and they are increasingly in peril even there.

Obama urged us all to seize our “Sputnik moment,” he resubmitted Becker’s name to the Senate for confirmation to a full five-year term on the NLRB. He may have a point. Like Sputnik, Becker is a relic of the socialist past. I doubt the Senate will confirm the nomination, but Obama can simply keep Becker on the Board by another recess appointment at the end of this year. As I wrote, Becker and his two sympathizers (Wilma Liebman and Mark Pearce) on the five-member NLRB are determined to impose card-check certification of unions through creative interpretation of the labor law.

Charles Baird (charlesbaird.info) is a professor of economics emeritus at California State University at East Bay.

They are creative on other questions as well. For example, in the Roundy's Supermarket case the Board is struggling to find something in the NLRA that will justify allowing union organizers to trespass on private property with the specific intent of herding unwilling workers into the ranks of union dues payers. The unions are arguing that because Roundy's allows the Girl Scouts to sell cookies and the Salvation Army to collect contributions on its property, it must also allow union organizers to sell their snake oil on its property. That argument makes Becker tingle all over.

Prosecutions and Waivers

Yet another union crony is Life Solomon, the NLRB's acting general counsel. (He is "acting" because Obama couldn't get his appointment confirmed by the Senate.) The general counsel is independent of the NLRB. His job is to investigate and prosecute alleged unfair labor practices and to supervise the NLRB's field offices in their processing of cases. Last November voters in four states—Arizona, South Carolina, South Dakota, and Utah—adopted amendments to their respective state constitutions to make card-check union certification illegal. Solomon immediately sued all four states, asserting that the NLRA preempts state voters. Another example of Solomon's hyperactivity on behalf of union bosses is his General Counsel Memorandum 11-04, issued in January. He directed all field offices to put default language in all settlement agreements between unions and employers which stipulates that if the employer is alleged to have violated any part of the agreement, he is to be considered guilty of all the allegations brought against him in the initial complaint that led to the settlement agreement (tinyurl.com/4lkbxhv).

Health and Human Services Secretary Kathleen Sebelius is yet another union crony. Obamacare gives her power to determine the rules and regulations that are and will be imposed in the health care and health

insurance markets. Her decision-making process includes the interests of unions. For example, Sebelius has the power to grant waivers to the burdens of Obamacare to favored supplicants. Forty percent of the approximately 1,000 waivers she has granted have been given directly to unions, and many more have been given to enterprises on which unions depend for dues revenue.

Of course, Obama is the unions' most important crony. The "structured bankruptcies" imposed by Obama on General Motors and Chrysler in the spring of 2009 were little more than egregious bailouts of the United Auto Workers Union (UAW), which put taxpayers on the hook for \$60 billion. The stockholders

Chrysler no longer employs workers to make cars; it makes cars to employ dues-paying workers.

and bondholders of those two companies were sacrificed to keep the UAW viable. GM and Chrysler had to be kept going because the majority of UAW dues payers worked there. The government seized 60 percent ownership of GM and bestowed another 17.5 percent ownership on the union. With its principal crony in charge, the UAW knows GM will be run to maximize the flow of union dues. Thanks

to Obama the UAW now owns 55 percent of Chrysler. Chrysler no longer employs workers to make cars; it makes cars to employ dues-paying workers. Another example of Obama as a union crony is the \$53 billion he wants to spend on high-speed rail. Because of project labor agreements and the Davis-Bacon Act, most of the people employed in this silly, wasteful, and destructive endeavor will be union dues payers (tinyurl.com/4jy2cpp).

In 2010, 36.7 percent of government workers were union members. A year earlier the figure was 37.4 percent. While government employees are only 17 percent of all employed people, government employee union members now are 52 percent of all union members. Crony unionism works in the government sector as well as the private sector. That will be the subject of my next column. **FEE**