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# THE FREEMAN

IDEAS ON LIBERTY

VOLUME 61, NO 8

OCTOBER 2011

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# THE FREEMAN

IDEAS ON LIBERTY

## Published by

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

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The 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](mailto:mnolan@fee.org).

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Cover: "Healthy Seeds" poster © The Galton Institute London.

## Perspective

# The New Fed

"Things are seldom what they seem."

—W. S. Gilbert, "H.M.S. Pinafore"

Nowhere is this more true than in government, which means we have to watch it closely. Unfortunately preconceived notions can make us impervious to events right in front of us and lead us to colossal misperceptions.

Take the Federal Reserve System. (All together now: *Please!*) Since the central bank controls the money supply, advocates of free markets and market-based money are understandably wary of its power to generate inflation. It's inflated in the past and has the capacity to do so in the future. So attention naturally goes in that direction.

The problem is that while we're watching for inflation, we might be missing the Fed's real mischief elsewhere. In stage magic this is called misdirection.

Jeffrey Rogers Hummel, a macroeconomist at San Jose State University and a *Freeman* contributor (not to mention an old friend), says that's exactly what has been happening. While inflation hawks have been busy looking for any sign, or even any word, of monetary expansion, Hummel writes, "[Fed chairman Ben] Bernanke has so expanded the Fed's discretionary actions beyond merely controlling the money stock that it has become a gigantic, financial central planner."

In other words, "Bernanke's targeted and sterilized bailouts have altered the fundamental nature of the Federal Reserve. . . . [T]he Fed that emerged from the [housing and financial] crisis is no longer the same as the Fed before the crisis. . . . Most economists appear not to appreciate fully how drastic the changes are that Bernanke has wrought."

Note the word "sterilized." That means the Fed's huge bailout program has been carried on largely without creating net new money. And that makes the Fed a menace to markets *even when it's not generating inflation!* Hummel says that what we should be concerned about today with respect to the Fed is not inflation but central, nonmarket control of the allocation of scarce capital. In our obsession with inflation, we are missing an ominous leap further into corporate statism.

Hummel spells this all out with admirable clarity and detail in "Ben Bernanke versus Milton Friedman: The

Federal Reserve's Emergence as the U.S. Economy's Central Planner," published in *Freeman* columnist Robert Higgs's great quarterly journal, *The Independent Review*, Spring 2011 ([tinyurl.com/3dheqvl](http://tinyurl.com/3dheqvl)).

Bernanke's efforts to channel capital to particular firms and sectors, including insolvent financial institutions, are breathtaking in scope. Previous Fed chairmen, notably Alan Greenspan, poured new money into the economy in response to anticipated crises, but they did not attempt to direct the money to chosen destinations. That was left to the market (however distorted). *Things are different now*. Bernanke directs the flow of credit—and has been doing it generally without creating new money.

How so? By selling assets to or borrowing money from banks and other institutions. Follow the money: When the Fed sells assets (T-bills, mortgage-backed securities, whatever) or borrows, it takes money *out* of the economy. If it turns around and lends the money to a bank, the impact on the money stock is a wash. However, the Fed has acted like a central planner of the capital market. Hummel leaves no doubt that this is what the Fed was up to before September 2008.

After that the Fed appeared to create huge amounts of new money through what has been called "quantitative easing" (QE1 and then QE2). But since 2008 it has also paid banks interest on reserves kept in their Fed accounts. "Bernanke in effect created money and then borrowed it back from the banks by paying them interest. . . . [T]he payment of interest on reserves was tantamount to borrowing back from depositories the full \$800 billion increase in reserves and more. No wonder the impact of the base explosion on the broader monetary measures (except for M1) was so muted," Hummel writes.

Summing up, Hummel says, "Helicopter Ben talks a good line about being ready to unleash quantitative easing, but this talk only imparts an aura of justification for the Fed's incredibly expanded role in allocating the country's scarce supply of savings. If anything, his policies were closer to a quantitative tightening. A better moniker would therefore be 'Bailout Ben.'"

★ ★ ★

The Progressive Era's infatuation with regulation of labor markets is typically portrayed as a humanitarian impulse. But could darker motives have been at work?

Art Carden and Steven Horwitz have evidence to support that suspicion.

During last summer's debt-ceiling controversy Fed Chairman Ben Bernanke made a remarkably anti-Keynesian concession that undercut his own monetary policies. James C.W. Ahikpor has the scoop.

The government now will pay people—possibly a lot—to blow the whistle on the companies they work for. One need not believe that business is flawless to see the dangers in this government-created incentive. Warren Gibson spells it out.

Arthur Koestler's classic novel about the horrors of the Soviet Union, *Darkness at Noon*, was published 70 years ago this year. Edward Bruce Walker has a tribute to Koestler and his unique book.

Classical liberals like Arthur A. Ekirch, Jr., and George C. Roche III, as well as Progressives, were critics of the Gilded Age. Joseph Stromberg thinks they were onto something.

One of the most influential journalists of the twentieth century was Walter Lippmann, an establishment figure who mostly took wrong positions on economic policy. But for a brief period he was struck with free-market insights about the impossibility of central planning. Harold B. Jones, Jr., has the details.

Bureaucratic central decision-making is notoriously bad because it ignores what F. A. Hayek called "the knowledge of the particular circumstances of time and place." Paul Schwennessen applies this principle to two seemingly dissimilar cases.

Here's what our ever-curious columnists have cooked up this issue: Lawrence Reed pays attention to the sadly neglected Samuel Smiles. Robert Higgs takes a scalpel to Lyndon Johnson's War on Poverty. Thomas Szsaz focuses on a degraded and disfavored class of Americans. John Stossel exposes the scam of college. Charles Baird traces crony unionism in the government sector. And Arthur Foulkes, reading that claim that America can be great only through big government, responds, "It Just Ain't So!"

Books coming under our reviewers' microscopes cover so-called great leaders, the Mont Pelerin Society, state nullification of federal law, and the relationship between science and liberal democracy.

—Sheldon Richman  
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## Dusting Off a Man and His Classic

BY LAWRENCE W. REED

In 1870 the sultan of Turkey gave a book by a Scotsman to his entire entourage of top-ranking officials. The Khedive of Egypt had the same work inscribed and painted on the wall of the Royal harem. Two years later the Meiji dynasty ordered the book to be issued throughout Tokyo's school system. Eventually every prefecture in Japan followed suit. General George Custer described the volume as his favorite text. Many people kept it next to their Bibles.

What was this book, and who was its author? It was called, simply, *Self-Help*, and its author was a man named Samuel Smiles.

When he died at the age of 86 in 1904, only Queen Victoria's funeral cortege three years earlier was said to have surpassed in recent memory that of Samuel Smiles. He was loved not only for his book but also for a wealth of other works that celebrated the virtues of independence, thrift, civility, character, and hard work.

Robert L. Bradley, in his 2009 book *Capitalism at Work: Business, Government and Energy*, calls Smiles "the father of the self-improvement movement." Bradley notes:

Motivational self-help books were not new, but Smiles' 400-page opus was systematic, combining age-tested wisdom with knowledge of the industrial present, and profusely illustrated with stories of individuals-made-good in industry, engineering, the arts, and music. Samuel Smiles, a medical doctor turned newspaper editor/political reformer turned businessman/moralist, would become the Adam Smith of applied commercial capitalism.

The cover of the 2002 Oxford University Press edition of *Self-Help* declares that the book "is the precursor of today's motivational and self-help literature" and that it "awakens readers to their own potential and instills the desire to succeed." In his lifetime the author inspired riots in Belgrade, carnivals in Milan, and plaudits from leaders the world over. But sadly, just a century since Smiles died, he is largely unremembered in his native Scotland. Needless to say, decades of the British welfare state have not been kind to a man who preached personal independence and entrepreneurial capitalism.

Dipping into the pages of *Self-Help* is a curious experience. You travel back in time to Smiles's mid-nineteenth-century experiences and perceptions. To Smiles, the son of a poor farmer, human nature was both timeless and locationless. It is as good, he felt, for a Japanese man of commerce to exhibit the plain virtues of honesty, punctuality, diligence, and energy as it is for a Swede or an American.

*Self-Help*, which appeared in 1859, had the most humble of origins. It began as a series of evening lectures to apprentice engineers in Leeds. A kind of Victorian Dale Carnegie, Smiles thumped his message home in a way that moved and inspired almost everybody of his time. Live and trade with integrity and you lift all you meet, not just yourself, he argued. Character, the sum of one's choices and actions, is of paramount importance; indeed Smiles called it "the crown and glory of life" and the very thing on which "the strength, the industry, and the civilization of nations" depend.

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Lawrence Reed ([lreed@fee.org](mailto:lreed@fee.org)) is the president of FEE.

To Smiles the road to riches was not paved with overreaching ambition, disregard for others, or cutting corners when it came to matters of truth. It didn't mean securing favors from government at the expense of the competition.

## Welfare and Poverty

The welfare state was anathema to Smiles. He felt it was a woefully ineffective substitute for personal charity. "The value of legislation as an agent in human advancement has usually been much over-estimated," he wrote. "No laws, however stringent, can make the idle industrious, the thriftless provident, or the drunken sober." What he said about poverty legislation a century and a half ago would be a fitting description of the results of the welfare programs of today:

We have tried to grapple with the evils of [misery] by legislation, but it seems to mock us. Those who sink into poverty are fed, but they remain paupers. Those who feed them feel no compassion; and those who are fed return no gratitude. There is no bond of sympathy between the givers and the receivers.

The books of Samuel Smiles are full of inspiring stories of nineteenth-century entrepreneurs who often rejected the easy path of unprincipled compromise and the fast buck, and instead treated others according to the Golden Rule and went to their graves with their character and integrity intact.

In painstaking detail he explained why keeping high our standards of speech and conduct was not just worthwhile but also an indispensable ingredient of freedom and progress. Life to him was not an ego trip. It was not about calling attention to oneself but rather about being the best one can be in all endeavors.

The fame and fortune that might follow were secondary and imposed additional responsibilities to foster virtue in others.

The final chapter of *Self-Help* is titled "Character—The True Gentleman." It's full of examples that illustrate Smiles's belief that nothing is worth sacrificing one's character. From proper manners to truthfulness to self-respect, Smiles laid forth the attributes that, if pursued widely and personally one individual at a time, would surely produce a far better world. Here's a passage most readers will especially appreciate:

Life to Smiles was about being the best one can be in all endeavors. The fame and fortune that might follow were secondary and imposed additional responsibilities to foster virtue in others.

There are many tests by which a gentleman may be known, but there is one that never fails—How does he exercise power over those subordinate to him? How does he conduct himself toward women and children? How does the officer treat his men, the employer his servants, the master his pupils, and man in every station those who are weaker than himself? The discretion, forbearance and kindness, with which power in such cases is used, may indeed be regarded as the crucial test of gentlemanly character.

Samuel Smiles—both the man and his message—epitomized the best of the capitalist spirit of the nineteenth century. This fact largely explains why he went from a well-known and respected figure by 1890 to a forgotten man by World War I. The rise of statist ideas at the turn of the century and the subsequent decline of individualism meant that a champion of such antiquated notions as self-help and responsibility had to be tossed into the closet.

Smiles's message cries out for a new hearing in our times. Scandalous headlines and television spectacles that depict degraded standards suggest we would all benefit by dusting off the work of Samuel Smiles and learning again what we should never have forgotten.

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# Growing Government Ensures “National Greatness”? It Just Ain’t So!

BY ARTHUR FOULKES

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There is widespread belief among politicians, public officials, and pundits that if government doesn’t give us the seeds, nothing will grow.

A friend of mine served on our city’s legislative council for eight years. During that time he often heard—in defense of tax-funded business incentives—“If we don’t do something, nothing will happen.” The same belief holds sway at the national level. Many of our most educated people believe that unless government provides direction and pays the fare, the national train will stop or even slide backward.

That view undergirds a June op-ed piece by *Washington Post* opinion page editor Fred Hiatt. Discussing U.S. fiscal policy, Hiatt wrote: The “doctrinaire Republican insistence on ever-shrinking government would sap the country’s ability to invest in the research, education [and] infrastructure . . . that a great power needs” (“What’s Happened to America’s Leadership Role?” June 26, [tinyurl.com/3wpjbsb](http://tinyurl.com/3wpjbsb)).

In other words, without government spending, there will be a serious lack of critical investment. So serious, in fact, that America would cease to be a “great power” and force for good around the globe.

Is that so?

In the first place, if massive government spending were required for a nation to emerge as a “great power,” one wonders how America became the wealthiest nation on earth in the late 1800s, after a century of having a small and sharply limited national government.

That aside, let’s look at Hiatt’s assertions one at a time.

First, he apparently embraces the argument that scientific research is a “public good”—something anyone can enjoy whether he helped pay for it or not. This is the so-called free-rider problem. If basic research is a public good, the standard argument goes, government must pay for it.

But Professor Terence Kealey, an author, lecturer, and clinical biochemist at the University of Buckingham in the United Kingdom, has shown that scientific research is not a public good. Indeed, he has found that the most profitable companies do fund pure science, often quite generously and with important wealth-creating results. That’s a sign they don’t fear free riders.

Writing for the Cato Institute in 1997 Kealey pointed to research showing that while the benefits of pure science are often “captured” by rival firms, those firms still must employ excellent (and highly paid) scientists to take advantage of new developments. In other words, there is no free ride in R&D.

Furthermore, government-funded research pales in comparison to private research in terms of commercially useful industrial technology, which is what makes us richer. Government-funded research, meanwhile, is largely unproductive. Kealey also noted that

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The most profitable companies do fund pure science, often quite generously and with important wealth-creating results.

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*Arthur Foulkes (arthurfoulkes@hotmail.com) is a journalist and freelance writer living in Indiana.*

in countries with low tax burdens, companies use their own funds to pay for basic science. But in countries with high tax burdens, companies seek government grants, meaning “pure science” becomes purely political.

Kealey concluded: “Scientists may love government money and politicians may love the power its expenditure confers upon them, but society is impoverished by the transaction.”

### “Education” and Government

Hiatt also believes quality education requires government funding. But this is mistaken as well.

In the first place, public schools have never been about “education” per se. They were created, and continue, to be institutions designed to “mold” children into “good citizens.” They are not selling a good or service on the open market. They are peddling a State-endorsed frame of reference.

Recently in my home state of Indiana, government school teachers had a public confrontation with the governor, Mitch Daniels, over tax-funded charter schools and a tax-funded voucher system. The lockstep protest among teachers (at least those speaking for their fellow teachers at the statehouse) hardly showed any real independence of thought. It did show, however, that education policy has fully entered the realm of interest-group politics.

The idea that only government can provide schooling is demolished by the work of James Tooley, a professor of education policy at the University of Newcastle. He found that in the poorest slums of Africa, private schools are operating successfully, providing real education at affordable prices or without charge for the poorest kids. (See Tooley’s May 2006 *Freeman* article, “Backing the Wrong Horse: How Private Schools Are Good for the Poor,” [tinyurl.com/c86cxt](http://tinyurl.com/c86cxt).)

Unfortunately, the United Nations entered this picture and pushed a system of universal “free” (tax-funded) schools in those same areas. This cost some private schools enrollment, at least until many parents found the government schools lacking and returned their children to the private schools. As in America,

Tooley also found private schools in Africa educate children far below the cost of government schools.

### Infrastructure

Finally, Hiatt also names infrastructure spending as an area in need of more, not less, government funding. Yet as Peter Van Doren and Chris Edwards of the Cato Institute pointed out in 2008, countries on every continent have been busy selling off inefficient State-owned assets, including airports, seaports, and even highways, to private concerns. Greece, now on the brink of bankruptcy, may provide the best example of a state that followed the road of more and more government spending on what might otherwise be private infrastructure. The result has been exceptional waste, inefficiency, and a populist and trade union stranglehold on the nation. As Greek economist John Sfakianakis wrote recently in the *Financial*

*Times*, “The Greek political landscape is ingrained with vested interests, endemic kleptocracy and bribery. Since the days of Andreas Papandreou, an economist and father of the current prime minister, our politics has been predicated on the expansion of the public sector, patronage and borrowing.”

In his classic book, *Our Enemy, the State*, Albert Jay Nock wrote in 1935: Whatever “the state has accomplished outside its own field has been done poorly and expensively. . . . No complaint is more common, and none better founded, than the complaint against officialism’s inefficiency and extravagance.”

Many people believe only a large and growing State can ensure America’s greatness. But they misunderstand greatness. A growing government sector necessarily weakens civil society, where individuals make (and pay for) their own choices and market forces guide the use of capital to its most productive uses.

Far from being the key to national greatness, an ever-expanding government sector will only push more economic decisions into the political realm. It will also undermine the commitment to the individual freedom and personal responsibility that made America unique, prosperous, and great in the first place.

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Public schools are peddling a State-endorsed frame of reference.

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# Eugenics: Progressivism's Ultimate Social Engineering

BY ART CARDEN AND STEVEN HORWITZ

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According to the received account of the Progressive Era, an enlightened government swept in and regulated markets for goods, labor, and capital, thereby protecting the hapless masses from the vicissitudes of unrestrained laissez-faire capitalism. The Progressives had faith that experts would rise above self-interest and implement wise plans to create a great society. The resulting state-level workplace safety regulations, restrictions on child labor, and minimum wages restored dignity and safety to the trod-upon and exploited workers.

Despite the widespread acceptance of this narrative, there are many reasons to question whether it accurately portrays the motivations and hopes of some Progressive-Era reformers. In a 2005 article in the *Journal of Economic Perspectives*, "Eugenics and Economics in the Progressive Era," the economist Thomas C. Leonard offered a completely new historical account of the sources of Progressive-Era labor legislation and the intentions of its supporters ([tinyurl.com/ygbbc7z](http://tinyurl.com/ygbbc7z)). Leonard's work, including an important 2009 article coauthored with legal scholar David E. Bernstein for *Law and Contemporary Problems*, "Excluding Unfit Workers: Social Control Versus Social Justice in the Age of Economic Reform," indicates that lurking behind what many people see as humanitarian reforms was something much uglier ([tinyurl.com/3sxws4z](http://tinyurl.com/3sxws4z)).

Leonard and Bernstein argue that some of the most prominent of the Progressive reformers were "partisans

of human inequality." They supported interventions as ways to forward their eugenic goal of a purer (that is, whiter) human race by eliminating the opportunities for the "unfit" to get meaningful work. The "unfit" here included not just nonwhites (especially African-Americans) but also the "insane," immigrants (especially from central and eastern Europe), and in a somewhat different way, women.



**Eugene Debs favored labor market interventions to weed out "undesirables," such as women, blacks, and immigrants.**

Wikipedia

In other words, what we today think of as the unintended consequences of laws supported by today's well-meaning but economically uninformed Progressives were actually the *intended* goals of some of their intellectual ancestors a century ago. Early Progressive economists understood the effects of these interventions, but they thought those effects were desirable.

The Progressive economists of the late nineteenth and early twentieth centuries saw social science not merely as a means of inquiry and understanding but as a guide to social management and control. The advent and broad acceptance of Darwinism in the late nineteenth century, combined with a more general belief in the power of science and scientific management to solve social problems, led to a fascination with eugenics and the possibility of using public policy to

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ensure the “survival of the fittest” and the purity and strength of the human race. In the hands of many thinkers at the turn of the twentieth century, Darwinian theory became a rationale for using the power of government to weed out the “undesirable” and “unfit” in much the way that the new understanding of evolution was changing agriculture and animal husbandry. Eugenics clubs and societies grew rapidly and many of the leading intellectuals of the early twentieth century, including a number of well-known economists (such as John Maynard Keynes and Irving Fisher, perhaps the most famous American economist of the time), were active in these groups and saw their work through the lens of eugenics.

### Eugenics and Intended Consequences

**W**e look back on the eugenics movement with proper horror. Yet the same ideas that led to forced sterilization also led to restrictions in the workplace, because labor markets were one place where eugenics-oriented economists could combine their two interests. They recognized early on that legislation which excluded the “unfit” from labor markets would advance their eugenic goals. Most of these laws were enacted

at the state level during this period, but the New Deal era saw many of the same arguments applied at the national level.

Consider minimum wage laws, for example. Today we tend to think people support them because they believe a minimum wage is a free lunch that will help the poor. Classical-liberal economists have long criticized such regulations, arguing they are a perfect example of the law of unintended consequences and of the disconnect between intentions and outcomes. In a competitive labor market any worker who can produce value is hireable at some wage up to that value. Even workers with limited skills are employable. What the minimum wage and other mandated benefit laws do is create a minimum productivity criterion for hiring, closing off the labor market to workers whose productivity is too low to justify that cost.

Leonard's work shows that some advocates of the minimum wage, including many giants of the early days of the economics profession, such as John R. Commons and Richard T. Ely, understood exactly what minimum wage laws would do *and liked it*. In addition, various Progressives and socialists who were not economists, such as Eugene Debs and Beatrice and Sidney Webb, also supported minimum wage laws and other interventions into the labor market precisely because they would weed out those who were deemed too stupid or lazy to compete in a market economy—in particular, women, immigrants, and blacks.

Leonard writes, “the progressive economists . . . believed that the job loss induced by minimum wages was a social benefit, as it performed the eugenic service ridding the labor force of the ‘unemployable.’” He

quotes the Webbs' statement that “this unemployment is not a mark of social disease, but actually of social health.” Further, he quotes Henry Rogers Seager of Columbia University, who suggested that minimum wages were necessary to protect workers from the “wearing competition of the casual worker and the drifter.”

A. B. Wolfe, who would one day be a president of the American Economic Association, wrote in the *American Economic Review* in 1917 (quoted in part by Leonard and Bernstein): “If the inefficient entrepreneurs would be eliminated [by minimum wages,] so would the ineffective workers. I am not disposed to waste much sympathy upon either class. The elimination of the inefficient is in line with our traditional emphasis on free competition, and also with the spirit and trend of modern social economics. There is no panacea that can ‘save’ the incompetents except at the expense of the normal people. They are a burden on society and on the producers wherever they are.”

In the context of the early twentieth century this group largely included nonwhites, immigrants, and women, as well as white males with physical or mental disabilities—the very same groups the Progressive eugenicists thought were diluting the quality of the

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Labor markets were one place where eugenics-oriented economists could combine their two interests.

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human gene pool. Unlike their modern successors, these supporters of minimum wage laws were under no illusion about the effects of their proposed policies; they *understood and intended* the negative consequences that economists now go to great lengths to argue will be the outcomes of the policies favored by contemporary Progressives. A great irony of the Progressive movement for a minimum wage is that while it aimed at eliminating the “unemployable,” it in fact *created* a group of “unemployables.”

Leonard’s research shows that even professional economists, including some for whom distinguished prizes and lectures are named today, engaged in a manner of thinking about issues like minimum wages that was profoundly—even obscenely, given their explicitly racist goals—anti-economic. According to some Progressives, wages were determined not by marginal productivity but by the living standards to which a particular worker was accustomed. Competition from women, children, and members of “low-wage races” threatened the dignity of white male heads of households, the robustness of the white genetic stock, and ultimately the social fabric. Leonard and Bernstein quote sociologist Edward A. Ross, who wrote that “the coolie, though he cannot outdo the American, can underlive him.” If society was to endure, white male breadwinners needed protection from outside competition.

Economists today sometimes argue that subsidies or expansion of negative income tax programs like the earned income tax credit are far more efficient ways to help the poor than policies like minimum wages. Leonard and Bernstein point out that according to Progressive economist Royal Meeker, wage subsidies were undesirable precisely because they would create more employment, particularly among “unfortunates.” The virtue of the minimum wage was that it increased the supposed dignity of white labor while separating “unfortunates” and “defectives” from

jobs they would have otherwise had. Minimum wages were supported by explicit racists seeking explicitly racist ends.

Fast-forward a few decades and the results are still the same even if the intentions are more noble. In a recent paper, “Unequal Harm: Racial Disparities in the Employment Consequences of Minimum Wage Increases,” William Even and David Macpherson argued that in states fully exposed to the most recent minimum wage increases, the law cost young African Americans more jobs than the recession has ([tinyurl.com/3us8435](http://tinyurl.com/3us8435)). We should judge policies by results, not intentions. As the economist Thomas

Sowell might say, whether a policy is deemed “compassionate” or not should depend on its effects rather than the stated goals of its advocates.

### Other Labor Market Interventions

Eugenics provided an allegedly scientific pretext for protectionist legislation—specifically, restrictions on immigration. The eugenicists supported immigration restrictions because they believed that members of “low-wage races” would compromise not only whites’ living standards but also whites’ genetic stock through miscegenation. According to them,

immigrants and other outsiders (read: African-Americans) would degrade the labor force and debauch the species. The Progressives proceeded on a model of society in which a (white male) breadwinner earned a “family wage” sufficient to support a (white) wife and (white) children. Women were to fulfill their roles as “mothers of the race,” and children were to be trained to do the same in the following generation. In his 2005 article Leonard pointed out that restrictions on child labor were enacted specifically to prevent the lower classes from putting their children to work. Presumably this would then cause them to think twice about procreating as well as limit their incomes.



Fabian socialists Beatrice and Sidney Webb, seen here on a visit to the Soviet Union, were early supporters of the eugenics movement in the U.K.  
Wikipedia

The Progressives used the same techniques to reduce the labor market opportunities of women. Women were seen both as fragile—in need of protection from the rigors of the workplace—and as having a special role in bearing children and managing the household as “mothers of the race.” This was in contrast to the perceived “overbreeding” of nonwhites and immigrants from places like eastern and southern Europe. Progressive reformers tried to keep women out of the labor force by enacting a variety of “protective” legislation at the state level, including maximum hours and minimum wage laws for women, both of which were set differently from those for men. Such laws made women less desirable and more expensive employees, which limited their labor force participation—precisely the goal of the reformers.

The perils of the 1930s provided an opening for additional burdens on the labor market designed to exclude “unfit” workers. Leonard and Bernstein report that the Davis-Bacon Act, for example, was “passed with the intent of preventing itinerant African American workers and others from competing with white labor unionists for jobs on federal construction projects.” The amplification of interest-group politics was evident in the relatively transparent attempts by New Deal Progressives to protect special interests from low-wage competition from the South—from African-Americans and other “low-wage races.”

In the 1930s U.S. Rep. John Cochran (D, Mo.) said he had “received numerous complaints in recent months about southern contractors employing low-paid colored mechanics getting work and bringing the employees from the South.” Rep. Clayton Allgood (D, Al.) joined in: “Reference has been made to a contractor from Alabama who went to New York with bootleg labor. This is a fact. That contractor has cheap colored labor that he transports, and he puts them in cabins, and it is labor of that sort that is in competition with white labor throughout the country.”

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The perils of the 1930s provided an opening for additional burdens on the labor market designed to exclude “unfit” workers.

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The disemployment effects, for example, of the National Industrial Recovery Act (NIRA) were stark. Leonard and Bernstein cite one estimate that the NIRA’s “wage provisions directly or indirectly led to the dismissal of 500,000 African American workers.” They also write that “the American Federation of Labor took credit for the failure of the FLSA [Fair Labor Standards Act] to provide for a lower minimum wage in the South,” preventing southward capital flows.

### The Progressives, the Modern Left, and the Dismal Science

This history can be read as the American version of what happened earlier in England. David Levy has shown that economics became known as the “dismal science” because classical-liberal economists (such as J. S. Mill) *avored* racial equality in a free labor market. Reactionary, elitist British Romantics such as Thomas Carlyle and John Ruskin argued that the free market, with its underlying assumption of equality, would eliminate racial hierarchies and bring a “dismal” future of racial mixing. It was the classical-liberal economists who were providing the intellectual support for that future.

The moral of the story is that, despite the modern left’s continued claim that the pro-market philosophy is racist, sexist, and xenophobic, history demonstrates that classical liberals/libertarians were proponents of equality and opponents of racism, and that those who viewed the races as unequal were likely to seek backing from the State, particularly in labor markets. The historical record of the left on these counts is much more mixed than it is willing to acknowledge.

Despite their odious views on race and the use of the State to enforce their eugenically informed vision of the future, Progressive-Era reformers were ahead of their modern liberal counterparts in one important way. They understood that free markets, especially free labor markets, are the enemy of racism. **FEE**

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# Contradicting Keynes: Bernanke's Debt Default Scare

BY JAMES G. W. AHIKPOR

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Federal Reserve Chairman Ben Bernanke's remarks last summer about the debt limit and risk of default amounted to a stunning contradiction of Keynes and Keynesian economics. But few seem to have noticed.

In response to questions by U.S. Senator Jack Reed (D-RI), Bernanke joined in the chorus of those predicting skyrocketing interest rates in the United States and abroad if the federal government defaulted on its debt obligations because Congress did not raise the debt ceiling. It was not a given that the federal government would have defaulted if the ceiling had not been raised. But ignoring that fact, Bernanke argued that the "loss of investor confidence [following default] could potentially raise interest rates quite significantly. . . . But if interest rates rise, that's clearly going to reduce investment, uncertainty will rise, that will reduce the abilityness [sic] of firms to hire and invest. . . . So I can only conclude that this would be very bad for—for jobs."

Did the person supposedly in charge of determining interest rates in the United States through Federal Reserve credit creation really say that? What was the rationale for QE1 and QE2 (quantitative easing) if not to lower interest rates and promote economic prosperity? And who inspired that mistaken thinking? John Maynard Keynes, of course.

Keynes argued in the *General Theory* (1936) that interest rates are determined by the supply and demand for central-bank money (cash) and not by the supply and demand for savings (or lendable capital), as his

predecessors from David Hume and Adam Smith on down to Alfred Marshall had explained. Therefore, in Keynes's view, it is the responsibility of a central bank to increase its supply of money enough to depress interest rates to such a low level as to result in the "euthanasia of the rentier, of the functionless investor," who relies on "the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital" to demand interest payments. That is, money should become so plentiful that no one would be obliged to pay interest to borrow it. (Of course, Keynes here confuses money with savings or wealth.)

The money (cash) supply-and-demand theory of interest rates was the predominant view among Mercantilist thinkers from the sixteenth to eighteenth centuries. It was to correct that mistaken view that Hume, in his essay "Of Interest," explained that although interest rates may be influenced temporarily by the abundance or scarcity of money, they are permanently determined by the flow of savings relative to their demand:

High interest arises from *three* circumstances: A great demand for borrowing; little riches to supply that demand; and great profits arising from commerce [hence the desirability of demanding more loans]: And these circumstances are a clear proof of the small advance of commerce and industry, not of the



Fed Chairman Ben Bernanke  
Federal Reserve

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scarcity of gold and silver [money]. Low interest, on the other hand, proceeds from the opposite circumstances: A small demand for borrowing; great riches to supply that demand; and small profits arising from commerce: And these circumstances are all connected together, and proceed from the increase of industry and commerce, not of gold and silver.

Hume's elaboration on that point was the basis of subsequent classical writers' explanation of interest-rate determination by the supply and demand for savings. Keynes, on the other hand, denied all such explanation and declared in his 1939 preface to the French edition of the *General Theory* that, in arguing that interest rates rather are determined by "the demand and the supply of money, that is to say [by] the demand for *liquidity* and the means of satisfying this demand [he is] returning to the doctrine of the older, pre-nineteenth century economists. Montesquieu, for example, saw this truth with considerable clarity—Montesquieu who was the real French equivalent of Adam Smith, the greatest of your [French] economists, head and shoulders above the Physiocrats in penetration, clear-headedness and good sense (which are the qualities an economist should have)."

Has Bernanke now abandoned his adherence to Keynes's money, or liquidity supply-and-demand, theory of interest rates, or was he merely participating in the debt-default scare to further the federal government's agenda of raising the debt ceiling to accommodate its profligate spending?

After all, Bernanke also acknowledged to Senator Reed that besides the Chinese, the Fed is "the largest holder of our Treasury debt." Why wouldn't the Fed simply cancel the Treasury's debt and purchase some more to save the federal government from its predicted default? To support the political-posturing view of Bernanke's statements, one could legitimately cite his similar proclamations in fall 2008 that without the Troubled Asset Relief Program (TARP), giving the Treasury secretary \$700 billion to purchase "toxic

assets" mainly from investment banks, businesses could not meet their payrolls. The claim wasn't true. Businesses borrow from commercial banks, not investment banks, to meet payroll. And commercial banks rely mainly on the public's deposits to lend to businesses. The public would not have stopped making deposits with banks had TARP not passed. Besides, then-Treasury Secretary Hank Paulson didn't initially use the money for the bill's stated purposes. But the scare worked to push Congress to vote for the legislation.

More likely Bernanke simply employed the common-sense view of interest-rate determination through the supply and demand for financial assets (interest rates thus being inversely related to the price of financial assets), which is the classical economics view, in contradiction to Keynes, but without consciously intending to

Bernanke couldn't deny the obvious, even as he exaggerated the consequences of a government default.

be anti-Keynes. Buyers of such assets (IOUs) are the savers while sellers of financial assets are the borrowers. Clearly, many U.S. Treasury bond holders would be inclined to sell them should a default occur. Such selling would reduce their price and thus raise their yield (interest). Therein lies the contradiction of Keynes and the affirmation of the classical principle he denied—namely, that the supply and demand for savings are the principal

or permanent determinants of interest rates. Bernanke couldn't deny the obvious, even as he exaggerated the consequences of a government default.

So what if the U.S. defaulted on its debt obligations and the yield on its debt rose? Must all interest rates rise as a result of the nonzero default risk on Treasuries? Not necessarily. There would simply be a narrowing of the risk premium between U.S. government bonds and other private-sector securities. Treasury securities would lose their default-risk advantage over other securities but retain their liquidity-risk advantage, given the Federal Reserve's readiness, hence commercial banks' readiness, to redeem Treasury securities on sight. There is no reason that the default risk of the bonds and stocks of such corporations as Apple, Microsoft, Google, or Walmart should rise just because that of the U.S. government has risen. Thus the yield on private

securities may decline (as investors flee Treasuries) while that on U.S. government securities rises, leaving the average unchanged.

Savers are constantly looking for instruments (financial assets) through which they can earn returns on their savings. There may be some diversion of savings into gold, driving up its price further. But investors in gold also know that, like all other commodities, the bubble created by current fears about Treasuries will also burst in due course. Thus the predicted skyrocketing of worldwide interest rates from a possible U.S. government debt default was an exaggeration. If interest rates rise it will be the result of a contraction in the rate of savings worldwide.

Besides, high interest rates, as Hume explained in his 1752 essay, are not necessarily injurious to a high rate of economic growth. It is high interest rates resulting from a contraction in savings that reduce economic growth. One easily can verify this from the level of interest rates in the United States during the economic boom from 2003 to the fall of 2008. The yield on a one-month Treasury rose steadily from 0.91 percent in May 2004 to 5.16 percent in June 2006 while the unemployment rate declined from 5.6 to 4.6 percent. On the other hand, the one-month rate stood at 0.02 percent in June 2011 because of the Fed's massive injection of credit while the economy has continued to be mired in anemic growth and the unemployment rate has risen to over 9 percent.

Raising taxes to balance the federal budget would not necessarily lower interest rates. Rather, higher taxes would reduce disposable income and thus the flow of savings. The high level of government spending—financed either by debt or high taxes—would put pressure on interest rates to rise. It also would divert more savings from private-sector investments that would otherwise promote sustained employment and economic growth. These are the insights of classical macroeconomics that Keynes failed to appreciate and his modern followers continue to miss.

Current low U.S. interest rates are unsustainable. They are going to rise with or without an increase in the federal government's debt ceiling. Savers will not forever endure the current negative real interest rates. Cutting federal spending is the surer path to resumption in robust economic growth and reduction in the rate of unemployment. As David Ricardo acutely observed in his 1810 pamphlet, "The High Price of Bullion":

To suppose that any increased issues of the Bank [of England] can have the effect of permanently lowering the rate of interest, and satisfying the demands of all borrowers, so that there will be none to apply


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High interest rates  
are not necessarily  
injurious to growth.  
High interest rates  
resulting from a  
contraction in  
savings reduce  
economic growth.

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for new loans, . . . is to attribute a power to the circulating medium [money] which it can never possess. Banks would, if this were possible, become powerful engines indeed. By creating paper money, and lending it at three or two per cent. under the present market rate of interest, the Bank would reduce the profits on trade in the same proportion; and if they were sufficiently patriotic to lend their notes at an interest no higher than necessary to pay the expences of their establishment, profits would be still further reduced; no

nation, but by similar means, could enter into competition with us, we should engross the trade of the world. To what absurdities would not such a theory lead us! Profits can only be lowered by a competition of capitals not consisting of circulating medium. As the increase of Bank-notes does not add to this species of capital, as it neither increases our exportable commodities, our machinery, or our raw materials, it cannot add to our profits nor lower interest [permanently].

Experience around the world repeatedly has confirmed Ricardo's warning against the belief in a central bank's money creation as the engine of economic growth instead of the pursuit of policies that encourage increased private savings. 



## The Great Society's War on Poverty

BY ROBERT HIGGS

For the most part President Lyndon B. Johnson was simply lucky in regard to economic stability and growth during his term in office, although he does deserve credit for pushing John F. Kennedy's stalled tax-cut proposal to quick enactment in February 1964. The economy was already growing and the rate of unemployment declining when LBJ took office in November 1963, and macroeconomic conditions continued to improve throughout his presidency, although the rate of inflation began to edge up after 1965, reaching almost 5 percent during his final year in office. Between 1963 and 1968 real gross domestic product increased 29 percent, or 5.2 percent per year on average. Unemployment declined from 5.7 percent in November 1963, when LBJ became president, to 3.4 percent in January 1969, when he left office.

This macroeconomic success owed nothing to policymakers' fine tuning, because neither the administration nor Congress made such delicate adjustments of fiscal policy as conditions changed. In truth, the U.S. government was institutionally incapable of fine tuning fiscal policy, however much it appealed to Keynesian economists drawing diagrams on blackboards.

Whatever its sources, this remarkable macroeconomic performance deserves the lion's share of the credit for the reduction in measured poverty that occurred during the Great Society years. Of course the administration did propose, gain enactment of, and implement a plethora of bills aimed at reducing poverty in one way or another. Indeed, for many observers, the Great Society is virtually synonymous with the War on Poverty.

Major events included enactment of the Civil Rights Act of 1964 (often viewed as an antipoverty measure because blacks had relatively low average income), the Economic Opportunity Act of 1964, the Food Stamp Act of 1964, the Elementary and Secondary Education Act of 1965, and the Social Security Amendments of 1965 (creating Medicare and Medicaid), as well as establishment of the Office of Economic Opportunity (to oversee programs such as VISTA, Job Corps, Community Action Program, and Head Start), hundreds of Community Action Agencies, and many other bureaus ostensibly promoting poor people's health, education, job training, and welfare.

Nearly all these antipoverty measures, if successful at all, had only a small effect on the national poverty rate, which fell from 19.5 percent in 1963 to 12.8 percent in 1968. Many of the antipoverty programs had scant funding and received news coverage out of proportion to the amount of money they spent. Most of the programs were ineffectual, spending taxpayer money with little or nothing to show for their display of good intentions.

"[T]hose who most directly benefited," says historian Allen J. Matusow, "were the middle-class doctors, teachers, social workers, builders, and bankers who provided federally subsidized goods and services of sometimes suspect value."

Poverty researcher Michael D. Tanner recently remarked, apropos of the War on Poverty and its programmatic legacies:

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Most of the Great Society programs were ineffectual, spending taxpayer money with little or nothing to show for their display of good intentions.

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Throwing money at the problem has neither reduced poverty nor made the poor self-sufficient. Instead, government programs have torn at the social fabric of the country and been a significant factor in increasing out-of-wedlock births with all of their attendant problems. They have weakened the work ethic and contributed to rising crime rates. Most tragically of all, the pathologies they engender have been passed on from parent to child, from generation to generation.

The Great Society at least did not bring economic growth to a halt, and therefore did not preclude a continuation of the long-term reduction in the proportion of Americans living in poverty. As for the War on Poverty in particular, however, no such benign evaluation is justified. Matusow, by no means a conservative ideologue, concludes that “the War on Poverty was destined to be one of the great failures of twentieth-century liberalism.”

Like most of the other Great Society programs, the War on Poverty rested on the presumption that technocrats possessed the knowledge and capacity to identify what needed to be done, design appropriate remedial measures, and implement those measures successfully through the use of government’s coercive power and taxpayers’ money. The technocrats did not give much weight—indeed, they generally gave no weight whatsoever—to the possibility of what later came to be known in Public Choice theory as “government failure.”

According to LBJ’s biographer, Paul Conkin, Johnson “never easily conceded that any except purely private problems did not lend themselves to a political answer. That is, government could directly or indirectly alleviate any distress.” White House aide Joseph Califano later confessed, “We did not recognize that government could not do it all.” Yet to describe the War on Poverty as merely hubristic would be too kind to its promoters.

All too many of the programs fell short of even this species of defectiveness, amounting to little more than

garden-variety efforts to turn taxpayer money into purely personal and political swag for the insiders who designed, operated, and exploited the programs. For example, the Community Action Program, unforgettably lampooned by Tom Wolfe in his 1970 story *Mau-Mauing the Flak Catchers*, combined ample components of white middle-class guilt, minority shake-downs, and money thrown around basically to appease the menacing claimants who, having been invited to snatch it, resorted to whatever form of intimidation would get it for them quickest. “The money,” Conkin concludes, “often seemed to dwindle away, funding little more than the wages of [Community Action Agency] employees.”

More generally, as historian John A. Andrew notes, “Through ‘iron triangles’ and the use of clientele capture, the very objects of Great Society reforms [including the War on Poverty] all too often seized control of the process to block significant change and enhance their own interests.”

Level-headed analysts could scarcely have been shocked by this outcome. As Adam Smith long ago remarked, although the “man of system”—preeminent examples of which played leading roles in initiating the War on Poverty—treats the members of society as if they were pieces on a chessboard, the people have a motive power of their own. In the mid-1960s those whom the social and economic planners undertook to help in various ways refused to sit still while the technocrats treated them as lab rats. Instead they often reacted by resisting, diverting, or seizing control of the “top-down” schemes the government imposed on them, causing what analysts in retroactive assessments call program failures.

One man’s failed experiment, however, was often another man’s fulfilled political ambition or bulked-up bank account. Across the country, for example, local politicians diverted federal money intended to fund the War on Poverty into support for prosaic, local political priorities. Although many writers now speak of this much-ballyhooed crusade as a failure, it was a rousing success for many of its movers and shakers. **FEE**

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War on Poverty as  
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# Making Whistle-Blowing Pay

BY WARREN C. GIBSON

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The federal bureaucracies are hard at work churning out rules to implement the Dodd-Frank financial “reform” act. In May the Securities and Exchange Commission announced rules for its new whistleblower program, which rewards individuals who provide the agency with “high-quality tips that lead to successful enforcement acts.”

The minimum amount of recovered funds that can earn a reward is \$1 million, but the sky’s the limit on the upside. The whistleblower gets to keep 10 to 30 percent of the amount collected, including fines, interest, and disgorgement of ill-gotten gains. We’re talking about big game here, with awards conceivably topping \$100 million.

Eric Havian, an attorney with a law firm that represents whistleblowers, noted in an interview with the *San Francisco Chronicle’s* Kathleen Pender that the securities laws cover a “huge category of bad conduct,” such as illegal insider trading, cooking the books, market manipulation, stock option back-dating, false or misleading disclosures, and the deceptive sales of securities. Almost anything potentially can be illegal, and these vaguely defined offenses leave much room for government mischief. As for insider trading, this is a practice that does little harm and may actually provide benefits to small investors. (See my January/February 2011 *Freeman* article, “Inside Insider Trading,” [tinyurl.com/24tm3xv](http://tinyurl.com/24tm3xv).)

If corporations felt they needed limits on insider trading or other conduct to attract shareholders, they could write prohibitions into their bylaws so that vio-

lations, if not settled internally, could be remedied under civil law.

The mind boggles at the incentives the whistleblower program establishes. Law firms must be gearing up already to coach whistleblowers in the fine art of identifying and documenting actions that can be gussied up into plausible cases. It would make sense for law firms to take cases on a contingency basis because this sort of lawyering could be very lucrative. The SEC staff, concerned primarily with covering its collective rear end, will shy away from dismissing all but the most frivolous cases.

The road to riches will not be short or direct. Many years could elapse, if only because of bureaucratic inertia, between the time of filing and the bestowal of an award. “There will be more people struck by lightning in a given year than will get a check from the SEC in the next five to ten years,” cautioned Tim Mazur of the Ethics and Compliance Officers’ Association. But once the first awards hit the headlines, “a lot of people will start paying attention,” he added (*San Francisco Chronicle*).

All whistleblowers run the risk of retaliation from their employers, but in today’s climate this risk seems minimal. Besides, complaints may be filed anonymously.

Whistleblowers will lose their incentive to pursue complaints through their companies’ internal review process, an avenue that could correct any genuine



A new key to riches.  
Lkmorlan [Wikipedia]

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wrongdoing relatively quickly. With such a massive potential pot of gold beckoning, why not wait and let the supposed wrongdoing fester for a while?

To be sure, the SEC rulemakers are aware of at least some perverse incentives. The website announcement contains a section headed, "Avoiding Unintended Consequences," which excludes certain people from eligibility. The SEC also says information presented must be the whistleblower's independent knowledge or analysis. But these limits seem to leave enough space to drive a truck through, and the truck drivers are revving their engines.

### New Uncertainty

Of course corporate officers will be aware of the new incentives for whistle-blowing, which may well make them more cautious about taking on the risks of new or expanded production. Too bad. Investment is exactly what the country needs to get out of its economic funk. New uncertainty will further delay recovery.

Meanwhile, government whistleblowers aren't doing nearly so well. Thomas Drake, a National Security Agency employee, found hundreds of millions of dollars being squandered on failed programs and tried to expose them. He did not leak any classified informa-

tion, and he tried informing his bosses, the NSA inspector general, the Defense Department inspector general, and congressional intelligence committees before taking his findings to the *Baltimore Sun*. Rather than a pile of cash, Drake's reward was an indictment on ten felony charges that could have gotten him many years in prison. But earlier this month, following a *New York Times* article on his situation and a judge's ruling

that certain classified information which prosecutors wanted to use against him could not be kept under wraps, all charges were dropped in a deal in which he pleaded guilty to one misdemeanor.

A recent petition signed by 20 noted whistleblowers calls for rescinding a "Transparency Award" given to President Obama recently. The President "has invoked baseless and unconstitutional executive secrecy to quash

legal inquiries into secret illegalities more often than any predecessor," the complaint noted. "Ignoring his campaign promise to protect government whistleblowers, Obama's presidency has amassed the worst record in U.S. history for persecuting, prosecuting and jailing government whistleblowers and truth-tellers."

But hey, we should just be glad the feds are protecting us from those nasty corporate insiders. **FEE**

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With such a massive potential pot of gold beckoning, why not wait and let the supposed wrongdoing fester for a while?

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# Tyranny Afoot: Arthur Koestler's Communist Chronicles

BY BRUCE EDWARD WALKER

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*You want to stifle the Republic in blood. How long must the footsteps of freedom be gravestones? Tyranny is afoot; she has torn her veil, she carries her head high, she treads over our dead bodies.*

—Arthur Koestler, *Darkness at Noon*

Perhaps no author better chronicled the disastrous, soul-crushing European political experiments of the middle half of the twentieth century than Arthur Koestler. The Hungarian-born author wrote magisterially (in English, no less; he first published in Hungarian, German, and Russian) of the follies of the Pink Decade of the 1930s in a series of political novels. Unfortunately, they're all but

forgotten in today's university curricula. The world requires constant reminders of what actually happens once citizens acquiesce to big-government solutions.

George Santayana wrote: "Those who cannot remember the past are condemned to repeat it," and Koestler's body of work from the 1930s to 1950s proves the contemporary relevance of Santayana's admonition. Perhaps in no other time besides the era in which they were originally published are Koestler's literary themes more topical than the present, as our own government



Arthur Koestler described the actual consequences of communism rather than setting them in dystopian futures.

expands exponentially to bail out and control our country's financial and automotive industries; mire other industries to the point of stagnation with cumbersome regulations; redefine such basic individual choices as health care and education as prescribed "rights"; and enact wide-ranging schemes to insinuate

bureaucratic reach into nearly every aspect of our lives, from the Internet and use of recreational and/or medicinal inebriants to surveillance cameras at every traffic stop.

As this year officially marks the 70th anniversary of the publication of Koestler's seminal novel, *Darkness at Noon*, and the 60th anniversary of his essay "The Initiates," it's a convenient opportunity to revisit both works as a reminder of

what awaits all democratic societies eager to abandon liberties for the sake of utopian ideologies.

Seventy years ago, as war engulfed nearly every continent and the Axis peril seemed poised to destroy two millennia of civilization, Koestler published *Darkness at Noon* on another, completely different threat to individual freedom: communism. Ten years later "The Initi-

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ates” appeared as one of six essays in *The God That Failed*, a volume featuring the voices of many of the twentieth century’s greatest writers who had embraced the Stalinist enterprise as the singular political corrective to economic misery before abandoning it as contrary to human nature and profoundly detrimental to humanity in general. However, none of Koestler’s fellow travelers—Richard Wright, Ignazio Silone, Andre Gide, Louis Fisher, Stephen Spender—wrote more authoritatively or convincingly against communism than he.

*Darkness at Noon* is the third novel in Koestler’s quartet depicting what occurs when centralized governments seize control of the means of production and attempt to mitigate the individualist impulse.

Briefly, *Darkness* is bookended by *The Gladiators* (1938) and *Arrival and Departure* (1943), and followed by *The Age of Longing* (1951). In the first, Koestler novelizes the slave revolt commanded by the gladiator Spartacus; in *Arrival and Departure* he conjectures on the psychological motivations behind a character who alternately embraces communist and Nazi ideologies; and *The Age of Longing* is a futuristic novel exploring the irreconcilable nature of religious faith

and totalitarianism in Paris of the mid-1950s. But it is in *Darkness*, in my humble estimation, that Koestler succeeds most in capturing the mindset of the collectivist fantasy in order to completely dispel its flawed precepts.

### Encapsulating a Century

“If any figure could claim to have encapsulated in his own life—and recorded—the political, intellectual, and emotional tribulations of the twentieth century, it is [Koestler],” wrote Theodore Dalrymple in “A Drinker of Infinity,” an essay that appeared in *The City Journal*, Spring 2007 ([tinyurl.com/3naqh8e](http://tinyurl.com/3naqh8e)), and that took its title from a later work by Koestler.

Koestler’s life leading up to the writing of *Darkness at Noon* reads like a novel (or several) itself. Born to Jewish parents in Budapest in 1905, he displayed an

affinity for math and science that led him to study engineering in Vienna. Before he could graduate, however, Koestler embraced radical Zionism (although biographies report he wasn’t an observant Jew), which led him to live briefly on a kibbutz in Palestine. He subsequently became the Palestine correspondent for a German newspaper group, the Ullstein Trust, was based for a while in Paris, and wound up simultaneously serving as science editor and foreign correspondent for two Ullstein-owned newspapers in Germany.

After Ullstein fired Koestler (some sources assert he resigned) for his political leanings, the writer threw the full weight of his intellectual and physical energies behind Marxism (fully detailed in “The Initiates”). He traveled extensively throughout the USSR in 1932 and

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Koestler had embraced Stalinism, but abandoned it as profoundly detrimental to humanity in general.

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1933 at the invitation of the Revolutionary Writers of Germany, a Comintern front agency. When the Spanish Civil War erupted in 1936 Koestler was writing communist propaganda in Paris and accepted an assignment from a British newspaper to file reports from Francisco Franco’s fascist army headquarters. In Spain he was arrested as a communist spy and sentenced to death. He documented his internment in *Spanish Testament* (1937). Once

released—through international efforts resulting in a Republican swap of Koestler for a fascist prisoner—he returned to France to continue writing for the communist cause. He severed ties with the party over his disagreement with the 1938 Soviet show trials and set about writing *Darkness at Noon*.

Koestler again found himself imprisoned—this time in a French concentration camp, as a hostile alien—in the first months of World War II. After another international effort, he was released and sought to avoid another arrest by joining the French Foreign Legion. He made his way to Lisbon, then illegally flew to London. British authorities promptly arrested him; he corrected galleys of *Darkness at Noon* during his six-week incarceration.

“The sin of nearly all left-wingers from 1933 onwards is that they have wanted to be anti-Fascist

without being anti-totalitarian,” George Orwell wrote in an essay on Koestler’s early works. “In 1937 Koestler already knew this, but did not feel free to say so.” By 1938, however, Koestler had broken with the Communist Party and sought to educate Western Europe and the New World on happenings in the Soviet Union.

*Darkness* centers on the incarceration of Rubashov, a Bolshevik from the 1917 Revolution, for presumed counterrevolutionary activities and sentiments. Although the reader sympathizes with Rubashov, as one would for any prisoner condemned without due process, his significant shortcomings readily become apparent. For one, he served on the Central Committee in the early years of Hitler’s Germany, expeditiously silencing operatives no longer possessing Party utility by betraying them to Nazi police. Even though Rubashov convinces himself these actions are the justified means by which the revolution’s ends will be met, his conscience is haunted by his betrayal of his secretary and lover, Arlova.

### The Here and Now

Rubashov is based loosely on Nikolai Bukharin, a Bolshevik who became president of the Soviet Comintern. According to Goronwy Rees, Bukharin’s 1938 arrest, trial, confession, and execution represented “a kind of monstrous *reductio ad absurdum* of the Great Purge, in which it was proved to everyone’s satisfaction that not only the whole of the original leadership of the Bolshevik Party had become spies and traitors but that the case against them had been conducted by one who shared in exactly the same crimes.” Critics note that Koestler lifted the bulk of Rubashov’s confession from Bukharin’s real-life document.

Two of Koestler’s acquaintances contributed the necessary details of Soviet oppression. Painter and ceramicist Eva Weissberg, a childhood friend, emigrated to the Soviet Union with her husband, physicist Alexander Weissberg, who became a researcher at the

Ukrainian Institute for Physics and Technology. Eva related the Weissbergs’ subsequent persecution during Stalin’s Great Purges to Koestler, who used the experiences as background material. His own solitary confinement in Spain lent credibility to his descriptions of Rubashov’s incarceration.

What differentiates Koestler’s work from other highly lauded literary attacks on collectivism by George Orwell, Aldous Huxley, and Stanislaw Lem is perspective. Whereas the other writers projected the results of communism in novels depicting dystopian futures—Lem by necessity since he was living in Soviet-controlled Poland; Orwell and Huxley by choice—Koestler, recognizing the Soviet Central Committee’s initiatives to reconstruct all history as a class struggle between the bourgeoisie and proletariat, documented what had already occurred under Stalin’s reign of terror during a decade of famine, the Great Purge, and the Moscow show trials. While the famines and purges resulted in the deaths of tens of millions of Soviets, the show trials are characterized as an absurd travesty of Kafkaesque proportions in which Soviet apparatchiks obtained public confessions from old-guard Bolsheviks on trumped-up charges, resulting in the coerced “confessions” of counterrevolutionary activities and subsequent executions.

The historical perspective speaks to readers sympathetic to the Soviet cause but baffled as to why multitudes of Old Guard Bolsheviks would confess to crimes against the State for almost certain execution. For those readers unsympathetic to or unaware of Uncle Joe’s brand of totalitarianism, Koestler depicted the result of clashing Marxist-inspired ideologies—paranoia and death on the one hand and paranoia, deprivation, and inhumanity on the other. Koestler portrays the former as no longer willing to accept that all means justify Stalinist ends, and conversely portrays those who accept all means to further the Soviet agenda as amoral monsters:

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Koestler documented what had already occurred under Stalin’s reign of terror during a decade of famine, the Great Purge, and the Moscow show trials.

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[I]n the interests of a just distribution of land we deliberately let die of starvation about five million farmers and their families in one year. So consequent in the liberation of human beings from the shackles of industrial exploitation that we sent about 10 million people to do forced labor in the Arctic regions and the jungles of the East, under the conditions similar to those of antique galley slaves. So consequent that, to settle a difference of opinion, we know only one argument: death, whether it is a matter of submarines, manure, or the Party line to be followed in Indo-China. Our engineers work with the constant knowledge that an error in calculation may take them to prison or the scaffold; the highest officials in our administration ruin and destroy their subordinates, because they know they will be held responsible for the slightest slip and be destroyed themselves; our poets settle discussions on questions of style by denunciations to the Secret Police, because the expressionists consider the naturalists counter-revolutionary, and vice versa. Acting consequentially in the interests of the coming generations, we have laid such terrible privations on the present one that its average length of life is shortened by a quarter. . . . We have built up the most gigantic police apparatus, with informers made a national institution, and with the most refined scientific system of physical and mental torture. We whip the groaning masses of the country towards a theoretical future of happiness, which only we can see. . . .

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Orwell wrote that no Englishman could've written *Darkness at Noon*, as his countrymen only experienced Soviet duplicity and deceit peripherally.

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Taking nothing from the substantial literary accomplishments of Orwell, Huxley, and Lem, the sheer headline immediacy and empirical evidence substantiating the claims of *Darkness at Noon's* protagonist, Nicolas Salmanovitch Rubashov, in the above speech given to his old comrade and current prosecutor, Ivanov, conveys a verisimilitude seldom attainable in speculative fiction.

Orwell wrote that no Englishman could've written *Darkness at Noon*, as his countrymen only experienced Soviet duplicity and deceit peripherally as part of the communists' alliance with the Republicans during the Spanish Civil War. H. G. Wells, for example, could acknowledge Soviet cruelty while simultaneously justifying it: "Much that the Red terror did was cruel and frightful. It was largely controlled by narrow-minded men, and many of its officials were inspired by social hatred and fear of counter-revolution," adding, "Apart from individual atrocities it did on the whole kill for a reason and to an end."

As today's political systems totter once again toward statist cardiac arrest, albeit masked at first as more kind and gentle than the Soviet model—at least until government coercion increasingly becomes imperative to enforce its rule—we should heed Santayana and remember the history documented by a writer who was able to divorce himself from the Soviet lie. Arthur Koestler suffered from none of the delusions Wells formulated from afar. He had seen firsthand the horrors of the twentieth century and documented its cruelties and dehumanization from the insidious interior chambers of collectivism's heart of darkness. **FEE**

## Of Malice and Straw Men

BY SHELDON RICHMAN



**W**e libertarians must be onto something. Why else would critics work so hard to construct straw men to demolish rather than contending with our actual arguments?

Right from the top you could tell that Stephen Metcalf's blast in *Slate* would be no different (tinyurl.com/3epcbae). "Liberty Scam" featured this teaser: "Why even Robert Nozick, the philosophical father of libertarianism, gave up on the movement he inspired." That sentence contains two assertions—both wrong. I mean to take nothing away from Nozick when I point out that he was *not* the philosophical father of libertarianism. We can debate who might deserve that title, but I can say firsthand that he, she, or they helped give birth to libertarianism before 1974, when Nozick published *Anarchy, State, and Utopia*.

As for the second half of that sentence, Nozick never gave up on libertarianism. Metcalf makes much of Nozick's writing, "The libertarian position I once propounded now seems to me seriously inadequate. . ." and "There are some things we choose to do together through government in solemn marking of our human solidarity, served by the fact that we do them together in this official fashion"—but is this a *renunciation* of libertarianism?

Those in fact were not Nozick's last words on the matter before his premature death in January 2002 at age 63. In an interview with Julian Sanchez six months earlier, Nozick said, ". . . I never stopped self-applying [the libertarian label]. What I was really saying in *The Examined Life* was that I was no longer as hardcore a libertarian as I had been before. But the rumors of my

deviation (or apostasy!) from libertarianism were much exaggerated."

It gets worse for Metcalf. He spends most of his article on Nozick's famous Wilt Chamberlain thought experiment but misses the point. In critiquing "patterned," or "end-state," principles of justice, Nozick imagines that everyone has the amount of wealth necessary to satisfy some posited ideal pattern. It so happens that the people in this society love basketball and one of their members, Chamberlain, is a great player

whom many are eager to watch. They each pay him a sum of money every time they attend a game. As a result of this series of exchanges Chamberlain has more money than the others. This raises a question: Is the initial "distributional" pattern to be preserved by force, or is free exchange to be allowed to change the pattern? As Nozick stated: "The general point . . . is that no end-state principle or distributional patterned principle of justice can be continuously realized without continuous interference with people's lives."

For Nozick, if constant interference with free exchange—let's call it what it is: violence or the threat

thereof—is required to preserve a given pattern, perhaps justice cannot lie in any preconceived pattern at all, for without liberty what becomes of autonomy and the moral injunction against treating others merely as means? He opted instead for an "entitlement theory of justice in distribution," which poses a historical test: "whether a distribution is just depends upon how it came about."

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Nozick used Wilt Chamberlain to illustrate that a just distribution of wealth depends on how it was acquired. Stephen Metcalf used him as a straw man.

Metcalf is in a panic: If Wilt Chamberlain is entitled to a bigger income than his fellow human beings when it results from voluntary exchange, it must follow that others are too. Metcalf doesn't want to face that issue, so he creates a distraction: "*Anarchy* [ , *State, and Utopia*] not only purports to be a defense of capitalism, but a proud defense of capitalism. And yet if *Anarchy* would defend capitalism unashamedly, why does its most famous argument include almost none of the defining features of capitalism—i.e., no risk capital, no capital markets, no financier? Why does it feature a basketball player and not, say, a captain of industry, a CEO, a visionary entrepreneur?"

It's true that Nozick ultimately wants to defend free exchange (which he called "capitalist acts between consenting adults"), but to set the foundation, he needed to show that accepting a patterned conception of justice means giving up freedom.

Metcalf prefers to have a different argument: How do we know the price Chamberlain receives is appropriate? "To a libertarian," he says mockingly, "price is, in effect, the conscience of society finding its highest expression in every swipe of the debit card. . . . [A]ssuming a world in which labor and management arrive at gentleman's agreements—and in which those agreements capture the precise value, down to the penny, of labor's marginal product—tells us very little about justice."

But what Nozick established with his Chamberlain story need not assume those things without additional theoretical argument. It is surely reasonable to ask if *historical* capitalism has faithfully mirrored the principle of free, voluntary exchange. In fact it has not. But this is no objection to Nozick, who was doing political philosophy, not economic history.

Metcalf gets a little carried away in searching for points to score on Nozick. Consider this:

The connivance is thus hidden in plain sight. "Wilt Chamberlain" is an African-American whose talents are unique, scarce, perspicuous (points, rebounds,

assists), and in high demand. We feel powerfully *the man should be paid*, and not to do so—to expect a black athlete to perform for (largely) white audiences without adequate compensation—raises the specter of the plantation. But being a star athlete isn't the only way to make money. In addition to earning a wage, one can garnish a wage, collect a fee, levy a toll, cash in a dividend, take a kickback, collect a monopoly rent, hit the superfecta, inherit Tara, insider trade, or stumble on Texas tea. For each way of conceiving wealth, there is at least one way of moralizing its distribution. The Wilt Chamberlain example is designed to corner us—quite cynically, in my view [!]<sup>1</sup>—into moralizing *all* of them as if they were recompense for a unique talent that gives pleasure; and to tax each of them, and regulate each of them, according to the same principle of radical noninterference suggested by a black ballplayer finally getting his due.

Nozick's principles—*consistently adhered to*—rule out the statist devices that produce much "supernormal compensation."

Nozick's Chamberlain principle obligates no one to defend the garnishing of wages and the collecting of tolls and monopoly rents, which require government privilege, or the profits of crooks like Bernie Madoff. It refers only to nonviolent, non-fraudulent, *unprivileged* sources of wealth. Metcalf implies that Nozick's

book is an apology for the corporate state, but in fact Nozick's principles—*consistently adhered to*—rule out the statist devices that produce much "supernormal compensation." Corporate power flows from the State—it's the most dangerous derivative.

Metcalf ends on a naive note: "[T]he 'libertarian' right [sic] moves to take the risks of unemployment, disease, and, yes, accidents of birth, and devolve them entirely onto the responsibility of the individual. It is not just sad; it is repugnant."

As if the welfare state historically has been much more than a cover for the corporatist privilege that harms the most vulnerable; and as if free individuals, looking out for one another in *peaceful* ways such as mutual-aid associations would be incapable of hedging against the risks of life.

**FEE**

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# The Gilded Age: A Modest Revision

BY JOSEPH R. STROMBERG

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Mark Twain named the decades after 1865 the “Gilded Age,” and Progressive historian Vernon Louis Parrington sketched them in some detail in 1927. For Parrington (*Main Currents in American Thought*, volume 3), the Gilded Age was a “Great Barbecue” of continuous government largesse and State-assisted capital accumulation under a very simple philosophy: “[P]reemption [of land] meant exploitation and exploitation meant progress.” Americans, Parrington wrote, equated individualism with acquisition of wealth and nothing more: “The Wall Street crowd—Daniel Drew, Commodore Vanderbilt, Jim Fisk, Jay Gould, Russell Sage—[were] blackguards for the most part, railway wreckers, cheaters and swindlers. . . .”

Reigning politicians were also blackguards, and audacious ones. A “surprising number” of America’s economic movers and shakers hailed from New England. Entrenched Republicans became wholly committed to Henry Clay’s dream of State-assisted industrialization and “paternalism as understood by

speculators and subsidy-hunters” (Parrington). Government as fairy godmother could not, however, subsidize everyone: “Governmental gifts go to the largest investments”—a survival of the wiliest under laissez-faire slogans. Here were the men called “Robber Barons” by their critics.

Between 1900 and the 1940s historian Charles A. Beard and popular writers like Matthew Josephson, Gustavus Myers, and John T. Flynn followed this interpretive line. But historical fashions change. World War II taught Americans the virtues of bigness in government and business. The waning Old Right forgot the two-front war against big government and big business once waged by Senator William

Borah (R, Id.). The emerging Cold War involved projects sustainable only by large organizations. Beard died in 1948, having sinned by disputing FDR’s foreign policy, and his historical views suffered by association with “isolationism.”

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By the 1950s only a few leftover populists like Senator Estes Kefauver of Tennessee kept up Borah's old fight. Historians Ralph and Muriel Hidy, Hal Bridges, and many others found much to praise in late-nineteenth-century big business. Bridges's essay "The Robber Baron Concept in American History" (1958) lauded Gilded Age industrialists as constructive wealth creators. In "The Robber Baron Concept and Its Revisionists" (1965), New Left historian Alan Solganick tried to reignite debate, suggesting that Gilded Age capitalists put short-run profit ahead of potential technical advances. In recent history textbooks "Gilded Age" appears but without "Robber Barons."

Taking up where business-oriented elements of the Old Right left off, classical liberals generally see the Gilded Age and alleged Robber Barons as historically vindicated. Fear that concessions to Gilded Age critics will immediately justify big government as social savior seems to require excuses for past economic malefactors. Still, classical liberals Arthur A. Ekirch, Jr., George Roche III, Wilhelm Röpke, Albert Jay Nock, former *Freeman* editor Frank Chodorov, and Felix Morley did not wholly reject the Populist-Progressive indictment.

### Ironbound Folly

The key growth sector from the mid-nineteenth century on was railroads, no stranger to government subsidies. These proved very profitable for promoters and land speculators. But if railroads revolutionized commercial traffic, creating bigger markets and therefore larger-scale enterprises, by 1880 they looked like massive overinvestments with shaky foundations. America had a transportation system so far ahead of natural migration that railroads had to scare up their own settlers. New lines built solely to block competitors aggravated the overextension. Accidents affecting workers and passengers alike were numerous. The recurring cycle of bankruptcy, reorganization, debt reduction, and renewed promotion with watered stock leads historian Ray Ginger (*The Age of Excess*) to wonder whether, overall, the average return on railway investment was actually negative.

Railroads' power to set rates arbitrarily became a major public issue. Senator Thomas Benton of Missouri had argued in the 1850s that if given federal subsidies, railroads must serve as public highways leased to private operating companies and open to all on an equal basis. This was not quite what the public got, but the highway metaphor did return during the great railroad strike of mid-1894 to explain how President Cleveland could send federal troops into Illinois over the governor's protests.

As noted in my "Civil War and the American Political Economy" (*Freeman*, April 2011, [tinyurl.com/4qmtsrk](http://tinyurl.com/4qmtsrk)), subsidized railroads pioneered large-scale private bureaucracy under the corporate form and their example promoted the form. All this encouraged further concentration of capital, as had the war itself.

### Business Practices and Ethics

Bigger markets and larger enterprises rested on various advantages, almost always political in nature.

Bigger markets and larger enterprises rested on various advantages, almost always political in nature, such as large grants of land (including mineral rights), perpetual franchises and rights of way, control of raw materials, transportation subsidies (railroad and highway construction), superior access to transportation, differential shipping rates, control over distribution, public

franchises, charters, licenses, tariffs, direct government subsidies and loans, patents, copyrights, privileged banking, and sundry direct or hidden grants of monopoly, including virtual (regulatory) cartels.

All these levers abounded in the Gilded Age—typically for the right price. Tramway entrepreneur Charles Tyson Yerkes's open buying of franchises from Chicago aldermen finally provoked support for so-called municipal "socialism." In addition businessmen engaged in patent wars and constant litigation to harass competitors.

Tariffs drained money from the countryside into industrialists' coffers. The Tennessee Coal, Iron and Railroad Company, headed by U.S. Rep. Thomas C. Platt (R, NY), managed to benefit from both tariffs and convict labor. Generally, the defeated South succumbed

to northern capital: to Hamilton Disston, who bought nearly half of Florida; J. P. Morgan, who reorganized the southern railroad system; and sundry timber companies. Sharecropping (black and white), the crop-lien system, and “reckless destruction” of forests by timber companies typified the new southern economy (Ginger).

Even before 1861, Thomas C. Cochran and William Miller (*The Age of Enterprise*) write, “New York, New England, and Pennsylvania had gathered up the funds of the nation, had developed financial techniques to manipulate them, and mastered the arts of credit expansion.” After 1865 bankers—much preferring gold to whatever they had previously lent—lobbied for imposed deflation through retirement of Greenbacks. Large federal tariff revenues (about a third of the possible money supply) sat idle in the Treasury contributing to deflation. Money for new enterprises had to come from established financial gatekeepers, who did well through legally-sanctioned fractional-reserve magic and other devices.

### Overproduction, Cartels, De-Skilling

The economies of scale made possible by transportation subsidies forced companies to invest more in fixed (physical) capital while trying to keep variable costs (including labor) low. As Andrew Carnegie noted, industrialists had to keep their machinery “*running full*.” But doing so produced goods unsellable (profitably) at home. U.S. Commissioner of Labor Carroll D. White declared overproduction “a permanent feature of the economy.” Such statements abounded, and farmers’ groups likewise took up the cry. This led from the 1880s forward to much discussion of “over-saving” and “over-production.” Two interim solutions suggested themselves: cartels to restrict production and the reorganization of work itself. Early attempts at cartelization failed for lack of direct State support, and corporations turned to the second plan. If craft skills could be (in effect) built into new machinery, unskilled labor could replace skilled workers at lower costs. This “de-skilling” would

reduce workers’ bargaining power, increasing managerial control, and shift a higher proportion of income from added value to the corporation. A third option, overseas economic empire with foreign markets for “surplus” products, was discussed but was as yet premature.

### Flynn and the “Brigand Theory of Progress”

Assessing this period in *Men of Wealth* (1941), John T. Flynn showed a keen grasp both of basic facts and fundamental issues. At bottom he agreed with ex-New Dealer Willis J. Ballinger (*By Vote of the People*) that America’s financial masters had “systematically misoperated” the economy for almost a century. Flynn

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Tariffs drained money from the countryside into industrialists’ coffers. The Tennessee Coal, Iron and Railroad Company managed to benefit from both tariffs and convict labor.

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could not accept “the brigand theory of progress,” which excused the hurried methods of nineteenth-century capitalists on grounds of their services to long-run productivity. Many were simply “rascals . . . driven by a consuming passion for getting other people’s money.” Commodore Vanderbilt pioneered methods “of inflating the capitalization of railroads, utilities, and corporate enterprises of all sorts.” Vanderbilt, Gould, Fisk, Drew, and others perfected “the mechanisms of exploitation of properties through stock manipulations” with “vast gains that did not come out of the property at all.”

Flynn found fascinating the synergy between bank “*money actually created in the act of lending it*” (his italics), watered stock, limited liability, holding companies, and new companies launched entirely to provide quick profits to promoters. Government-tainted finance capitalism had begun in Lowell and Boston by 1837, but J. P. Morgan had perfected its destructive capacities by controlling both banks and corporations issuing securities. This long train of abuses related directly to the corporate form: “the mightiest weapon of all.” (As Thurman Arnold [*The Folklore of Capitalism*] wrote in 1937, “[C]apital came to mean the ability to control bank credits, which had no particular relation to productive property.”)

Flynn saw Rockefeller as fairly honest and innocent of stock manipulation, but on the downside, a forerunner of corporatism and, in this way, of the coming American New Deal fascism. (Corporatism, formal or informal, would not be realized until many decades later.)

Flynn is onto something: the centrality to the Gilded Age of stock gambling and fictitious capital, a circumstance that might well undercut Ludwig von Mises's claim (reported by Rothbard) that a stock market is a sure sign of a free market. One begins to suspect that stock markets along with powerful *government-aided* banks and corporations are instead the surest sign of rigged markets. In Flynn's account, few famous nineteenth-century capitalists come out unscathed; instead, they emerge as money-chasing rascals working just this side of the law—a small feat, given their ability to move the law around as needed, whether through bribery or the partisan, pro-commercial efforts of the average judicial mind, state and federal.

### The Rule of Law

Pro-commercial jurisprudence thrived in the industrializing states, while a uniform national commercial code to foster industry and “progress” was normally a special project of the federal (and ideologically federalist) judiciary. Once the Great Barbecue vested sufficient interests (Nock's “primal distribution” of productive resources), the interests naturally proclaimed a free market, which the judges contrived to define in their favor. Federal courts duly told states that powers they had granted to corporations were now federal rights under the contract clause, forevermore beyond recall. Broadly speaking, the law was malleable, activist, and pro-commercial. Law professors William J. Quirk and R. Randall Bridwell (*Abandoned: The Betrayal of the American Middle Class Since World War Two*) find the federal judiciary “‘conservative’ of the prerogatives of business and capital, but . . . not ‘conservative’ of the institutional arrangements established by the U.S. Constitution. . . .”

As seen by historian Frank Tariello (*The Reconstruction of American Political Ideology*), American classical liberalism was (after 1865) an increasingly flabby ideology. Faced with intellectual—and mass—revulsion against the society under construction, liberals joined business in defending existing arrangements, pointing irrelevantly at dangerous foreign communists. Gilded Age liberal reformers, above mere politics, hoped to combine “laissez faire” with efficient new bureaucracies and restrictions on “unreliable” voting blocs.

### All That's Gilded Is Not Gold

Louis Bromfield (*A Few Brass Tacks*), a late arrival to the Old Right, questioned the alleged genius of America's Gilded Age industrialists and bankers. Making a great deal of money under “fantastically favorable conditions”—adequate capital, low-cost labor, and resources seized for next to nothing—seemed no great achievement. Arthur Ekirch's account of the Gilded Age in *The Decline of American Liberalism* (1955) uses Parrington's terms, “Preemption, Exploitation, Progress,” and closely follows Parrington's treatment. While regarding Rockefeller, McCormick, Armour, and Carnegie as genuine producers, George Roche III (*The Bewildered Society*), a former FEE staff member and later president of Hillsdale College, found much room for

complaint in actually existing capitalism. The key was the modern corporation, *originating in State power* and fostering oversized bureaucracy and mass society. Citing Nock, Roche protested “the unabashed economism which dominates our age” and expressed doubt that “the enmassment of American business is an absolute prerequisite for large-scale production.”

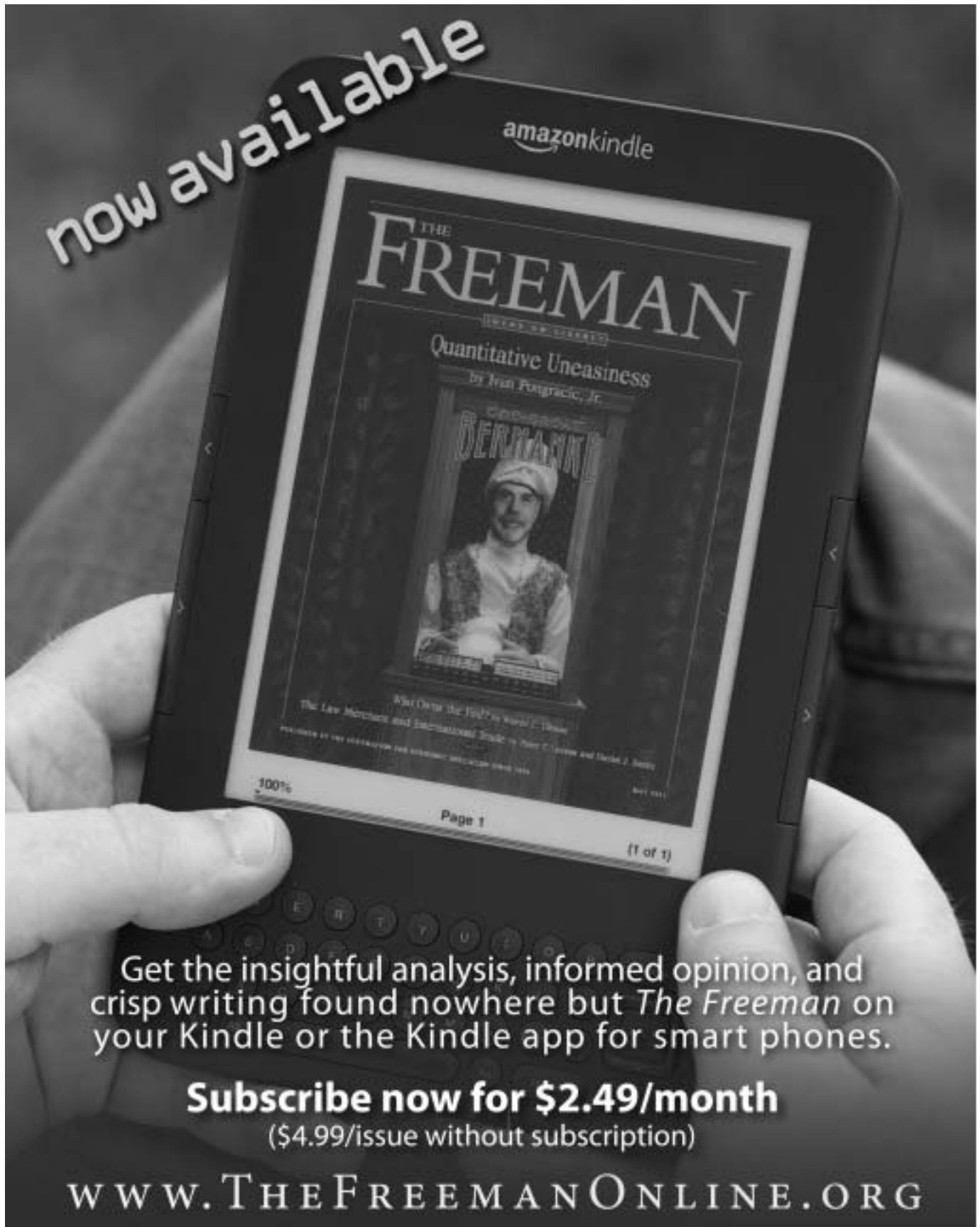
We could just note the Robber Barons' achievements and move on. But what if their few ideas and many practices had serious *systemic* consequences? Was there any way out? Progressives—waiting in the wings—believed so, but had conflicting answers. And *there* is another interesting story, not fully covered by easy fables told by Glenn Beck and Jonah Goldberg. **FEE**

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## Titles of Ignobility: Suicide as Secession

BY THOMAS SZASZ

According to the World Health Organization, the United States stands 39th on the list of countries ranked by suicide rate. Despite this, nowhere else in the world is suicide so passionately medicalized and prohibited as in the United States.

Why do people kill themselves? Because they are mentally ill, assert the mental health experts, a message the media blindly repeats. “Mental illness kills.” In this view suicide is the result of mental illness, just as death from cancer is the result of bodily illness. This is patent nonsense, mindless belief in a literalized metaphor endowed with the power of agency.

According to the National Institute of Mental Health the persons most likely to kill themselves are the young and the old. Its website adds: “A person who appears suicidal should not be left alone and needs immediate mental-health treatment.” This is anti-suicide propaganda, pure and simple.

The actions of the suicide speak louder than the words of persons who presume to speak for them, while trying as best they can to deprive them of dignity and liberty. The most plausible explanation-motive for suicide at any age is the desire to die. Although every person’s reason for killing himself is uniquely personal, as a broad generalization we might say that the young choose voluntary death to escape the pain and responsibility of having to make a life for themselves, the old to escape the consequences of loss of autonomy due to disease and disability.

The suicidal person wants to get away from his life, his social environment. His action is best viewed as a form of emigration or secession. Jean Améry, the Austrian Holocaust survivor and bitter opponent of coerced suicide prevention protested, “I don’t like the

word Selbstmord [self-murder] . . . I prefer to speak of Freitod [voluntary death]. . . [T]here is no carcinoma that devours me, no infarction that fells me, no uremic crisis that takes away my breath. I am that which lays hands upon me, who dies after taking barbiturates, ‘from hand to mouth.’”

### Jefferson on Suicide

In 1779 the Virginia legislature was considering a bill to repeal the punishment for suicide. Jefferson supported it and offered the following statement on its behalf:

The suicidal person  
wants to get away  
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social environment.  
His action is best  
viewed as a form  
of emigration  
or secession.

Suicide is by law punishable by forfeiture of chattels. This bill exempts it from forfeiture. The suicide injures the State less than he who leaves it with his effects. If the latter then not be punished, the former should not. As to the example, we need not fear its influence. Men are too much attached to life, to exhibit frequent instances of depriving themselves of it. At any rate, the quasi-punishment of confiscation will not prevent it. . . . That men in general, too, disapprove of this severity, is apparent

from the constant practice of juries finding the suicide in a state of insanity; because they have no other way of saving the forfeiture. Let it then be done away.

Jefferson went further. He considered suicide a perfectly rational act, viewing it as a kind of emigration. In his correspondence with Dr. Samuel Brown, a professor of medicine at Transylvania University in Lexington, Kentucky, concerning the use of toxic plants for killing oneself he wrote:

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The most elegant thing of that kind known is a preparation of the Jamestown weed, *Datura-Stramonium*, invented by the French in the time of Robespierre. Every man of firmness carried it constantly in his pocket to anticipate the guillotine. It brings on the deep sleep as quietly as fatigue does the ordinary sleep, without the least struggle. . . . It seems far preferable to the Venesection of the Romans, the Hemlock of the Greeks, and the Opium of the Turks. . . . There are ills in life as desperate and intolerable, to which it would be the rational relief.

The term “Stramonium” is originally from the Greek *strychnos* (nightshade) and *manikos* (mad). All parts of *Datura* plants contain significant quantities of the alkaloids atropine, hyoscyamine, and scopolamine, chemicals that may be fatal if ingested by humans or animals. In the United States the plant is called “Jamestown weed” after the city in Virginia where British soldiers were drugged with it while attempting to suppress Bacon’s Rebellion in 1676. Today a person who so casually informs another of the suicidal potential of a readily available substance runs the risk of being charged with the crime of “assisting suicide.”

The result of this cultural-legal atmosphere is the destruction of the public’s trust in members of the medical profession and other formerly respected authorities. While suicide prohibitions—usually called “suicide prevention measures”—have not succeeded in preventing suicides, they have succeeded in preventing people from having an honest, private conversation about life and death. Those who trust mental health professionals with their innermost thoughts are likely to find themselves punished with psychiatric incarceration and lifelong stigmatization. Suicidal persons and their would-be helpers alike are paralyzed by prohibitionist censorship, deception, and legislation requiring the betrayal of trust. The first and major victims of the war on suicide, as in all wars, are liberty and truth.

Psychiatrists are expected—legally, medically, and socially—to prevent individuals from killing themselves. As professionals they are also expected to lie and withhold information about the subject. The result is that people can no longer trust physicians, teachers, science writers, or journalists, virtually all of whom have been co-opted, suborned, seduced, or intimidated by the anti-suicide apparatus of the Mental Health System and the Therapeutic State.

Emigration is “leav[ing] one’s place of residence or country to live elsewhere” (Webster’s). Secession is the peaceful separation of political entities. Analogically, we may view divorce as marital secession, and suicide as personal secession. Both terms refer to and are in part synonymous with “separation.”

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Viewed as emigrant,  
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Viewed as emigrant, the suicide moves from the land of the living to the land of the dead. Regarded as a personal secessionist, he separates himself from his family and society. Diagnosed as incompetent to know his own best interest, the suicide is declared insane, becomes the property of the federal government, and is stamped with the title of ignobility.

In the traditional religious worldview the sole agent with legitimate power to decide who should die is God, the Creator. In the modern medical view the sole such agent is the Therapeutic State. Secession—defiance of control by church and

State—is the ultimate escape from oppression, the ultimate declaration of freedom.

According to Article I, Section 9, Clause 8 of the U.S. Constitution, “No title of Nobility shall be granted by the United States,” forbidding the State from ennobling and favoring a class of Americans. The Constitution does not forbid the United States from degrading and disfavoring a class of Americans. Formerly, societies had “nobles”—dukes and princes and kings—persons people were expected to look up to and respect. Today, societies have ignobles—depressives and schizophrenics and suicidals—nonpersons people are expected to look down on and disrespect. FBE

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# Walter Lippmann: The Impossibilities of Social Planning

BY HAROLD B. JONES, JR.

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At the beginning of the twentieth century, observed historian A. J. P. Taylor, a law-abiding Englishman's conscious relations with the government were limited to his contacts with the post office and the policeman. He could live where he liked and as he liked, and if he wanted to travel abroad he could do so without a passport and without asking anyone for permission. There were no limits on his ability to exchange his pounds sterling into some other currency, and he could buy goods anywhere in the world on the same terms that he bought them at home. He could enlist in some branch of the service if he chose, but he was also free to spend his entire life without any time in the military. He had no official number or identity card, and his tax obligations were exceedingly modest.

What was true for an Englishman was true also for a citizen of the United States. There were unfortunately many in both countries who thought that freedom was not enough. They believed that in addition to liberty, people had also the right to a large measure of protection from the struggles and uncertainties of human existence. In America the crusade for a government large and powerful enough to offer such protection was led by the so-called Progressives. One of them, Walter Lippmann (1889–1974), later observed that the older faith was that human rulers' limited moral and intellectual capacities could not safely be trusted with unlimited power. The Progressives believed, by contrast, that

there were no limitations on man's ability to rule others and therefore no need to limit the powers of government. They had renounced the wisdom of the ages, he said, in order to embrace errors that the ages had renounced.

That's what Lippmann believed in 1937, when he was America's most popular journalist. His "Today and Tomorrow" column was in 155 daily papers and would soon be in 200. At the height of his popularity he

would have over 10 million readers, many of whom, it has been said, did not know how they should think about the issues of the day until they had read his comments. A lady in a *New Yorker* cartoon told a friend, "A cup of coffee and Walter Lippmann are all I need."

His credentials as a libertarian were less than impeccable. As a student at Harvard he developed a fondness for the British Fabians, who believed they could overcome the prejudices and inefficiencies of popular democracy with a small core of

selfless leaders. In 1914 he published *Drift and Mastery*, in which Frederick W. Taylor's principles of scientific management were used to draw up a blueprint for the rational arrangement of society. (Editor's note: See "Taylorism, Progressivism, and Rule by Experts," by Kevin A. Carson, *The Freeman*, September 2011, [tinyurl.com/43zmc8w](http://tinyurl.com/43zmc8w).)

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Applying this blueprint, he said, would lead to an America in which the role of private entrepreneurs would be taken over by salaried bosses, government commissioners, and labor leaders. His *Public Opinion* appeared in 1922 and quickly became the subject of college courses, articles in scholarly journals, master's theses, and even a few dissertations; it was described by John Dewey as "the most effective indictment of democracy as currently conceived ever penned."

Lippmann spent most of his life, both before 1937 and afterward, writing things of which someone like Dewey would approve. His conversion to free-market principles was brief and fleeting. Still, it was sincere for as long as it lasted. It seems to have begun with his frustration over the blundering statism of Herbert Hoover. News of the stock market crash was still in the headlines when the President began a series of conferences in which he told industrial leaders that they must promise not to reduce wages. His Agricultural Marketing Act gave farmers a half-billion dollars in 1929 and another hundred million early in 1930. In 1931 he offered a nine-point program of government intervention, which broadened the range of those eligible for assistance of this kind.

As things grew worse Hoover justified himself with words remarkably similar to those of another troubled administration 80 years later: "We might have done nothing. That would have been utter ruin." Instead of allowing things to take their course, he said, his administration had devised American history's greatest program of economic defense. He blamed the problem on investors, criticized their interest in profit, and was amazed to see stock market prices continuing to fall.

Lippmann's patience with all of this sagged rapidly and finally snapped when Hoover put his name to the Tariff Act of 1930 (aka the Smoot-Hawley Tariff), which raised the rate on some 20,000 imported goods to record levels. Hoover signed this despite the more than one thousand economists who endorsed a petition urging a veto. He could not, he said, go back on party pledges: "Platform promises must not be empty ges-

tures." The words were for Lippmann simply Hoover's confession that his policies, far from being intended for the general good, were actually an appeal to special-interest groups.

Although he would later become what someone has described as "one of the Roosevelt administration's most important journalistic assets," he had no initial enthusiasm for Hoover's replacement. Franklin Roosevelt, he said, was "a pleasant man without any important qualifications for the office, who would very much like to be president." The New Deal, he observed, was little more than an extension of policies begun under Hoover, and it was in every way as much of an appeal to special interests. The Agricultural Adjustment Act, for example, helped large landowners at the expense of sharecroppers and agricultural laborers. Lippmann later

attacked Roosevelt's plan to pack the Supreme Court and found himself assailed by the left-wing press as a reactionary.

For the first (and only) time in his life he was excluded from the inner circle of "the intellectual elite." Upset and a little angry, he sat down to apply his wide reading and literary talents to a defense of ideas he had once opposed and a reconsideration of ideas he had once espoused. The

result, *The Good Society*, was for the most part a brilliant examination of the intellectual, logical, and moral impossibilities of economic planning.

### Social Planning: The Intellectual Impossibility

The intellectual problems with social planning are illustrated by Colbert's troubles in managing the economy of Bourbon France. The regulations for the textile industry, to take one case, filled four volumes of 2,200 pages and three supplementary volumes. It was discovered in 1718 that planners had in spite of this neglected to include the number of threads appropriate for use in the cloth of Langogne, "a matter which must be attended to without fail." The information for attending to it could be obtained only by means of reference to existing procedures, which was available only from established manufacturers, who were thus

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Lippmann's conversion to free-market principles was brief and fleeting. Still, it was sincere for as long as it lasted.

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empowered to use the law for preventing innovative competitors from introducing new methods.

This points to the dark truth behind every “plan” for “improving society.” Governments, Lippmann said, are made up of people who meet to make speeches and write resolutions, of people who study papers, listen to complaints, and shuffle paperwork. These people suffer from indigestion, asthma, boredom, and headaches, and all of them would rather be making love than passing laws. They know whatever they have happened to learn, are aware of what they have happened to observe, and are interested in whatever has happened to catch their imagination. A power-holder may sometimes have high ideals, but he is in the end no more than a human being, “a little man in trousers, slightly jagged,” as William Vaughan Moody put it.

Such a person cannot possibly know enough to devise wide-ranging schemes for society as a whole. No matter what the source of their authority human rulers are human beings, and as such have only a severely limited understanding of the world in which they find themselves. The social planner sits down to a breakfast that is the final link in a chain stretching far beyond his comprehension. Society goes on as it does because of processes that are habitual and unconscious, and it is only because people can take so much for granted that they have the time to attend to anything. Anyone who attempts to plan everything is immediately trapped in a web of details. “The real, rather than the apparent, policy of any state will be determined by the limited competence of finite beings dealing with unlimited and infinite circumstances,” Lippmann wrote.

In his efforts to manage this complexity every ruler must imitate Colbert in calling on the expertise of those whose industry he hopes to regulate. In attempting to plan the production of cloth in eighteenth-century France the government got its advice from existing manufacturers and passed decrees that would protect them from competition. This led to laws against the production of printed calicoes, which then were all the rage. Attempting to regulate health care in early twenty-first-century America, the Obama administra-

tion accepted the advice (and contributions) of the American Hospital Association and the Federation of American Hospitals. These represent the interests of large community hospitals, whose dominance is threatened by the emergence of smaller hospitals offering superior service in particular physician groups’ areas of expertise. With its provisions against the creation of any additional doctor-financed hospitals, the Patient Protection and Affordable Care Act might have been better named the Large Hospital and Inferior Service Protection Act.

Earlier in his life Lippmann had endorsed a policy of gradual collectivism. He had never admitted to being a socialist, but he had argued that the government should gradually assume control of the economy, if not through outright ownership, then at least by means of detailed regulations. There should be a survey of all the

available resources, and then national authorities should put together a plan for developing them. By the time he wrote *The Good Society* he had come to realize that such a plan would be flawed from the outset. The planners’ limited information must necessarily put them under the influence of such organized interests. “In practice,” he

wrote, “gradual collectivism is not an ordered scheme of social reconstruction. It is the polity of pressure groups.”

Though they demand different things, these pressure groups agree in asserting that their interest is identical to the national interest. Those who believe the national interest is best served by means of cheap steel for the automobile industry, however, and those who believe it is best served by fixed and protected prices for the sake of the steel manufacturers, cannot both be right. Every new regulation, Lippmann said, is a decision in favor of some interest and against others.

Those who believe they have been harmed will react by seeking to protect their interests as well as they can. New laws lead to new violations, and these in turn to more new laws. In early eighteenth-century France lawsuits over methods for the production of cloth were endless. Observing that smuggling and bootlegging had become standard business practices Colbert decided to

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put the power of the State behind his decrees. An estimated 16,000 people were killed in his war on printed calicoes. A much larger number were punished somewhat less severely, though still with great cruelty. On one occasion 77 were hanged, 58 were broken on the wheel, 631 were sentenced to the galleys, one was set free, and none were pardoned. One assumes the Obama administration's attempts to regulate health care will be less violent.

### Social Planning: The Logical Impossibility

During the twelfth century there were 19 stations at which merchants travelling along the Rhine had to stop and pay a toll. Twenty-five more stations sprang up during the thirteenth century and 20 more during the fourteenth, all backed by the firepower of fortresses built for the purpose. Many of these were in the Duchy of Cleves, where they were referred to as the "treasure." They were a treasure, though, only to the people involved in collecting the tolls. They added nothing to the peace or prosperity of Europe. They were merely a means for the forcible transfer of wealth. That, Lippmann said, is the real meaning of "economic planning." The government does not produce anything. All it does is take from one group and give to another.

Even as he wrote, the policy of handing out money to appease the farm lobby, first planted by Hoover, was blossoming under Roosevelt. At the beginning of the twenty-first century's second decade it has spread even beyond our shores. The Department of Agriculture gives American cotton planters about \$3 billion a year. These handouts encourage overproduction, lower world cotton prices, and ruin small farmers in many Third World countries. In 2005 the World Trade Organization upheld a Brazilian challenge to these subsidies, but the United States ignored the ruling. When Brazil was granted the right to impose punitive tariffs and lift patent protections on a wide range of U.S. nonfarm products, Congress responded with a proposal to offer over \$147 million a year to Brazilian farmers. Rather than eliminate a ruinous and unjust policy, our repre-

sentatives wanted to expand the list of those who could make claims on it. In terms of Lippmann's illustration, they decided that instead of abolishing the toll stations and tearing down the castles, they would "turn every cottage into a castle with a toll station of its own."

The problem with such policies lies in the fact that the owners of these toll stations are the beneficiaries of a government-backed guarantee that they will receive additional income in exchange for reduced effort. Each is promised that his share of the national wealth will increase even though his contribution to that wealth has declined and perhaps even if he makes no contribution at all. This works for each of the stations for as long as there are only a few of them. Unfortunately they multiply. The granting of special treatment in one case is soon followed by the demand for similar grants to others, as in the case of the Brazilian farmers. There cannot in the end be more for everyone if everyone has been granted the privilege of producing less. Soon everyone, perhaps even the average toll station owner, is poorer than he would otherwise have been.

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There cannot in the end be more for everyone if everyone has been granted the privilege of producing less.

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### Social Planning: The Moral Impossibility

Specific economic contradictions may be eliminated by changing specific policies. Deeper and more difficult to eliminate is the effect of such policies on the character of the people. It is evident in the case of the cotton subsidy that it is gigantically helpful to the fewer than 20,000 planters who benefit from it. Nonbeneficiaries see this and come to the conclusion that the government has a magical power to create wealth. They forget about the iron chain that binds prosperity to production. They forget that wealth is the result of thought, effort, innovation, and thrift, and are gradually convinced that the path to abundance lies in the power of the State. They once understood that they could advance themselves only by increasing their service. They now believe that they must do it by imposing their will on those around them.

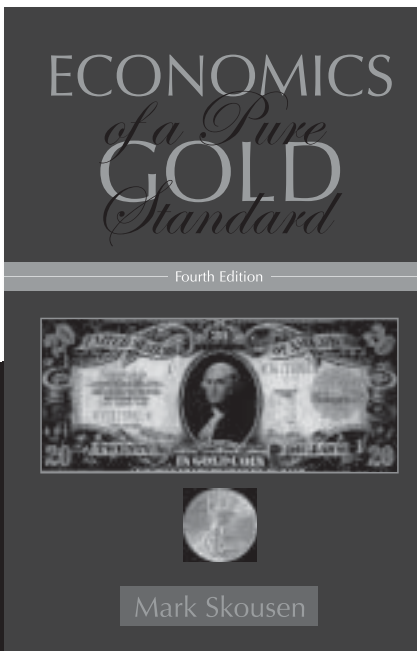
The greater the extent to which this idea is accepted, the more intense the struggle for power becomes. It

goes on and must go on because the members of contending factions have been tempted to ignore the logic of their own beliefs. If power allows them to disregard other people's preferences, their own preferences may be similarly disregarded by some third faction that has more power than they do. If they think about it, they will begin to see that their own liberty is ultimately dependent on their willingness to allow others similar freedom. In Lippmann's terms, each man's right to freedom from arbitrary treatment at the hands of his neighbor has an "inescapable corollary . . . the duty of man not to deal arbitrarily with others."

Lippmann said he had been brought up to believe there was no such thing as a self-evident truth, but this seems to be one. It is also the most ancient axiom of morality. "What you do not want done to yourself," Confucius told his followers, "do not do unto others." Mohammed said, "Not one of you truly believes until you wish for others what you wish for yourself." A

Buddhist text says, "Treat not others in ways that you yourself would find hurtful." The same truth appears even more tellingly in the Upanishads, in the teaching of Hillel, and of course in the words of Jesus: "Therefore all things whatsoever ye would that men should do for you, do ye even so unto them."

Adam Smith's notoriously self-interested butcher and baker understood this. They understood that they would have to close their shops if they did not succeed in delivering something their customers would like. The Golden Rule of morality is the golden rule of economics, and it works because it respects the free choices of everyone involved. Every economic plan that depends on the coercive power of the State, on the other hand, tends toward disaster because it is in the final analysis immoral. "Though it is momentarily triumphant," Lippmann concluded, "it is a failure, and it must fail, because it rests upon a radically false conception of the economy, of law, of government, and of human nature." **FEE**



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# Wolf Heads and Carbon Credits

BY PAUL SCHWENNESEN

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**A**braham Lincoln, in vivid recollections from early childhood, described the cashing of bounty for freshly severed wolf heads on the steps of an Indiana courthouse. In 1816 killing wolves at public expense was seen as an obvious necessity and probably represented a genuine emotional reassurance to the intrepid settlers of the era. Though it places me squarely out of the “in” crowd to equate this now-discarded policy with the newfound wisdom of publicly funded carbon-reduction schemes, I can’t quite help seeing a corollary.

Now before Greenpeace hones a quill for a sharply worded reprimand, let me clarify: I am not dismissing concerns over anthropogenic carbon emissions (or nineteenth-century wolf-phobias for that matter), but wondering aloud whether or not our policy choices will

have similar long-term unintended consequences. The amateur historian in me thinks it highly likely that we will come to regret large-scale managed “solutions” to what ails us, whether the dragons we slay come slaver-ing at night or quietly in the air.

Battling grievous menaces to public welfare ought, by all reason, to be supported at public expense. Or so the prevailing wisdom goes. Take wolves for instance.

The long-running nationwide government wolf extirpation program has lasted for longer than our history as a nation. It continued for well over a century after Lincoln’s firsthand experience, and Jefferson himself had recalled state wolf bounty programs more than a century earlier. By 1914 the program really got down to business, and Congress gave the U.S. Biological Survey primary responsibility for wolf eradication, insisting that a third of its budget be used to kill wolves and their

ilk (“survey” apparently had a different connotation in Great War America). Federal trappers killed the last two wolf pups in Yellowstone National Park in 1926, and wolf killing was being done from the air by Fish & Wildlife rangers as late as 1948.

And no, it wasn’t for lack of romantic attachment that wolves were removed

from the habitable continent. Ernest Thompson Seton wrote with vivid prose lingering and sympathetic accounts of wolf trapping from the turn of the century. (Who can forget “Lobo” and “Blanca”?) Aldo Leopold



**Government managed wolves nearly to extinction. What are the chances its record will be better with the global ecosystem?**

Wikipedia

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*Paul Schwennesen (schwennesen@mac.com) is a southern Arizona rancher and a regular contributor to PERC, the Property and Environment Research Center. His website is The Agrarian (www.agrarianliberty.com). This article first appeared at TheFreemanOnline.org.*

writes with some dismay in *Thinking Like a Mountain* of his experience killing wolves as a forest ranger in Arizona in 1909. Qualms or not, however, wolves were a threat to progress. Government, clearly in the business of promoting progress by this time, was harnessed to do the dirty work and was, not surprisingly, rather successful at it.

Obviously Kevin Costner films weren't yet in vogue. Or perhaps wolf imagery hadn't quite made it onto the t-shirt scene. Either way, government bureaucrats weren't privy to the sort of enlightened ecological sensitivity that even a grade-schooler possesses today.

Well of course, you say, that was a darker, dumber era now firmly behind us. We ought now to rest easier, allowing officials license to focus their efforts on solutions to today's clearly pressing concerns—like carbon pollution. Since the IPCC (Intergovernmental Panel on Climate Change) has deemed carbon emissions a “clear and unmistakable threat to the public welfare” and since an awful lot of experts seem to agree on this point, why buck the facts? Oh sure, there are a few misgivings by a few cranky troglodytes, but there are always some crackpots who won't get with the program. I mean, when was the last time a panel of experts was wrong? Ignore for the moment eighteenth-century European naturalists on the new world's “stunted” growth, the Royal Society's views on geologic superposition, the science of eugenics, socialism as a masterpiece of human happiness, the *Population Bomb* and *Snowball Earth* madness of the 1970s, and more. There were probably even some skeptics who claimed that killing all the wolves was a *bad* idea in 1816. Imagine.

Plans to reduce carbon dioxide emissions are not all that different from the plans to reduce (and eventually eliminate) wolf populations. A reward, of sorts, is given for each unit of reduction—be it a cash bounty for wolf heads or a “credit” to keep a carbon emitter from having to pay a stiff fine. These credits, under a veneer of “free-marketism,” can be traded or sold to someone

else who wasn't as successful at reducing emissions. In Lincoln's era, it was optional to hunt wolves, but today we are approaching a point where we are all coerced into the hunt for carbon credits. Even if you don't happen to be a large-scale carbon emitter yourself, your consumption of things (electricity anyone?) will inevitably draw you into the chase.

Whether wolves or carbon, activity is being driven by central decision-makers as to what constitutes the proper way to handle things.

Again, it is not my intention to argue that carbon emissions aren't important, or even to question whether or not they represent a public menace. (They may well be as threatening as wolves!) My only purpose is to cast a jaundiced eye on the proposed solutions to the crisis

*du jour*. The Environmental Protection Agency, for instance, now has the power to regulate carbon emissions and by all indications appears intent on restricting the output of the dangerous stuff. Does anyone else feel another “survey” coming on?

Society's tastes and mores are in constant flux, driving the inexorable drift of the tectonic structures we erect to “improve things.” And while norms can change radically and quickly (smoking? birth control?), the plans, programs, bureaus, and institutions generally do not. In fact they generally continue along their prede-

termined paths, creating errors of Himalayan proportions. If we believe the myopic shortsightedness that nearly extinguished *Canis lupus* has been corrected, we are fooling ourselves. We know many more things, to be sure, and particularly in the fields of natural science and ecology. But to believe that we can remotely grasp, let alone master, the intricacies of global climate is surely hubris at its best.

When you ask government to get things done it generally *does*. And that's precisely the danger. What is an unambiguously brilliant notion for one generation may not sit so well with the next. The apex of Progressive Era thinking in the 1930s gave us the magnificent damming projects of the arid west, projects now

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Plans to reduce carbon dioxide emissions are not all that different from the plans to reduce (and eventually eliminate) wolf populations.

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roundly decried (oddly enough) by heirs of the Progressive Left who now wish us to demolish these projects at taxpayer—oops—“government” expense. This sort of policy pendulum is inevitable in a world marked by a less-than-perfect grasp on information.

The only way to mitigate this effect is to ensure that action keeps pace with the values and knowledge of the day. This can only be accomplished through the diffusion of power to an individual level, where actors with firsthand observations can react to dynamically changing situations.

I know we’re worried about global warming today. Nobody wishes to see Vanuatu slip under the Pacific.

Something tells me, deep inside, that managed overreaction to carbon emissions will lead just as surely to the kind of devastating policies that made wolves an endangered species.

And maybe, for the first time in history, human-caused climate change represents “The Big Problem” that we need “The Big Fix” for. But I doubt it. Something tells me, deep inside, that managed overreaction to carbon emissions will lead just as surely to the kind of devastating policies that made wolves an endangered species.


In fact, writing as I do from ground zero in the gray wolf reintroduction zone, I’d be willing to bet as much: One hundred years from now (if carbon emissions are “solved” by the authorities), I give it better than even odds that governments will be *requiring* carbon emissions. Lincoln probably wouldn’t take the bet. **FEE**

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# The College Scam

BY JOHN STOSSEL

What do Michael Dell, Mark Zuckerberg, Bill Gates, and Mark Cuban have in common? They're all college dropouts.

Richard Branson, Simon Cowell, and Peter Jennings? They never went to college at all.

But today all kids are told: To succeed, you must go to college.

Hillary Clinton tells students: "Graduates from four-year colleges earn nearly twice as much as high school graduates, an estimated \$1 million more."

We hear that from people who run colleges. And it's true. But it leaves out some important facts.

That's why I say: For many people, college is a scam.

I spoke with Richard Vedder, author of *Going Broke by Degree: Why College Costs Too Much*, and Naomi Schafer Riley, who just published *Faculty Lounges and Other Reasons Why You Won't Get the College Education You Paid For*.

Vedder explained why that million-dollar comparison is ridiculous:

"People that go to college are a different kind of people . . . [more] disciplined . . . smarter. They did better in high school."

They would have made more money even if they never went to college.

Riley says some college students don't get what they pay for because their professors have little incentive to teach.

"You think you're paying for them to be in the classroom with you, but every hour a professor spends in the classroom, he gets paid less. The incentives are all for more research."

The research is often on obscure topics for journals nobody reads.

Also, lots of people not suited for higher education get pushed into it. This doesn't do them good. They feel like failures when they don't graduate. Vedder said two out of five students entering four-year programs don't have a bachelor's degree after year six.

"Why do colleges accept [these students] in the first place?"

Because money comes with the student—usually government-guaranteed loans.

"There are 80,000 bartenders in the United States with bachelor's degrees," Vedder said. He says that 17 percent of baggage porters and bell-hops have college degrees, as do 15 percent of taxi and limo drivers.

It's hard to pay off student loans with jobs like those. These days, many students graduate with big debts.

Entrepreneur Peter Thiel, who got rich helping to build useful things like PayPal and Facebook, is so eager to wake people up to alternatives to college that he's paying students \$100,000 each if they drop out of college and do something else, like start a business.

"We're asking nothing in return other than meetings so we make sure [they] work hard, and not be in school for two years," said Jim O'Neill, who runs Thiel's foundation.

For some reason this upsets the left. A Slate.com writer called Thiel's grant a "nasty idea" that leads students into "halting their intellectual development . . . maintaining a narrow-minded focus on getting rich."

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Some college students don't get what they pay for because their professors have little incentive to teach. Also, lots of people not suited for higher education get pushed into it. This doesn't do them good.

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*John Stossel hosts Stossel on Fox Business and is the author of Myths, Lies, and Downright Stupidity: Get Out the Shovel—Why Everything You Know is Wrong. Copyright 2011 by JFS Productions, Inc. Distributed by Creators Syndicate, Inc.*

But Darren Zhu, a grant winner who quit Yale for the \$100,000, told me, “Building a start-up and learning the sort of hardships that are associated with building a company is a much better education path.”

I agree. Much better. Zhu plans to start a biotech company.

What puzzles me is why the market doesn't punish colleges that don't serve their customers well. The opposite has happened: Tuitions have risen four times faster than inflation.

“There's a lot of bad information out there,” Vedder replied. “We don't know . . . if [students] learned anything” during their college years.

“Do kids learn anything at Harvard? People at Harvard tell us they do. . . . They were bright when they entered Harvard, but do . . . seniors know more than freshmen? The literacy rate among college graduates is lower today than it was 15 or 20 year ago. It is kind of hard for people to respond in market fashion when you don't have full information.”

Despite the scam, the Obama administration plans to increase the number of students getting Pell grants by 50 percent. And even a darling of conservatives, New Jersey Gov. Chris Christie, says college is a must: “Graduating from high school is just the first step.”

We need to wake people up.

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## THE BEST READER COMMENTS

### “America's Turning Point”

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

#### Comment by Tim Gieseke on 9 May 2011:

I agree people are often fickle and appear unwise in the moment. It is also a challenge for individuals and bureaucracies to take a systems approach to solutions. I would expect that there were too many wolves a hundred years ago to make farming profitable, but eradicating them from the ecosystem is permanent and arrogant. I personally “hire” a guard donkey and eagerly point out areas for the local trapper to keep the coyotes at bay. We must manage our situations. In a world of 7 billion people we have stepped into the necessity to consciously manage it. Unleashing carbon reserves at the breakneck speed only accomplished by embracing economic externalities and government subsidies could be unwise. Perhaps the problem in the future is that will have eradicated our carbon reserves and what was once at our feet is now over our head.

Commenting on “Wolf Heads and Carbon Credits” by Paul Schwennessen ([tinyurl.com/5wasc4v](http://tinyurl.com/5wasc4v))

#### Comment by Sean McEniry on 25 August 2011:

Men are trained in one skill, machines are made for one specific task, diversity has been crushed and as a result we can't possibly adapt to new developments...a single paradigm has been chosen, a single way must be followed, and all deviations must be suppressed. Thankfully the internet has empowered peer-to-peer production, and outsourcing has exposed the corporate hubs for what they truly are: patent holders who are profiting from privilege. Nowadays they don't even coordinate production, just their investment portfolios. Only government subsidies and restrictions on competition have allowed this defunct system to exist for so long. Many thanks for the ideas, Kevin, and allowing me to copy them!

Commenting on “Talism, Progressivism, and Rule by Experts” by Kevin Carson ([tinyurl.com/43zmc8w](http://tinyurl.com/43zmc8w))

#### Comment by Isaac Morehouse on 12 August 2011:

In addition to emphasizing how freedom is all about social cooperation, I think it is also valuable to continually remind people about how politics does just the opposite. Politics makes friends out of enemies... By creating zero-sum, non-creative redistributory schemes and programs, politics forces everyone to pick one camp or the other, where the losers stand to lose a lot and the winner stand to gain a lot. Politics is the great dehumanizing and strife-creating force in society. It destroys community, it does not foster it. Try homeschooling your kids while living next store to a public school employee. A lot more tension than not going to church and living next to a pastor!

Commenting on “Social Cooperation” by Sheldon Richman ([tinyurl.com/3pbjxxj](http://tinyurl.com/3pbjxxj))

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# Book Reviews

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## Great Wars & Great Leaders: A Libertarian Rebuttal

by Ralph Raico

Ludwig von Mises Institute • 2010 • 263 pages • \$15.00  
paperback

Reviewed by George Leef



Essential to the maintenance of support for the government (almost any government, any time) is the idea that the nation's wars have been just and heroic, and that the leaders who presided over them were great men. Ugly truths about those wars and leaders are routinely swept under the rug. Court historians (and yes, democracies have them) try to convince people that all the blood, sweat, and tears were never expended in vain.

History professor Ralph Raico is a dedicated opponent of the court historians' cant and deception. *Great Wars and Great Leaders* is a collection of his essays challenging the conventional wisdom, ranging from the beginning of World War I to just after World War II. As Robert Higgs notes in his introduction, "Raico's historical essays are not for the faint of heart or for those whose loyalty to the U.S. or British state outweighs their devotion to truth and humanity." Raico is usually called a "revisionist" historian, but a more fitting term would be "correctionist" because his work corrects false ideas that glorify wars and political leaders who deserve the sharpest condemnation.

The book's opening essay is about World War I. What most Americans think they know about that war is roughly this: Militaristic Germany was itching for a reason to launch an expansionist war, and the outbreak of fighting in the Balkans gave it an excuse to attack the peaceful democracies France and Britain. Eventually the United States was compelled by German belligerence to enter the war and "make the world safe for democracy."

The victors get to write the history, and Raico shows that it's mostly wrong. The Germans and their Austrian allies were not as devilish as they've been portrayed, and the Allies were far from angelic. Most important, President Woodrow Wilson was an authoritarian eager to engage in military interventions to advance his fevered notions of "good government." Raico points out that Wilson had sent U.S. troops into Mexico in 1914. Some of them died—utterly in vain.

Throughout 1915, 1916, and early 1917 Wilson pursued a provocative policy meant to serve British interests. He was glad to trample on international law with respect to the rights of neutrals and declined to pursue diplomatic efforts at restoring peace. Nevertheless, most historians grade Wilson a "near-great" president. Raico shows how undeserved that accolade is.

Winston Churchill's lustrous reputation also takes a beating in the book. Most people think of Churchill as a rock-ribbed defender of Western traditions. After all, he was a Conservative prime minister who abhorred communism and fascism. Raico makes it plain, however, that he had no real principles when it came to the economic order. At one point in his career Churchill advocated free trade, but he later abandoned that position when it became a political liability. Nor was Churchill an opponent of the advancing British welfare state. He supported the Trades Union Act that gave legal privileges to unions and advocated "a sort of Germanized network of state intervention and regulation" over the labor market. That made him popular with the socialists. Beatrice Webb applauded him for his support of "constructive state action."

There are hordes of politicians who will get on popular crusades even though they carry the seeds of long-run social ruin. What puts Churchill in a different class is his willingness to sacrifice innocent lives. Raico gives several particulars. Against the advice of his officers Churchill ordered the British fleet to fire on the French Navy, harbored at Mers-el-Kebir in Algeria after the Germans had defeated France in 1940. The French commander had said that he would neither surrender his ships to Britain nor permit them to fall into German hands. Nevertheless, the British shelled the ships, killing more than 1,500 sailors. Raico comments that

this was a war crime and Germans at Nuremberg were sentenced to death for less. Worse still was the continuing bombing campaign against German cities long after it was evident that Hitler was on the verge of defeat. The bombing of Dresden, a city with no military importance, killed some 30,000 civilians in February 1945.

Another “great leader” Raico demolishes is Harry Truman. Truman is often praised these days for his supposed common sense, but the truth is that he was a statist demagogue whose instincts were to escalate the New Deal’s attacks on liberty and property. Americans are fortunate that most of his efforts were parried by Congress or the courts. The same cannot be said, unfortunately, about his decision to use atomic bombs to destroy Hiroshima and Nagasaki. Raico eviscerates the excuse that Truman “had to” use the bomb because the Japanese would otherwise have fought on and killed half a million Americans.

This book defines “iconoclastic.” I strongly recommend it. **FEE**

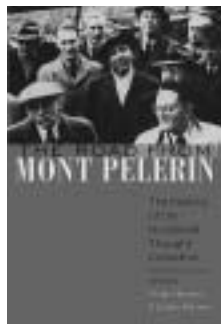
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### The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective

edited by Philip Mirowski and Dieter Plehwe

Harvard University Press • 2009 • 480 pages • \$59.95

Reviewed by Brian Doherty



(MPS).

The MPS was an organization of academics and some businessmen founded in 1947 by F. A. Hayek. Hayek is considered one of the founding fathers of and influences on the American political ideology “libertarianism”—which posits that the proper role of govern-

ment is, at most, the preservation of private property and personal liberty.

The term “libertarianism” is barely used in this book, and the various authors (most of whom are clearly opposed to what they are studying) are conflicted or confused about how that pro-liberty, small-government notion defines the MPS/neoliberal perspective.

Various writers conflate their own theoretical assumptions with reality. Far more evidence is needed than coeditor Dieter Plehwe provides to insist that MPS intellectuals attempted to “develop an agenda diverging from classical liberalism.” Indeed, beyond Hayek himself, that sort of deep concern with intellectual history was rarely part of the working agenda of most major MPS thinkers. And other parts of the book correctly note that a strongly classical-liberal view of the State defined many Pelerines in the 1940s and now.

They undoubtedly saw liberalism as an unfinished intellectual project facing new problems in the postwar world. But to stress that point as much as this book does—coeditor Philip Mirowski cites “laissez-faire classical liberalism” along with socialism as one of neoliberalism’s “primary foes”—makes too much of the interesting gaps between a Hayek and, say, his uneasy MPS ally Leonard Read, the purist libertarian founder of FEE.

That the MPS mentality privileged freedom cannot be avoided. Plehwe quotes the original draft statement of aims for MPS, which states that freedom can only be preserved “in a society in which an effective competitive market is the main agency for the direction of economic activity” and promotes private property, “complete intellectual freedom,” and the nondiscretionary rule of law.

But Plehwe and Mirowski think all that freedom talk was a dodge, hiding the neoliberals’ aim to give strong power to a State they’d control in order to construct the unnatural world the Pelerines craved, largely to privilege corporate power. Yet the curious list of goals betraying an alleged “engineering mentality,” discussed by Mirowski and Rob Van Horn in their essay on the Chicago school, includes such things as eliminating conscription and allowing educational consumers a choice about where to spend the money the State steers to education. The difference between preventing the State from acting in certain ways and the State’s enforcing particular outcomes

or income shifts eludes the authors, but it is key to understanding neoliberal thought.

The book's first section traces the history and personalities behind neoliberal ideas in France, England, Germany, and the United States, all linked with MPS members. The chapter on England by Keith Tribe posits that the spread of democracy there in the twentieth century killed classical liberalism since strict limited-government principles were so politically unpopular that pushing for them became utopian. The chapter on the United States boldly attempts to rewrite the history of the Chicago school, claiming Hayek as its true founder, by weirdly conflating one Volker Fund-supported project at the University of Chicago to write an American version of *Road to Serfdom* with the Chicago school of economics writ large. (That the same chapter later points out that Hayek, the school's alleged linchpin, wasn't even able to get a job in the actual University of Chicago economics department doesn't deter the authors from their strange and unsupportable thesis.)

The second section traces the evolution of MPS ideas toward unions, monopoly, and development, showing in all cases a shift toward greater advocacy of markets free of prescriptive rules from above or State-forced transfers of wealth or power.

The third section traces neoliberal ideas and alleged figures in the world of policy, including Chile's Pinochet and Hernando de Soto's promotion of property rights as the most effective way out of Third World poverty. The link between certain neoliberal economists and the hated Pinochet regime in Chile is used to condemn free-market policies as inherently authoritarian (even though Pinochet's economic policy departed greatly from free-market prescriptions). Most of the intellectual weight of the critique of neoliberalism here comes from an overly clever insistence that the Pelerine belief in private property and minimal government comprises its own authoritarian project by rejecting majoritarian democracy.

If you wish to learn the history of MPS without a deceptive attack on its founders' motives, look elsewhere. **FEE**

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## Nullification: How to Resist Tyranny in the 21st Century

by Thomas E. Woods, Jr.

Regnery • 2010 • 309 pages • \$24.95

Reviewed by Jacob H. Huebert



How can Americans restrain an out-of-control federal government that won't recognize any constitutional limits on its power? In *Nullification: How to Resist Tyranny in the 21st Century*, Thomas Woods argues that state invalidation of federal laws could be the answer.

First, though, Woods identifies what almost certainly *won't* work: trying to effect change by sending different politicians to Washington or by fighting in the federal courts.

Trying to elect a president, senators, or representatives who will respect limits on federal power won't work because no matter what they promise, politicians inevitably end up pandering to special interests to get campaign contributions and votes.

Trying to get the federal courts to limit federal power won't work either, because those courts are, after all, part of the federal government. The president and the Senate take great care to make sure they don't put anyone on the Supreme Court who would stop them from doing whatever they want.

Thus, Woods observes, the federal government gets to decide what the Constitution means and to make its own rules. No wonder it only gets bigger. "If the federal government has the exclusive power to judge the extent of its own power," he writes, "it will continue to grow—regardless of elections, the separation of powers and other much-touted limits on government power."

Woods's solution to this problem is nullification—that is, recognizing the right of state governments to stand up to the federal government by declaring federal laws unconstitutional and refusing to enforce them.

This may sound radical and shocking to Americans who have been taught since grade school that the U.S. Supreme Court is the ultimate arbiter of what is constitutional. But as Woods shows, the concept is not new

and was invoked numerous times in the early decades of the country's existence. For example, in the Virginia Resolutions of 1798, written by James Madison, Virginia declared the Alien and Sedition Acts unconstitutional. Kentucky did the same in its Resolutions of 1799, written by Thomas Jefferson. Both looked to the state governments to protect their citizens from enforcement of the illegal federal laws. And before the Civil War northern states invoked nullification in refusing to enforce the Fugitive Slave Act.

Woods also shows that nullification has occurred more recently. For example, California has partially nullified an unconstitutional federal law by allowing its citizens to use marijuana for medical purposes, even in the face of a U.S. Supreme Court decision, *Gonzales v. Raich*, that held that the federal drug laws trumped the state medical-marijuana law. As a result of California's continued defiance the feds backed down, at least temporarily.

To his credit, Woods is no Constitution worshipper. He favors nullification not because he unduly reveres the Founders or believes the Constitution to be divinely inspired but simply because, in his words, "institutional restraints that pit power against power might postpone or hobble a regime's growth."

Some readers may be hesitant to embrace a radical "states' rights" view because of its common association with southern states' defense of Jim Crow laws.

Woods addresses this by pointing out that the *federal* government violates the rights of both blacks and whites on a massive scale, with the burden of many unconstitutional interventions, such as the war on drugs, falling heaviest on blacks. He also observes that the federal courts *upheld* Jim Crow for decades. And he notes that "it is not Birmingham 1963 any longer," so efforts to return to Jim Crow are extremely unlikely.

Important points, but some readers will want more. Even if Jim Crow won't come back, people are right to notice that state governments have perpetrated great evils and to be concerned that states might do so again if given the chance. I share Woods's preference for decentralization, and I have no doubt that he takes these concerns seriously, but the book might persuade more people if it gave more attention to this issue.

Regardless, what strikes one about the book is not what's missing but what's there: a wealth of information that teachers in classrooms from high schools to law schools never give their students. *Nullification* is therefore essential reading for its lessons in history and for showing how libertarians might achieve real-world successes in the years ahead. **FEB**

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### The Science of Liberty: Democracy, Reason, and the Laws of Nature

by Timothy Ferris

HarperCollins • 2010 • 384 pages • \$26.99 hardcover; \$15.99 paperback

Reviewed by William N. Butos



Timothy Ferris is a prolific bestselling author of 12 books on cosmology, a fellow of the American Association for the Advancement of Science, and the recipient of several awards for popular science writing. *The Science of Liberty* is a welcome treatment of a subject often and regrettably neglected by intellectual historians in the social sciences.

Ferris's interests center on articulating an understanding of liberal democracy informed by science and its achievements. The book's narrative draws on the connections between ideas in the moral sciences and discoveries in the hard sciences. The writing is lively and clear, especially concerning the development of science and the ways scientists like Galileo and Newton influenced Locke, Paine, Madison, and others. Overall this book is well worth the attention of anyone concerned about the requirements of a free society and science.

In the book Ferris studies the dependency between science and liberal democracy and, by implication, the dependency between science and material wealth and sustained prosperity. That scientific achievement can make our lives better is probably universally accepted—assuming everyone agrees on what "better" means. Fer-

ris wishes to push this dependency a step further by claiming science as *causal* to liberal democracy. His conception of science as anti-authoritarian and self-correcting highlights the necessity that scientific inquiry be founded on open and critical discourse with an absence of government meddling. Ferris's chapter on "Totalitarian Antiscience" shows how science is throttled and sometimes destroyed, as happened to genetics under Lysenkoism in the Soviet Union, as government increases its control over science.

While Ferris argues for the autonomy of science as *requisite* to liberal society, it becomes evident as he discusses the progress of science (and its perversions under Stalin, the Nazis, and Maoists) that causality between science and liberal society is bidirectional. He seems to be aware of this when he writes, "Liberalism nourishes science by fostering a free and flexible milieu in which scientific activity can flourish, which in turn increases the knowledge, power, and wealth of liberal societies. In doing so, science helps demonstrate that liberal governance works; and so the cycle continues."

That quotation hints at a more complex conception of science and its connection to the broader society in which it functions. It is hardly a coincidence that liberalism and unrestricted discourse (including science) generally move together via adaptive feedback processes, much the same as liberalism and free markets do. Unfortunately Ferris tells only part of the story.

First, Ferris does not examine science as a Polanyi-Hayek emergent social order, as tipped off by his nearly exclusive treatment of scientific progress as proximate to achievement by individual scientists. While individual achievements matter, there is an important sense in which modern science should be seen as a knowledge-generating order whose functional properties hinge on the interactions of many scientists and the conventions governing their interactions, including the processes that confer legitimacy on what constitutes scientific contributions. For Polanyi the nexus of conventions, procedures, and criteria that scientists use to evaluate

claims is largely endogenous to the scientific order and has emerged over time. Just as important, what we take as scientific knowledge bears the imprint and certification of untold peer contributors and critics. Science as a social process isn't just the progression of individual achievements.

The social context, whether it provides a friendly or hostile environment for scientific inquiry, thereby cannot be disassociated from the kind of science likely to emerge. Under liberalism we don't see scientists imprisoned for non-State-sanctioned scientific views or political prisoners used in medical experiments.

The second factor missing from Ferris's account of science is the question of how it is funded. Up until the early twentieth century most scientific activity was privately funded. But with the rise of large, powerful, and illiberal nation-states, science took on greater significance as a means of securing the aims of State policy. In the United States, for example, government funding of science was intermittent, modest, and closely connected to the exigencies of war and defense until the Great Depression, when President Roosevelt institutionalized an array of government entities that brought science and government closer together under the rubric of improving "the general welfare." Since the end of World War II fundamental or "basic" science funding has largely become a government function. The problem is that governments are not simply disinterested conduits of research money from taxpayers to scientists.

Ferris notes that because science confers power on those who control it, we expect governments to use funding as a means to advance their policy agendas and political power. A large literature analyzes such questions, but none of it finds a voice in *The Science of Liberty*, partly because, it seems, Ferris is content to examine the effect of science on liberal and quasi-liberal social systems without examining the effects those systems have on science. FEE

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## Crony Unionism: Government Sector

BY CHARLES W. BAIRD

In my last column I illustrated how private-sector unions depend on government cronies to keep them afloat ([tinyurl.com/3jrcg36](http://tinyurl.com/3jrcg36)). In the government sector it is much, much worse. It is nothing less than a conspiracy between politicians, bureaucrats, and unions to create and sustain a fourth branch of government specifically designed to increase the cost, size, and power of government. Madison and Jefferson must weep.

Franklin Roosevelt, a dedicated crony of private-sector unionism (PSU), believed that government-sector unionism (GSU) was “unthinkable and intolerable.”

In 1955 George Meany, the first president of the modern AFL-CIO, opined that “It is impossible to bargain collectively with the government.” This sentiment against GSU was almost universally shared, but it could not withstand the realities of electoral politics.

The first government-sector union was created in New York City in 1958 at the behest of Mayor Robert Wagner—son of Senator Robert Wagner, the principal author of the 1935 National Labor Relations Act (NLRA), which imposed PSU. Mayor Wagner and union boss Jerry Wurf agreed that as many city workers as possible should be assembled into unions and forced to pay union dues. Wagner saw that a well-organized and well-funded union could be a formidable force in future elections by providing him with disciplined boots on the ground as well as other in-kind and pecuniary support. Wurf saw that he would get a special place at the table around which public policy is formed. Their scheme bore fruit in Wagner’s 1961 reelection effort. (In 1959 Wisconsin became the first state to authorize GSU.)

President Kennedy noticed the role government-sector unions played in Wagner’s 1961 victory, Fred Siegel of the Manhattan Institute writes. In January 1962, with an eye to his expected 1964 reelection campaign, Kennedy signed Executive Order 10988, which imposed GSU on many groups of federal workers. Thereafter GSU spread to as many as 30 states.

### A Fourth Branch of Government

All federal and state statutes that authorize GSU are patterned on the NLRA. A key section of the NLRA imposes on employers a duty to bargain in good faith with unions. Thus a union can force an employer to bargain with it over all questions involving wages and other terms and conditions of employment. In practice the “good faith” part of the duty to bargain means that the employer must be willing to compromise during the bargaining process.

In ordinary contract law each party must consent to bargain with each of the other parties. All parties are free simply to walk away at any time, and any contract that emerges

from forced bargaining is null and void. Not so with unions. Every collective bargaining (CB) contract emerges from forced bargaining, yet every CB contract is considered legal and is enforceable in the courts.

Elected government office holders are routinely lobbied by organized interests such as the Sierra Club and the Chamber of Commerce. But neither they nor any other ordinary lobbyist can force any elected or appointed government official to bargain with them, much less compromise with them. In contrast union offi-

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cials have the power to force government officials to bargain and compromise with them on what burdens will be placed on taxpayers. In effect government-employee unions (GEUs) are a fourth branch of government with which the legislative and executive branches must bargain and compromise on matters of public policy.

Wages and other terms and conditions of government employment are matters of public policy. They are paid for by taxpayers. Taxes are supposed to be determined in the open by elected legislatures together with elected presidents and governors. Moreover, taxpayers are supposed to have access to and a voice in the legislative process.

In contrast the CB process is carried out behind closed doors. Taxpayers employ government workers but have no seat at the table. Government officials at the table do not represent the interests of taxpayers; they seek to expand the scope of their power and influence. To them bigger budgets are always desirable. GEUs seek better wages, benefits, and conditions of employment for government employees so they can justify raising dues. GEU bosses seek more perks and power for themselves. The two sides of the government-sector CB table are cronies. They both seek to pick the pockets of taxpayers.

### Concentrated Benefits and Diffused Costs

Other things equal, no one likes having to pay higher taxes. But when everyone pays higher taxes the extra tax receipts are disproportionately spent in ways that benefit government-sector workers. Their wages go up, or other terms of employment are improved, or the budgets of their agencies expand so their prominence and power increase—perhaps all of the above. Private-sector employees pay the higher tax and get little or nothing back, but since the costs are widely dispersed, the per-person burden is not high enough to spark taxpayer resistance. (The revolt against GEUs in Wisconsin and elsewhere suggests that in some venues the per-person cost is getting high enough to create significant resistance.)

GEUs support their friendly politicians out of dues taken from the workers they represent. All taxpayers pay the wages of government employees, and some of those

wages end up as union dues that become campaign donations to big-government politicians. In short all taxpayers, even those who favor smaller government, are forced into making campaign donations to big-government politicians. Meanwhile, the politicians, bureaucrats, and GEUs happily dance around their closed iron triangle, taxpayers be damned.

### Keeping It All Going

In February 2009, using the Great Recession as cover, President Obama signed the American Recovery and Reinvestment Act (ARRA). It was a benighted Keynesian scheme based on the popular superstition that a recession can be cured by increasing government spending and handing out temporary lump-sum tax cuts. ARRA increased government spending by \$499 billion and cut \$288 billion in taxes. What was the result? Research done by Timothy Conley (University of Western Ontario) and Bill Dupor (Ohio State University) reveals that ARRA “created/saved 450 thousand government-sector jobs and destroyed/forested one million private-sector jobs” (“The American Recovery and Reinvestment Act: Public Sector Jobs Saved, Private Sector Jobs Forestalled,” [tinyurl.com/3t9ye33](http://tinyurl.com/3t9ye33)). In short most of the money went to bail out several states so they could avoid laying off GEU dues payers.

Another crony antic of the Obama administration was to impose a GEU on 40,000 TSA officers (TSOs), who thus become union dues payers. The TSA was created after the 9/11 attacks. At its inception most politicians, at least publicly, said that the job of officers was to react rapidly and flexibly to unpredictable security threats. Even politicians know that union-impaired workplaces don’t work like that. Unionization was banned until February 2011, when John Pistole, the Obama-appointed administrator, lifted the ban. Congress tried to intervene, but the effort was defeated in the Senate. The American Federation of Government Employees and the National Treasury Employees Union fought over which would get monopoly bargaining privileges over the officers. The Federation won. Now that they are union-protected, the officers will likely morph from grossly abusive to crudely invasive.

**FEE**