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IDEAS ON LIBERTY

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PERSPECTIVE

The Road to Freedom

"Sure, I believe in freedom. But we have to be practical. If we let our ideals get in the way, we risk losing everything."

Many of our well-meaning friends often reason this way. They point out that the political debates now taking place are not between statism and freedom, but over various forms of government intervention. If you want to be relevant, these friends tell us, you will have to meet the statists half way and try to push society toward a milder form of statism. For the time being, we are told, we should forget about ideals.

But is this, in fact, practical? These "friends of liberty" have been compromising for several decades, and what has it gotten them? The statists began by advocating a little socialism, and these "friends of liberty" countered with proposals which, in the final analysis, amounted to just a little less socialism. The political wheels turned and a consensus was reached. Having beaten back the worst proposals for socialism, the "friends of liberty" seemed to have won.

But they also had lost. They had lost some freedom and, in the process, they had lost touch with basic principles. They no longer were talking about freedom as an ideal; instead, they were making comparative analyses of statist interventions. Perhaps without realizing it, many friends of liberty had begun talking the statist language of those who would control our lives through the political process.

But then, with some victories under their belt, the statists upped the ante. They wanted more socialism. Our practical friends of liberty countered, not by standing for freedom as an ideal system but, all too often, by trying to ameliorate and shift the burdens of the statist interventions. Again the political wheels turned, and today the results are in: runaway budgets, soaring deficits, and an ever-expanding maze of regulations.

Fortunately, while the political trend has been toward statism, another trend has started. Gradually, through the efforts of a few dedicated people, it has again become respectable to talk about certain aspects of liberty. For example, the idea of denationalizing money is getting a hearing. Abolishing the Postal Service's monopoly on first class mail is being seriously considered. And privatization, a catchall phrase for many proposals, is now a political buzzword.

Of course, it is still not fashionable to advocate an unhampered market economy as an ideal system. But certain parts of that system are being considered. Through consistent discussion of principles and continued education, we may be approaching the point where practical "friends of liberty" will feel that they can propose outright repeal of government interventions—and statists will find our friends uncompromising as we make our way along the road to freedom.

—*BJS*

Cambodian Communism

Sophal Song, a student at Winona State University in Minnesota, describes her experiences in communist Cambodia:

"Four years of my life, from the age of ten to fourteen years, were spent under communist rule. My family consisted of my parents, my grandmother, two sisters, and two younger brothers, one who was just a baby. The communist tactic was to divide all family members so they wouldn't try to escape from the work camps, and so they separated family members into camps many miles apart. We didn't know if our family members were alive or dead, but we had to live with the hope that they were surviving.

"The communists separated my two sisters and me into three different camps. They put my mom with a group of women who worked on a farm in the valley and my dad worked in the field with a group of men, cutting wood, building roads, and so forth. My camp was for children seven to twelve years old. We weren't allowed to visit our families. The communists taught us to work the farms and to obey their rules. I missed my family very much so one day I escaped to see my mom, but they caught me and wouldn't give me any food for a whole day."

That was not the end of Sophal Song's struggle. Her mother died of malnutrition in 1978. Her father also perished. In 1982, she came to the United States with her grandmother, two sisters, and two brothers. Although Sophal is thankful for her freedom, she still grieves for what she has lost. She concludes, "The free world must know that communism doesn't work. It is deadly. It cripples the mind and the spirit. We must always work hard to protect our freedom and to fight any force that threatens to destroy it."

The Minimum Wage

"A minimum wage increase eliminates jobs by encouraging businesses to seek ways to lower overall labor costs. Some firms automate to avoid higher wage payments. Employers also make up for cash wage hikes by reducing fringe benefits. . . .

"Minimum wage legislation hurts most those who have the most to gain from employment—poor youths, especially blacks. It is ironic that American liberals are pushing a higher minimum wage, which also has been promoted by South African racists. While the Americans don't have racist intentions, they should understand, as the Afrikaners did, that the minimum wage favors better-educated and -trained white youths over their black counterparts. . . .

"The minimum wage clearly strengthens only one group—unions, whose wage rates become more competitive when minimum wage legislation lifts the level of nonunion compensation—while it clearly harms many others. In the end only improved productivity and economic growth—not higher wage levels—can increase general prosperity."

—from an editorial in *The Detroit News*,
March 3, 1987

What's New at FEE?

The September *Notes from FEE* features exciting news about our expanded program of regional seminars. Accompanying the *Notes* is our annual book catalogue. This special mailing should reach you by September 20. Extra copies are available by calling or writing to FEE.

THE FREEMAN
IDEAS ON LIBERTY

Superstars as Slaves

by Jerome Ellig

"Free agency," we're told, is a major issue in National Football League labor negotiations. It's even worth striking over, according to players' union officials. The football players want it; the owners don't. The baseball players' union, meanwhile, asserts that teams conspired last winter to force baseball's free agents back to their original teams at little or no increase in salary.

At first glance the philosophical issue seems clear. What lover of liberty could possibly oppose as American a concept as "free agency"? Its proponents call for a free market in player services where team owners bid against each other for players, certainly a worthy-sounding goal.

Closer examination, however, reveals the slippery ways in which economists, journalists, labor negotiators, and others use terms like "freedom" and "free market." What seemed to be a moral crusade for high principle boils down to a squabble between labor and management over how to divide the pie.

In professional team sports such as baseball and football, players generally negotiate their own salaries with ballclubs. Their unions negotiate with the league a "basic agreement" covering such items as pensions, minimum salaries, and conditions under which players can move from one team to another.

In their call for free agency, football players' representatives merely mean that they want a contract with the NFL which lets each player—or, at least, players who have spent a certain number of years in the league—peddle his services to as many competing teams as possible. Owners, on the other hand, want an agreement which lets them cooperate to curb rivalry and contain salaries. Players feel they can get a better deal when owners compete; owners feel *they* can get a better deal when they don't.

A New Phenomenon

Widespread free agency is a relatively new phenomenon in professional team sports. Until the 1970s, leagues usually succeeded in keeping players from negotiating with teams other than the one for which they played the previous season. Owners limited player mobility in two types of ways.

The preferred method was a clause in the player's contract giving his team an option to renew his contract for the following year. When the contract was renewed, so was the option, so it was effectively a perpetual option. The "reserve clause" in baseball worked this way until a labor arbitrator ruled in 1975 that the option was good for only one year.

The second method was to let at least some players negotiate with several teams but then make a team which signs another's player give the other team compensation in the form of other players, rights to select other players in the future ("draft choices"), or cash. The NFL adopted such a compensation plan, named the "Rozelle Rule" after NFL Commissioner Pete Rozelle, after the Supreme Court decided in 1957 that its baseball-like reserve system violated the antitrust laws. Baseball was saved from a similar fate only through a series of anomalous rulings which to this day make it the only sport with an antitrust exemption.

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The Supreme Court declared the Rozelle Rule illegal in several cases during the mid-1970s. The football players' union's current call for free agency reflects a desire to regain some of the mobility players bargained away in negotiations following these court decisions.

Both types of limits on player mobility were effective only when all major leagues agreed to abide by them. A league usually could not prevent players from "jumping" to upstart leagues which did not abide by such agreements, like the American Football League or the American Basketball Association in the 1960s. Of course, reserve clauses also could not prevent players from quitting their sport and going into another line of work.

Slavery?

Nevertheless, owners' agreements to curb competition for players have from the earliest days provoked cries of "slavery" from critics. Baseball received the most criticism because it is the oldest professional team sport and its reserve system served as a striking example of such rules in all sports. Baseball adopted its first reserve rule in 1880; each team could name five players with which no others were permitted to negotiate for the upcoming season. On August 12, 1880, the *Cincinnati Enquirer* complained, "What right has the League to say to any player where he shall play next year? The days of slavery are over."[1]

Frederic Johnson, attorney for a player who sued organized baseball in 1949 over the reserve clause, argued that the clause violated the 14th Amendment's protection of "the individual citizen against state power in his quest for livelihood."[2] Comparing the reserve system to slavery, he asserted that the government permitted baseball to "employ the services of the vast majority of its players under contract without just compensaton."[3]

In 1960, historian Harold Seymour commented that baseball's "restrictive labor practices . . . are hardly in keeping with traditional American belief in freedom of individual opportunity, free enterprise, and competition. They do not square with the basic American [ideal] that people should be free to work for whom they please, offer their services to the highest bidder, and enter any business they wish."[4] Former Senator Sam Ervin frequently thundered against "peonage" in professional sports from the Senate floor and committee rostrums.

Or Voluntary?

Yet it is dangerous to equate sports leagues' labor practices, past or present, with slavery. Players' contracts are regularly bought, sold, and traded, providing a superficial resemblance to slavery. However, even though ownership of teams by different individuals is necessary to ensure public confidence in the integrity of athletic competition, teams actually function as a single firm—the league—producing an entertainment product—competition for the league championship. Therefore, transfer of player contracts is really analogous to transfer of an employee from one division of General Motors to another.

Barriers to player mobility are the result of a voluntary agreement between team owners. Players are free to accept these conditions or to seek employment elsewhere; team owners cannot prevent them from doing so.

It is true that players' earnings in their next most remunerative occupations are likely far below what they can earn as professional athletes. In addition, restrictive agreements among team owners traditionally have pushed down salaries by giving the owners greater bargaining leverage with individual players. Lowering salaries in this manner has historically been one of the owners' most important stated goals in adopting these kinds of arrangements.

Conventional notions of economics even say that team owners collectively act as a "monopsonist," a single buyer of players' services, and that this is economically inefficient—a suggestion to which Representative Robert McClory reacted in 1972 by pointing out that players' unions can act as a monopoly.[5]

These facts explain why players want owners to bid for their services and why they have often brought suit under the antitrust laws to have owners' agreements voided. But they do not show that players' rights have been violated. Those who argue that they do confuse wealth with liberty.

What's a "Free" Market?

This confusion of slavery with freedom arises in large part because of two conflicting meanings commonly attached to the term "free market."

On the one hand, economists use the term to describe an "auction" situation in which there are many buyers and sellers with no long-standing business relationships or long-term contracts. Resources are allocated and reallocated from one day to the next by continuous bidding between market participants.

This definition of market is commonly contrasted to an "organization" or "hierarchy" in which someone or some group makes a plan and then carries it out. A business firm is one such type of organization. Resources which the firm already owns are allocated to different parts of the firm by conscious decision of the owners. The firm is, however, still subject to the discipline of the outside market, for it must also buy some resources and sell its products there.

However useful these definitions might be for economists, it does not follow that they are equally useful for the ethicist attempting to discover rights violations by ascertaining which kinds of actions are voluntary and which are involuntary. These latter terms must be defined by an ethical theory.[6] The *ethical* meaning of "free market" is the network of exchange relationships which exist when no market participants are permitted to coerce others. Organizations and institutions such as business firms and labor unions are perfectly unobjectionable as long as the exchanges in which they engage involve no force or fraud.

By this standard, "free agency" is not morally superior to reserve systems or other restrictive agreements among team owners, even if it does imply a shift of bargaining power from owners to players. Both free agency and reserve systems are voluntary agreements.

Let's leave the owners and players alone to figure out what each other's efforts are worth, subject as always to the fans' veto in the form of refusal to buy tickets. Save the righteous indignation for the all too many government actions which are truly violations of individual liberty. □

1. Quoted in Harold Seymour, *Baseball: The Early Years* (New York: Oxford University Press, 1960), p. 112.
2. Frederic Johnson, "Baseball, Professional Sports and the Antitrust Acts," *Antitrust Bulletin* 2 (Sept.-Dec. 1957), p. 682.
3. *Ibid.*, p. 697.
4. Seymour, pp. 83-84.
5. U.S. Congress, House, Committee on the Judiciary, Antitrust Subcommittee, *The Antitrust Laws and Organized Professional Team Sports, Hearings* 92 Cong., 2d. Sess. (Washington: USGPO, 1972), p. 267.
6. For a thorough and highly readable explication of this point, see Jack High, "Is Economics Independent of Ethics?", *Reason Papers* No. 10 (Spring 1985), pp. 3-16.

Socialized Stadiums

by Robert A. Baade and Diane Carol Bast

City officials and sports team owners across the country are using the silver platter of "economic growth" to serve subsidized sports facilities to unsuspecting taxpayers. Unfortunately, the platter is actually of tin, and stadiums can leave a bitter taste.

Those who cook up stadium proposals frequently claim that sports contribute significantly to a city's economy. In Chicago, for example, it has been reported that the baseball White Sox contribute $100 million to the city's economy each year. Such estimates, based on the assumption that every dollar spent on sports is a dollar of *new* leisure spending, are undoubtedly too high.

Our leisure "budgets" (the amount of time and money we are able to spend on leisure activities) are limited. It is likely that an afternoon we spend at the ballpark is an afternoon not spent at the theater, museum, or similar establishment. A dollar we spend on sports is a dollar we probably would have spent on some other leisure activity. In the short term, a subsidized sports stadium does not increase the total amount of leisure spending that takes place in a city; rather, subsidizing sports merely shifts spending away from other activities.

Sports stadiums are also unlikely to promote long-term economic growth. Sports tend to encourage low-skilled, low-paid employment in the service sector of a city's economy: food and souvenir vendors, hotel and restaurant employees, and security personnel are representative of the jobs created by stadiums. A city that subsidizes such employment at the expense of higher-skilled, higher-paid manufacturing employment will find that its economy grows more slowly than the economies of cities that do not subsidize sports. Moreover, while new businesses may start up in the subsidized stadium's neighborhood, businesses will fail in other parts of the city. A new stadium, therefore, probably will not increase the total number of even low-paid jobs in a city.

The actual experience of cities with sports stadiums confirms that stadiums bring few, if any, economic benefits to the cities that subsidize them. In a study published by The Heartland Institute, stadiums and sports were found to have no positive effect on three important measures of economic growth: personal income, retail sales, and manufacturing activity. Stadiums and sports actually had a negative effect on the economies of several of the cities that were studied.

Why should taxpayers be concerned by false claims of economic benefits? Simply because such claims are being used to make unprofitable stadium projects palatable to taxpayers who would not otherwise support them. Even when a team owner claims his new stadium will be financed entirely by private sources, past experience and market conditions should leave taxpayers skeptical.

Of the total number of sports facilities constructed since 1960, only two have been fi-

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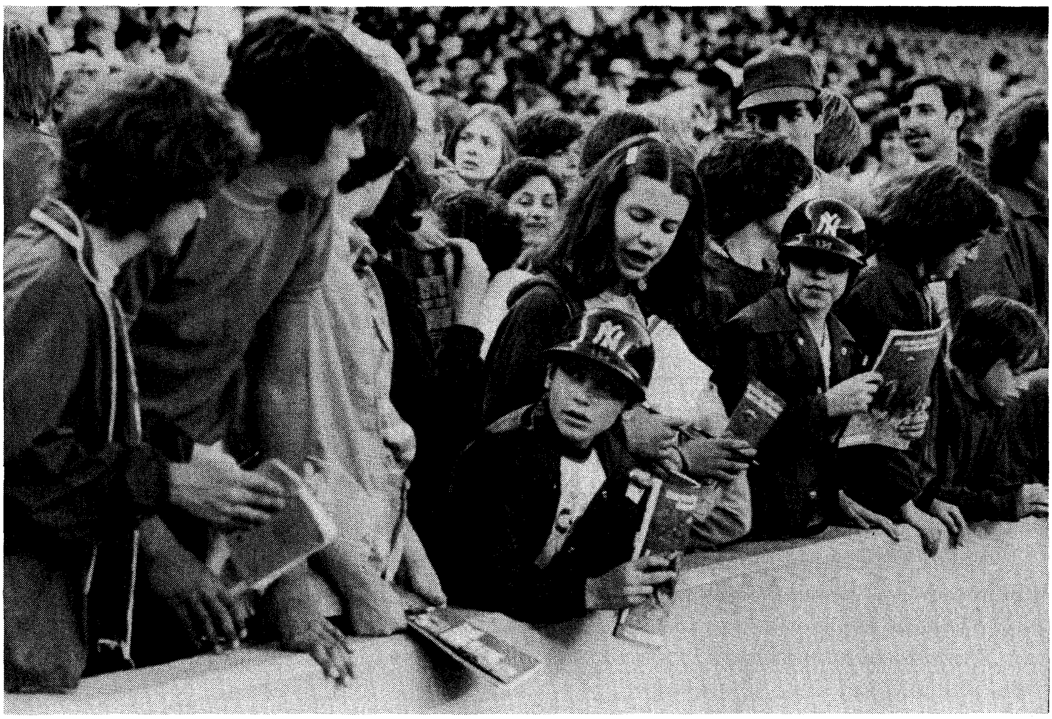

Most stadiums built in the past 35 years have been at least partially subsidized.

nanced entirely by the private sector. In fact, 71 per cent of the 94 sports facilities used by professional teams since 1953 are publicly owned.

The mismanagement of sports facilities that are publicly owned and operated has been documented often, and in gruesome detail. In Louisiana, where the state government turns over to the New Orleans Saints all Superdome revenues except a five per cent rental fee based on gate receipts, taxpayers must finance Superdome deficits of between $3 million and $5 million a year. Taxpayers in Pontiac and across the state of Michigan have paid more than $11 million since 1976 for operating deficits at the Silverdome.

Private developers rarely invest in stadiums, and municipal landlords must subsidize the teams they host, because the supply of sports facilities is far greater than the demand for them. There are already more stadiums than teams to fill them, and fully one-third of the 60 largest metropolitan areas in the country have plans for new stadiums. It is almost impossible for private developers to profit in this glutted market; in such a market, city officials must subsidize their teams in order to fend off competition from cities with empty facilities.

Municipalities will continue to offer subsidies to keep their stadiums occupied, and they will continue to defend the expenditure by claiming (against all available evidence) that a new stadium will be a catalyst for economic growth. Governors and mayors will throw their support behind one alternative site or another, in the name of "revitalizing" neighborhoods. So-called "private" stadiums will be aided by indirect subsidies offered at taxpayer expense: displaced residents will be relocated, infrastructure improvements will be made, land will be provided at below market cost, and current lease obligations at other sites will be forgiven.

So let us be wary of government officials and sports team owners offering stadiums on silver platters. If we're not, after all the rhetoric and promises and subterfuges have been exposed, we taxpayers will find we've been served a bad meal indeed. □

A Line-Item Veto

by Hans F. Sennholz

The annual battle about the Federal budget provides an astounding spectacle that is both amusing and revealing. Despite countless committee meetings and lengthy hearings, the members of Congress fail to come to an agreement on revenues and expenditures. At the very close of the fiscal year, at midnight, September 30, the government is left without spending authority, causing its giant wheels to grind to a halt. But, lo and behold, a few hours after midnight, in a dramatic session, Congress approves a stopgap spending bill enabling government operations to continue. There is no agreement on any one of the 13 appropriations bills required to fund government; but there is unanimous agreement that government must continue; benefit checks must go out and Congressional pay checks must be issued. The members rise in support of a "continuing resolution" that authorizes the spending. Continuing resolutions thus take the place of the budget proper.

In 1986, Congress passed four separate stopgap resolutions to keep government from shutting down before it approved an omnibus resolution of $576 billion. The comprehensive spending legislation was necessary because none of the 13 appropriations bills that were drafted to fund the Federal departments and agencies had been enacted. Although it was the largest ever, the omnibus resolution did not include more than $400 billion for activities that are funded on a permanent basis, including Social Security, interest payments on the Federal debt, and the bulk of Medicare spending.

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The budget process is a free-for-all between the President and numerous special interest groups represented in Congress. Early in February, the President releases his budget for the coming fiscal year, calling for certain outlays and revenues. Early in March, the President's proposal is rejected for a number of reasons by the budget committees of both the House and the Senate. For all practical purposes, the rejection turns the budget process over to Congress whose members have difficulties reaching agreement on any of the appropriations bills. When no agreement can be reached, all proposals are combined into continuing resolutions, which in effect constitute the budget.

To the President and his administration the budget process is most frustrating; it prevents the attainment or fulfillment of administrative goals and purposes. They are forced to watch helplessly while members of Congress openly thwart the President's efforts, blithely promoting their own political interests. The only retort at the disposal of the President is his power to veto the continuing resolution and thereby bring all government to a halt. No President has ever dared to resort to such drastic measures.

To deprive members of Congress of their partisan powers and "restore the balance of power," some critics of Congress would grant more power to the President. They advocate a "line-item veto," that is, Presidential power to veto spending for individual programs. Present budget procedures force the President to veto an entire appropriations bill containing hundreds of funding items, provided it passes both houses and reaches his desk, or veto the continuing resolution containing thousands of items, if he wants to block one particular program.

Several Presidents have repeatedly requested the veto authority and included appeals for enactment in their State of the Union messages. Their followers in Congress have introduced bills that would grant such powers. Some would provide a limited line-item veto authority that would permit the President to veto each of the 13 appropriations bills when they are combined into one continuing resolution.

No Balance of Power

The Presidential frustrations undoubtedly are matched by Congressional frustrations about the President seeking to prevent the attainment of Congressional goals and purposes. Both sets of frustrations spring from the fact that the sum total of goals and purposes exceed by far the available means, and from the circumstance that government in the United States is decentralized and its components frequently work at cross-purposes to each other. Federal fiscal activity may be frustrated in part by state and local government fiscal action, or vice versa, and Presidential activity may be frustrated by Congressional action, or vice versa.

Decentralization of government engenders a number of difficult tasks, especially if government is to engage in redistribution functions and provide particular economic services. Political society not only must decide which goods and services government shall provide, but also must determine which level and branch of government shall provide them. The decisions may be influenced by several considerations such as comparative economic efficiencies and political balance of power. In the United States, the desire for individual freedom also plays an important role in determining the division of governmental functions.

Before the dawn of massive government intervention in economic life, more than half a century ago, the situation was much simpler. Federal revenue exceeded expenditures during most fiscal years, which created few occasions for fiscal conflict and frustration. Combined state and local fiscal activity generally exceeded Federal taxing and spending, which made the federal government a relatively unimportant component of government in general.

The Founding Fathers had planned it that way. There was fear in their minds regarding excessive power at the executive level of the federal government. Therefore, they gave the power of budgeting as well as that of legislating to Congress, although it was not well qualified to perform the budgetary function. They granted the President some control over the budget through the right to veto, which the Congress may override by a two-thirds vote. In short, the Founding Fathers made the President execute the budget passed by Congress; they did not even call on him to help formulate the budget. They envisioned no "balance of power."

The President first appeared on the scene of budget-making in 1921, when Congress passed the Budget and Accounting Act. It assigned the task of budget preparation to the President and created the Bureau of the Budget to assist him. Although the act has been amended a number of times, it continues to provide the basic budget procedure in effect today.

The budget-making process has been frustrating ever since. The President is convinced that his election to high office by popular vote gives him a mandate for policy-making. Numerous pressure groups are calling for more government services and favors, which he is quick to promise, just like his fellow politicians running for office. As President he is judged by his ability to make good on his promises and commitments although he has no such executive powers. He is unable to deliver favors and benefits unless he manages to persuade Congress to appropriate the necessary funds. His popular mandate may easily run aground because of Congressional refusal to finance his promises and commitments. Where he would want to increase expenditures, the Congress may allocate less, and where he would spend less, the Congress may appropriate more. Thus Congress may tie the President's hands and

"Both the Presidential and the Congressional pressures for transfer funds spring from the same entitlement ideology that makes politicians and officials the arbiters of economic well-being."

force him to conduct policies he does not wish to conduct. In his view, Congress is denying his mandate and usurping his power.

Conflict on Every Level

The tensions and frustrations in both branches of government are symptomatic of the general conflict that springs from the transfer and entitlement function of government. After all, government has no sources of revenue other than that which it forcibly exacts from its citizenry. Both the exaction and the distribution create economic, social, and political conflict not only between beneficiaries and victims, but also between the beneficiaries themselves who are likely to argue about the mode of distribution, and between the victims contesting their assigned shares of the burden. The benefit and entitlement state is a conflict state on every level of its power structure.

In the noise of the entitlement battle it is difficult to judge the priority of the claims. Both the Presidential and the Congressional pressures for transfer funds spring from the same entitlement ideology that makes politicians and officials the arbiters of economic well-being. Both stand on shaky moral ground; both choose might over right. Moreover, no matter how their claims be judged on moral grounds, they also need to be measured in terms of costs and consequences.

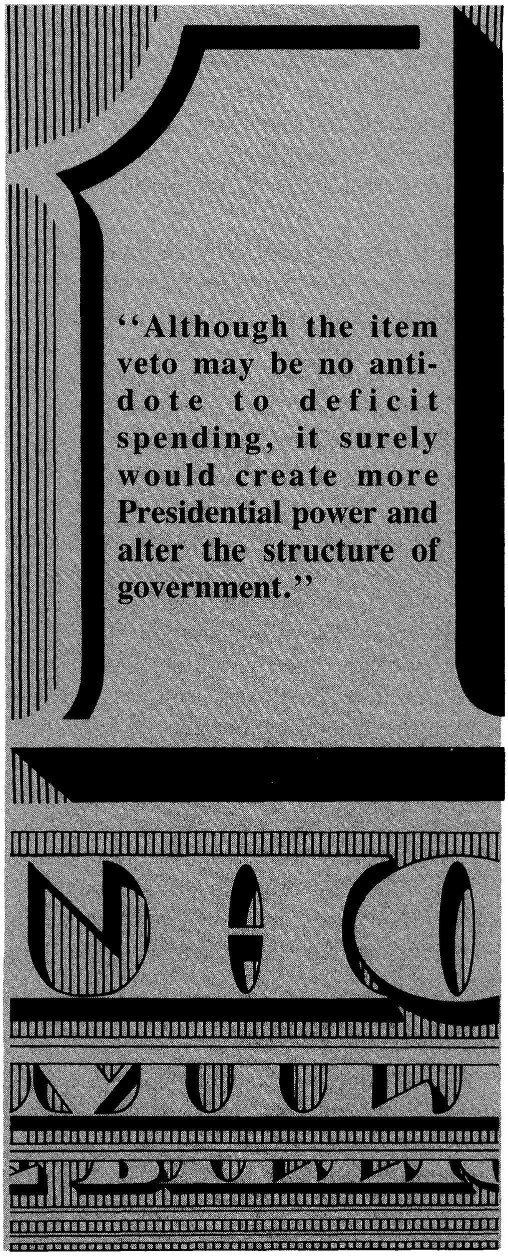
In nearly every case the President's commitments to exact and transfer income exceed by far the spending schemes of the members of Congress. Where individual Congressmen may engage in porkbarreling and logrolling, spending millions of dollars, the president usually spends many billions on "national needs" and "emergencies." His interests are nationwide; a Congressman's concern is likely to be special and parochial. The great spending programs of our time, costing hundreds of billions, from Social Security to Medicare and Medicaid, are the handiwork of Presidents; the members of Congress fall in with the President and lend their votes to his ambitious undertaking.

While the President may be lobbying Congress for new Medicare benefits costing billions of dollars this year and every year thereafter, a member of Congress may hold out for a subsidy to a metropolitan transit system. The administration may want to phase it out; but members of Congress representing various districts receiving subsidies do not sanction the phase-out. They simply allocate the funds and mandate that they be spent. Or the Federal Aviation Administration may want to close an airport tower; Congressmen may mandate that it remain open. The administration may want to move an office, agency or base; Congress may order that it not be moved. Congress may even require the federal government to build facilities which the administration does not want. To serve the interests of constituents, many members of Congress are voting their special interests without concern for the consequences of any individual program on the budget as a whole. Many are voting their interests without much concern for the objections of the President.

A Shift of Power

They are opponents of the line-item veto, arguing forcefully that the veto power would have very limited effects on Federal spending, but dramatically shift power to the President. Many consider it "one of the most dangerous proposals ever made to the Congress." Some even call it a "dictatorial power."

Nearly one-half of Federal spending is not funded by appropriations bills. Entitlement programs, such as Social Security and other fixed obligations of the federal government, need no further Congressional approval and, therefore, would not be subject to an item veto. In contrast, defense expenditures making up more than one-half of the money appropriated would be subjected to the veto. Aside from entitlements and defense spending, only 11 to 14 per



cent of the Federal budget would be exposed to the veto power, and only a small fraction thereof would invite an actual veto. Careful analysis probably would reveal that only one per cent or less of Federal spending would be vetoed if the President were given the veto power. It would not in the least alter the pattern of government spending nor call a halt to Congressional porkbarreling and logrolling or alleviate the problem of deficit spending. It is a mere palliative capable of drawing our attention from the real deficit dilemma.

Although the item veto may be no antidote to deficit spending, it surely would create more Presidential power and alter the structure of government. It would be a powerful instrument of reward and punishment in the hands of the President. To reward members of Congress for supporting Presidential programs the item veto would be held in abeyance. Loyal followers may even be encouraged to engage in porkbarreling and logrolling and to proceed assuredly without the risk of an item veto. The President's opponents, members of the opposition party, or lonely resisters to Presidential programs, however, may face the item veto in all their special programs. The veto power may single them out and hold their projects hostage. In the hands of a president with dictatorial inclinations, the item veto may become a powerful instrument.

Congress, of course, may at any time override the line-item veto. In reality, however, the power is nonexistent as long as the President maintains a loyal entourage of at least one-third of the members of the House or Senate. This does not prove difficult with politicians whose votes are guided primarily by considerations of economic largesse.

To its ardent sponsors the line-item veto is a potent remedy that promises to cure a great many evils. It may fairly and amicably divide the functions of the various branches of government, restore the balance of power, check the lust of spending, and hopefully balance the budget.

Unfortunately, there are no ready cure-alls for political ailments. The line-item veto power is no panacea. It cannot break the habit of deficit spending. Neither law nor regulation, neither Congress nor the President can balance the budget if the people are enamored with political bounty. Reforms will prove unavailing if they are not accompanied by changes in political morality. They must originate with the people, eager to do what they should do, and determined to do it because it is right. □

Scenario for a New Serfdom

by Andrew E. Barniskis

Those who appreciate the power of ideas have noted that the most sweeping changes in human history have come as a result of people changing their minds. Major historical events such as wars won, territories conquered, or natural cataclysms usually have failed to make appreciable changes in the course of history unless they resulted in a change in people's attitudes.

For example, Spain's discovery and conquest of the New World led to a tremendous increase in her material wealth in gold and silver. Yet, what should have been a windfall enabling fantastic advancement of the nation's culture, failed to yield any long-term economic or social benefits, precisely because it yielded no significant change in what was an essentially feudal social philosophy.

On the other hand, a disaster of monumental proportions had a positive effect because it forced a change in people's ideas. The Black Death, the great plague which wiped out as much as one-fourth of the population of Europe in the fourteenth century, contributed to the Renaissance by making it impractical to continue many labor-intensive practices of industry and agriculture. Machines and the power of wind and water replaced muscle power, and the saving in human drudgery fostered an expansion in industry and trade. Over a period of time the resulting economic expansion allowed more people to dedicate themselves to intellectual pursuits, and eventually the increase in learning led to the end of the feudal society across most of Europe. This would lead to the birth of the freedom philosophy manifested in England and its American colonies.

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It is important to remember, however, that over a period of time, it is possible for people to undergo a change in lifestyle without recognizing the driving forces behind it. It is doubtful if the New England farmer, taking his grain to a water-powered mill in Colonial America, reflected on how that simple invention had contributed to his life as a free-trader, as compared to the life of virtual slavery known to his ancestors.

Today, many people are expressing alarm over the rapid changes taking place in the American family. Whereas the two-income family with both parents working was rare a generation ago, now over 60 per cent of families fall into that category. The resulting strain, which accompanies any rapid social change, is contributing to increased rates of divorce and other family problems, such as alcoholism, drug abuse, and domestic violence. While most people agree that a basic change is taking place in our society, there is broad disagreement as to its cause, and there seems to be a common belief that, whatever the cause, it results from a more-or-less spontaneous change in people's attitudes.

Traditionalists, yearning for a return to an ideal time of white picket fences and Mom hanging the wash out on the line, blame an excess of materialism and a desire to "keep up with the Joneses." They tend to concentrate on preaching family values while accusing the current generation of young adults of a moral breakdown. They see the two-worker family as an example of people making consciously selfish choices, and some go so far as to propose legislation to penalize two-income families, forcing Mom back into the kitchen and nursery where, they believe, she is best able to solve the nation's problems.

Others avoid discussing a reason for the change in the American family, and concentrate instead on treating the symptoms of change. Recent years have seen a growing concern and new legislation over drug and alcohol abuse, child abuse, domestic violence, and other social problems, as if society could be engineered by legislating away antisocial behavior. Many are dismayed that the United States is years behind European socialist governments in developing programs to mask the rough spots of social change.

Some, particularly feminists, see the changes in the American family as beneficial and progressive. They see the two-income family as relieving women from *de facto* slavery in the home, formerly enforced by their husbands and the ironclad traditions of society. They, too, tend to see the changes as resulting from a more-or-less spontaneous mind-change, or an awakening of women's consciousness in the past two decades. They seldom question what is cause and what is effect when they look at the increased presence of women in the workforce, and their increased demands for expanded economic and career options.

Despite what traditionalists or progressives may think, polls indicate that if people are making selfish choices, they certainly are not enjoying the results. A recent NBC News poll, cited in *The Wall Street Journal* (March 11, 1987), asked whether people thought middle-class families had an easier or harder time maintaining their lifestyle than they did five years ago. A disturbing 65 per cent, presumably expressing their perception of their own condition, answered that life is harder today. Assuming that most people are intelligent enough to reverse selfish decisions when they recognize that those decisions are not bringing them the happiness they expected, we can only conclude that Americans are changing their lifestyles not from selfishness, but because they have no choice.

Several weeks ago, I had an opportunity to eavesdrop on a friendly argument between two professional economists over what percentage of the Gross National Product (GNP) is represented by government spending. One maintained that government spending is now 52 per cent of GNP, while the other maintained that it is *only* 36 per cent. While the precision of the figure may be significant to economists, to the layman it's the approximate order of magnitude that should be striking: Something between one-third and one-half of America's productive capacity is being consumed by government! Compare that to 1930, when about five per cent of GNP went to government.

Why Things Have Changed

While it may be an oversimplification of a complex phenomenon, simple inspection of these statistics provides an immediate explanation for the basic change in the American family: *One person must work to support the family, so the other can work to support the government!* The typical ratio of the lesser to the greater income in a two-income family compares quite well with the fraction of GNP consumed by government, and it is already widely known that on average, over 40 per cent of our gross incomes are spent on taxes of one form or another.

Some might think that over a period of years, as more and more people recognize the source of their plight, this situation will tend to correct itself through the processes of representative government. My experience suggests that the opposite may be true.

Recently, as representatives of a county taxpayers association, another officer and I attended a public meeting where the topic was a proposed new earned-income tax. In the municipality in question, the proposed tax would represent a tax increase for the average family of between several hundred to more than a thousand dollars a year—something that should have galvanized the interest of even the most apathetic citizens. Yet attendance consisted of the two of us from the county association, two representatives of a local civic association, two newspaper reporters—and only one private citizen.

In another case, a friend was explaining the importance of a local issue to his son and daughter-in-law, when his son blurted out, "Dad, we don't want to hear it! We've got enough problems of our own every day without worrying about that nonsense!" After a moment of hurt feelings, my friend had to admit that his son was right—that with what the family was facing, trying to maintain even a modest middle-class lifestyle, they *didn't* have time to think about much else. And, after long weeks of labor interspersed with weekends of household drudgery and necessary errands, they could not really be blamed for wanting to spend such free time as they could find on escapist entertainment, with the TV and VCR or at the sports field.

It would seem that the developing social and economic situation in our country may be reaching a point where a plunge into a modern-day serfdom and a new Dark Age will become irreversible. As people are becoming more and more crushed by the demands of government, they are becoming less inclined to engage in the intellectual pursuits that would lead them to understand the cause of their plight. A decade ago, concern over the economy was bringing many people around to at least paying lip service to the need for fiscal conservatism and rational economics, and to actively studying the mechanisms of the changes occurring around them. Today, the current generation of politicians is voicing the *de rigueur* condemnations of trillion-dollar budgets, but in the same breath they are proposing new multi-billion dollar spending programs—and their constituents seem to be ignoring the contradiction.

Even college students, perhaps sensing that their future may be more a matter of economic survival than prosperity, are turning away from the world of ideas and pursuing studies which they hope will put them on the fast track to achieving wealth as soon after college as possible. Instead of a new generation of people educated in the beauty of logic and reason, the next decade may see the emergence of a wave of highly trained technicians, schooled in applying technologies of the moment, but poorly equipped to advance those technologies or develop new ones. This is already apparent in some industries where, despite a great deal of rhetoric about "high technology," research and development consists largely of wrapping existing technologies in new packages.

The above paints a very pessimistic scenario of a civilization moving slowly backward as its people lose the intellectual tools needed to hold on to their freedom. However, it also shows clearly the direction that those of us who are committed to the freedom philosophy must take.

First, we must each continue our efforts at self-improvement, even though we may find ourselves with less discretionary time each day. In particular, we must not allow ourselves to fall back, as a matter of convenience, on merely reading the periodicals published by our favorite free-market or libertarian organizations. Self-improvement entails thinking through a wide range of ideas and concepts, and even the most profound wisdom becomes meaningless if it is merely accepted as philosophical dogma.

Next, remembering that our neighbors have little time to spend on pondering nebulous concepts, we should make an effort to communicate the ideas which each of us has found to be the most convincing and memorable. For example, the economic arguments presented with elegant simplicity in the parables of Frederic Bastiat and Henry Hazlitt are easily recast into modern-day scenarios, and often can form the basis for a letter or short article that will be welcomed by a local newspaper, a trade magazine, or even a sport or recreation publication. We shouldn't fear stating ideas simply, if it will mean busy people will have the time to read and think about them.

Above all, we must endeavor to expose deliberate repetitions of economic fallacies for what they are—lies. Many of my generation became interested in the study of free-market economics because of the absurd excuses that were being given for the economic problems of the early 1970s—for example, blaming shoplifters for price inflation. In the future, it will become even more necessary for economic interventionists to resort to ridiculous claims to justify their attempts to gain control over the economy, and catching them in their deceit can be an important first step in the education of a new generation.

In the midst of a very bleak scenario for the future, we have a point of hope for which we can be thankful. That hope is technology. Just as technology in the form of the printing press enabled an enormous increase in the dissemination of ideas hundreds of years ago, inexpensive typewriters, word processors, and copy machines have increased by orders of magnitude the power each of us has to spread ideas today. It is imperative that we use that power. □

Constitutional Restraints on Power

by Edmund A. Opitz

American political institutions presuppose certain convictions about human nature, the worth and prerogatives of persons, the meaning of life, the distinction between right and wrong, and the destiny of the individual. The Colonists came to their understanding of these matters as heirs of the intellectual and religious heritage of Christendom—the culture whose shaping forces sprang from ancient Israel, Greece, and Rome.

Given the consensus of two centuries ago—which regarded man as a sovereign person under God—it was only logical to structure government so as to expand opportunities for the exercise of personal freedom. The Constitution is clearly designed to maximize each individual's equal right to pursue his own peaceful goals and enjoy the benefits and responsibilities of ownership.

The Declaration of Independence put into words what nearly everyone was thinking, that personal rights and immunities are ours because we are created beings, that is, we manifest a major purpose and intent of this universe. This implies a firm rejection of the alternative, which is to assume that we are the mere end products of natural and social forces, adrift in a meaningless cosmos. For if the universe is meaningless, then no way of life is any more meaningful than any other; in which case Power has no limits.

Our forebears had firm convictions about the purpose of life, and knew that in order to achieve life's transcendent end Power must be limited: "Resistance to tyrants is obedience to God," they declared. If life is viewed in these terms, how shall we conceive the proper scope and competence of government? What is its role in society? What functions should we assign to it?

Government is the power structure of a society. This is the first and most important fact about the political agency, that it has the legal authority to coerce. The second thing is to inquire whether the power wielded by government is self-sprung, or delegated by a more comprehensive authority than the merely political. Does government rule autonomously or by divine right; or is the real power located elsewhere and merely loaned to government? The Constitution is clear on this point; the power is in the people to lay down the laws which Power must obey. They set it up; they tell it what to do.

"We, the People of the United States," reads the Preamble, "do ordain and establish this Constitution for the United States of America."

Specific Limitations

The people empower an agency to do certain things for them as a nation, but if we isolate the provisions they laid down to limit government the prevailing intent or consensus which made

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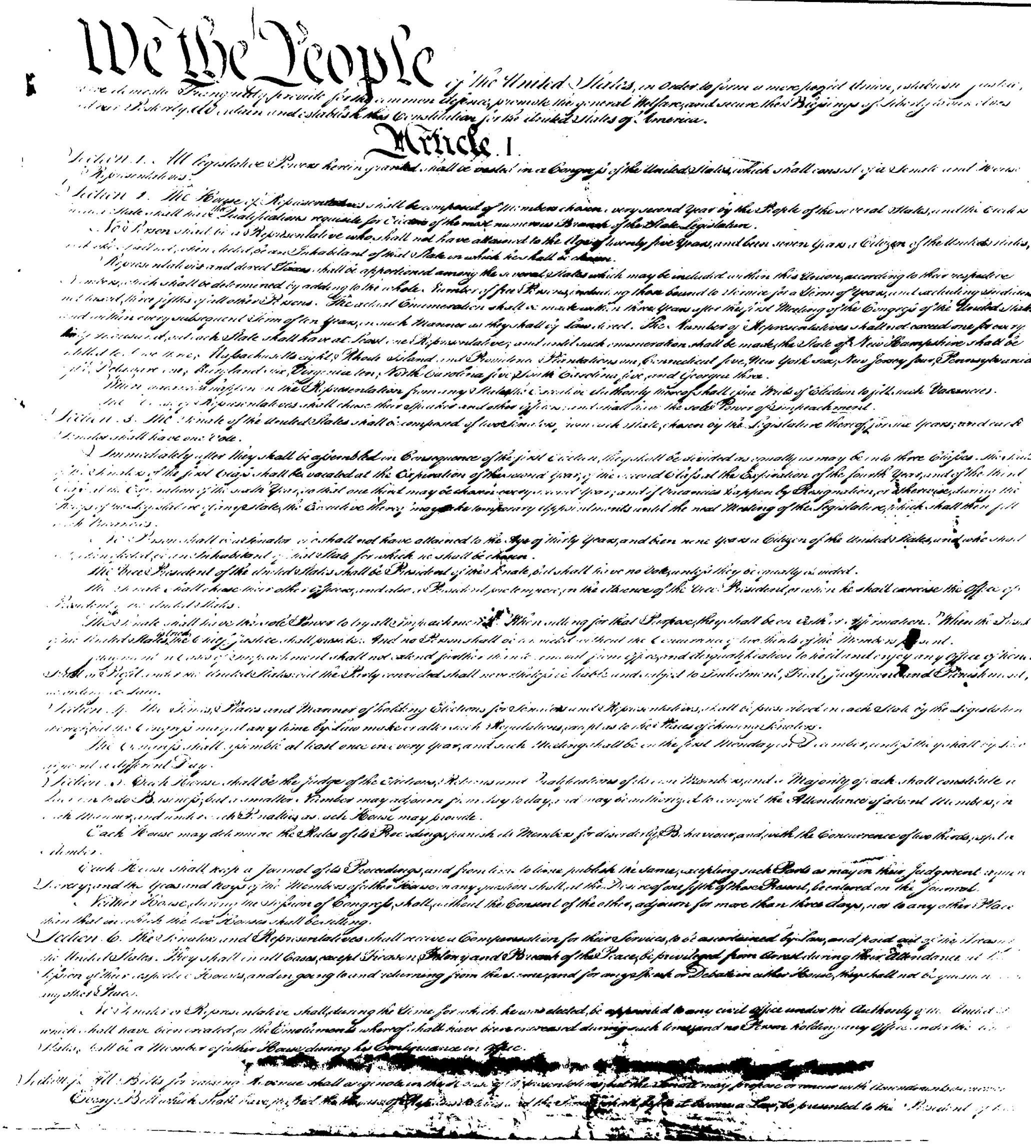
We the People

Article. I

the Constitution its political tool becomes clearer.

> The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.
> *Amendment X*

The people, furthermore, possess a body of rights by native endowment above and beyond those mentioned in the Constitution.

> The enumeration in the Constitution of certain rights, shall not be construed to deny or disparage others retained by the people. *Amendment IX*

These sovereign people shall be free to worship, speak, and publish freely.

> Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof. *Amendment I*

> Congress shall make no law . . . abridging the freedom of speech. *Amendment I*

> Congress shall make no law . . . abridging the freedom . . . of the press. *Amendment I*

Voluntary association is the corollary of individual liberty, and this is emphasized, as well as the right of petition.

> Congress shall make no law . . . abridging . . . the right of the people peaceably to assemble.
> *Amendment I*

> Congress shall make no law abridging . . . the right of the people . . . to petition the Government for a redress of grievances. *Amendment I*

The old world divisions of mankind into castes and orders of rank are to be no more.

> No title of nobility shall be granted by the United States. *Article I, 9*

Every citizen shall have a right to participate in the processes by which the nation is governed; and, should he desire to run for public office he shall not be put to a creedal test.

> The right of the citizens of the United States to vote shall not be denied or abridged. . . . *Amendments XV and XIX*

> No religious test shall ever be required as a qualification to any office or public trust under the United States. *Article VI*

Freedom to Trade; No Special Privilege

Commerce makes for a free and prosperous people, so restraints on trade shall be removed.

> No tax or duty shall be laid on articles exported from any State. . . . *Article I, 9*

> No preference shall be given by any regulation of commerce or revenue to the ports of one State over those of another. *Article I, 9*

Progressive taxation violates the principle of equal treatment under the law—penalizes ability, and lowers productivity, so it is forbidden.

> No capitation, or other direct, tax shall be laid, unless in proportion to the census. . . . *Article I, 9*

The public treasury shall be inviolate; government shall not confer economic privilege on some at the expense of others.

> No money shall be drawn from the Treasury, but in consequence of appropriations made by law. *Article I, 9*

Personal privacy shall be respected and jealously guarded.

> The right of the people to be secure in their persons, houses, papers, and effects . . . shall not be violated. *Amendment IV*

Conflict is a built-in feature of human action, and when collisions of interest do occur in society, the rights of the individual must be maintained.

> No person shall . . . be deprived of life, liberty, or property, without due process of law. *Amendment V*

> Nor shall private property be taken for public use without just compensation. *Amendment V*

Strings on the Military

In some nations, the civilian life is a mere appendage to the military. This will not happen here because civilians control the purse strings.

> No appropriation of money (to raise and support military and naval forces) shall be for a longer term than two years. *Article 1, 8*

As a further safeguard against any future militarization of this nation, the civilian sector must have the means for defending itself.

> The right of the people to keep and bear arms, shall not be infringed. *Amendment II*

In some countries, criminal proceedings are used to entrap citizens, whose guilt is assumed; the burden of proof is on them to show their innocence. Here, the innocence of the accused is assumed, until his guilt is proved. The law shall not reach backward to designate as criminal an action which until then was innocent.

> No . . . *ex post facto* law shall be passed. *Article 1, 9*

There shall be no Star Chamber proceedings.

> No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury. *Amendment V*

Protecting the Accused

The accused is protected against illegal imprisonment, and must be informed of the charges against him.

> The privilege of the writ of *habeas corpus* shall not be suspended. *Article I, 9*

Punishment shall fit the crime; it shall not mean extinction of civil rights, forfeiture of property, or penalties against kin.

> No bill of attainder . . . shall be passed.
> *Article I, 9*

The accused is entitled to be tried by his peers.

> . . . the right of trial by jury shall be preserved.
> *Amendment VII*

There is to be no forced self-incrimination.

> Nor shall [he] be compelled in any criminal case to be a witness against himself. *Amendment V*

The rights of the accused are summarized:

1. . . . a speedy and public trial, by an impartial jury;
2. Within the district wherein the crime shall have been committed;
3. . . . to be informed of the nature and cause of the accusation;
4. . . . to be confronted with the witnesses against him;
5. . . . to have compulsory process for obtaining witnesses in his favor;
6. . . . and to have the assistance of counsel for his defense. *Amendment VI*

Even when found guilty, the accused is protected.

1. Excessive bail shall not be required;
2. Nor excessive fines imposed;
3. Nor cruel and unusual punishments inflicted.

Amendment VIII

Treason

Treason is a crime against the nation, so serious that it must be defined with special care.

> Treason against the United States, shall consist only in levying war against them, or in adhering to their enemies, giving them aid and comfort.
> *Article III, 3*

The person judged guilty of treason is personally responsible for his crime, and therefore his family and kin shall not be punished.

> No attainder of treason shall work corruption of blood. *Article III, 3*

Impeachment is a special case.

> The Senate shall have the sole power to try all impeachments . . . and no person shall be convicted without the concurrence of two-thirds of the members present.
>
> Judgment . . . shall not extend further than to removal from office, and disqualification to hold any office of honor, trust or profit under the United States. *Article I, 3*

A blind spot in the original Constitution is corrected.

> Neither slavery, nor involuntary servitude, except as punishment for crime . . . *Amendment XIII*

> No state shall . . . deny to any person within its jurisdiction the equal protection of the laws.
> *Amendment XIV*

The separate states are not wholly sovereign.

> No state shall enter into any treaty . . . coin money . . . pass any law impairing the obligation of contracts. *Article I, 10*

The Method of Freedom

There is a strong penchant in human nature which impels people who feel strongly about something—a good cause, say—to group their forces and use the power of government to fasten their panacea on those they've been unable to persuade. The Constitution is a prime example of the limitations placed upon governmental power so that people with a cause to advance must resort to education, persuasion, and example only. This is the method of freedom, and a people committed to the method of freedom find the Constitution still an apt instrument for structuring a society which maximizes freedom and opportunity for all persons. It was designed to establish a national government internally controlled by checks and balances between the separate powers. And government was to be further limited by the Federal structure itself, in which the centripetal power of Washington was to be offset by the centrifugal powers of the separate states.

The Constitution was not a perfect document, but it carried the means of its own correction, and it did embody the consensus of the people for whom freedom was the prime political good. It was workable. And it will work again whenever a significant number of people have the force of intellect to comprehend sound ideas, and the force of character to make them prevail. □

The Hungarian Illusion

by James Bovard

Throughout the twentieth century, intellectuals have searched for a socialist success story. Every few years there is another nominee—from the Soviet Union during the 1930s and again in the 1950s, to Cuba in the 1960s, to China and Yugoslavia in the 1970s. Today, Hungary is being promoted as the new socialist utopia—living proof that socialism and efficiency can be successfully combined.

American newspapers and magazines routinely refer to Hungary as a "market-oriented" economy providing a good life for its participants. *The New Republic* (October 27, 1986) recently implied that the quality of life in Hungary is almost as high as in the United States. Both China and Russia are borrowing heavily from the Hungarian model, and the World Bank is pouring hundreds of millions of dollars (derived from U.S. government and other government sources) into the Hungarian government's treasury.

But, rather than being a utopia, Hungary is only another case of socialist failure. Real wages have fallen five per cent since 1980 and seven per cent since 1978. Industrial efficiency has sharply declined, as the government has suppressed incentives to modernize and rationally use resources. The citizenry's health appears to be rapidly deteriorating—life expectancy has decreased sharply for males in recent years. Many Hungarian villages still do not have telephones, electricity, or reliable drinking water.

Mr. Bovard, a widely published writer on economic affairs, recently visited Hungary. An earlier version of this article appeared in the Journal of Economic Growth (Vol. 1, No. 4).

And the economic crisis is growing worse. The government recently froze all wages, while allowing prices to continue to rise—a further *de facto* cut in wages and living standards. Investment is declining, and the aging machinery and deteriorating infrastructure are making Hungary more backward every year.

Hungary has doubled its debts since 1982—from around $7 billion to over $14 billion, and shows no likelihood of being able to service its debt any time in the coming decade. Hungary could be much closer to default than many Westerners realize. Much of the apparent prosperity in Hungary is the result of heavy borrowing, with billions squandered on consumer items that buy political peace but only add future burdens to the country's economy.

In Hungary, there is socialism and there is prosperity. But the socialist parts are not prospering and the prosperous parts are not socialist. And since the economy is over 90 per cent socialist and cooperative, Hungary is a depressed, increasingly backward economy.

Hungary's experience is instructive for the rest of the world. How much benefit is there in allowing limited market competition in a fundamentally socialist economy? How much can a small amount of capitalism remedy the defects of a large amount of socialism? Is a mixed economy a viable alternative for today's slowly sinking socialist monoliths? Hungary's experience is especially valuable in gaining an insight into the Soviet Union's recently announced reforms, which are partly inspired by Hungary.

Historical Background

Hungary is a small country with a population of 10 million. Because it is heavily dependent on foreign trade, Hungary is particularly ill-suited for the socialist model of economic autarky—where the government tries to achieve maximum national economic autonomy through total control of the economy. Socialists have always been biased against foreign trade, since central planners prefer to control all economic factors—and they can rarely control businesses and individuals beyond their borders. For almost 40 years, Hungary's leaders and bureaucrats have tried to "plan" an economy whose survival and prosperity depend on rapid adjustments to changing world markets.

Before World War II, Hungary had a highly developed pharmaceutical industry and was a world leader in some areas of agricultural machinery production, though its economy was primarily agricultural. When the communists took control of Hungary in 1949, they launched a crash industrial program based on the usual socialist goal of creating a "country of iron and steel"—"conspicuous production," as Michael Polyani terms it. But since Hungary was still an agricultural economy with a limited industrial infrastructure, this was a disastrous policy, and the government's widespread coercion in pursuit of its economic policy provoked a popular revolt in 1956 that was crushed only by massive Soviet military intervention.

In the early 1960s, limited private incentives were permitted in agriculture—with excellent results. In 1968, convinced that the basic Soviet socialist model was failing, Hungary announced the New Economic Mechanism (NEM). The NEM tried to replace central planning with limited market relations among state-owned firms, to link domestic and world market prices, and to reform investment policies. NEM was an attempt to preserve socialism without central planning—or, as Hungarian economist Tamas Bauer describes it, "neither plan nor market" (*East European Economies,* Spring-Summer 1984).

In the first years of reform, Hungary's economy was one of the strongest in Eastern Europe. But the new prosperity created a backlash from those who felt they were not getting a fair share of it. In 1972, the trade unions and conservative Communist Party members, concerned about growing inequalities in income and the Party's loosening grip on the economy, launched an attack on the reforms. Many of the reforms were scaled back or abandoned. Economic decision-making was recentralized and central planners increasingly intervened in the day-to-day operations of companies. The central planners then tried to isolate Hungary from rapidly shifting world markets and world prices for energy.

To implement this policy, Hungary borrowed billions of dollars from the West. But despite a massive investment program, Hungarian leaders still could not produce a Western-type prosperity. Most of the investments were ill-chosen and poorly executed, and the net result is a huge foreign debt with little or no increase in productive resources to service it.

In 1979, Hungary again loosened some of the controls over economic activity. In 1982 some forms of private economic activity were legalized, private citizens were allowed to own their own taxi cabs and trucks, and small retail service establishments were tolerated. But, as a recent World Bank report noted, "Neither the 1968 reforms nor those beginning in 1980 fundamentally changed the dominance of state ownership" (Peter T. Knight, *Economic Reform in Socialist Countries,* 1983).

Hungary adopted reforms in the early 1980s partly in an attempt to avert bankruptcy. The country was able to avoid default thanks to large loans from the World Bank and the International Monetary Fund. Though this aid saved Hungary's credit rating and allowed it to continue borrowing from Western banks, in retrospect the 1982 bailout appears to have been a two-edged sword. By postponing the day of reckoning, the World Bank/IMF bailout allowed the government to continue economically restrictive policies that have perpetuated the nation's poverty.

Though there is an active "second" (unofficial) economy in Hungary, it has not solved the problems caused by socialism. As Tamas Bauer concluded, "In this country, the common prevailing opinion is that . . . 'people' generally do not perform their work well, that the workers are not paid decent, and that one cannot obtain quality goods and services for his money."

The Hungarian economy today is like a slowly sinking ship that just happens to have a very nice "private sector" sideshow on one of the decks. The sideshow is not good enough to keep the ship from sinking, but it keeps everyone entertained as the water rises.

The Hungarian Labor Market

Perhaps the best place to begin a study of Hungary's problems is in its labor market. As even Josef Stalin recognized, "Human beings are the most important and decisive capital in the world." Yet, the Hungarian system seems almost designed to squander and discourage workers' efforts.

In Hungary, there is guaranteed employment —but there are not many people actually working. In my recent visit, Budapest seemed to be a city of people leaning on brooms. The Party newspaper often denounces workers for their laziness.

It is an old saying among Hungarian workers, "We pretend to work; they pretend to pay us." A Hungarian pension manager told me that the average Hungarian works only four hours a day at his government job—and spends the other hours smoking, talking, and generally avoiding strenuous effort. A Swedish engineer complained to *Magyar Hirlap,* the national newspaper, "Work discipline is bad . . . An individual Hungarian worker does not do more than 5 and half hours of work a day. . . . Workers arrive for work an hour or even 90 minutes late, they have a long lunch break and disappear from time to time during the day." Ferenc Havasi, Secretary of the Hungarian Socialist Workers Party, recently complained that "15 to 20 per cent of the work time of five million active earners is lost for various reasons," and called for "the improvement of interestedness" of workers in their work (*Hungarian Economy,* January 1986).

Guaranteed employment has other effects on workers. According to the World Bank, "On many occasions, workers sabotaged technology taken from other enterprises, in part because they did not want their bonuses reduced to pay for that technology." As the World Bank notes, a guaranteed job "greatly reduces the concerns workers have about replacing old machinery or shifting to new products. Workers tend . . . to push for the continued use of certain machinery and production of traditional products, since they are familiar with them" (Kazimier Poznanski, *The Environment for Technological Change in Centrally Planned Economies,* 1985). The workers' unwillingness to learn new skills handicaps the entire economy.

As a recent Organization for Economic Cooperation and Development (OECD) study by Professor Paul Marer points out, "Labor is underpriced because money wages in industry pay for only about 60 per cent of the personal consumption of the wage-earner's family." (The other 40 per cent largely consists of government-sponsored consumer subsidies.) This encourages firms to "hoard" labor—to rely on labor-intensive production methods and to be relatively apathetic about getting full value from their workers—because they are not paying the full cost of workers' wages. This discourages efficient utilization of labor.

The government also allows limited flexibility in wages, so that engineers sometimes are paid little more than janitors. As Radio Free Europe recently reported, "The wage differential between Hungarian white-collar and blue-collar workers is only 5 to 10 per cent, as opposed to 30 to 70 per cent in the developed countries." Inflexible wages have created both pervasive labor shortages—and labor surpluses. There is no effective mechanism to shift workers from one occupation or job to another —from a place where his efforts are less productive to where they would be more productive in response to changing economic conditions and emerging opportunities. The artificial shortage is so severe that the typical Hungarian white-collar worker can choose between two or three jobs at any one time, and manual workers can choose between ten or fifteen jobs (Economist Intelligence Unit, *Quarterly Economic Review,* February 1985).

The problems in the labor market have caused severe damage throughout the whole economy. OECD estimates that labor productivity in the Hungarian chemical industry is only one-third that of world levels. The main Hungarian telecommunications factory, Beloiannis Telecommunications Factory, which employs 10,000 workers, has achieved a labor productivity rate of only one-tenth to one-fifth that of Western standards. Labor productivity in the textile industry is less than one-seventh that of developed countries' textile workers (Bela Balassa, *The Hungarian Economic Reform, 1968-81,* World Bank, 1982).

One reason the government discourages the shifting of labor to better uses is because of the severe housing shortage. Since there are few available houses or apartments, the transfer of workers would create social strife. This is a typical case of a socialist bottleneck—harmful controls in one part of the economy causing a negative chain reaction throughout the rest of the economy.

One attempt to get around the constraints of the socialist wage system is the economic working associations—groups of factory workers who stay after their normal jobs to perform work on a contract basis, using factory tools and equipment. On the surface, this looks like a sure winner, and Western journalists have almost uniformly praised it. But, as one Hungarian enterprise director complained, "Contract work associations yield contradictory results because sometimes they create a schizophrenic attitude: the worker has an incentive to do as little as possible for the basic wage since after work he can do the job for a much higher compensation. . . . It is absurd economically that identical labor has a dual price: on the free market it earns a multiple (occasionally tenfold or more) of what it is paid in the socialist sector" (quoted in Paul Marer, *East-West Technology Transfer,* OECD, 1986).

Hard work is also discouraged because Hungary, like all socialist economies, has a perpetual shortage of quality consumer goods. No matter how much a worker earns, there is little or nothing good to spend it on, especially since major items are rationed by queue, not price. Hungarians must wait up to six years for a car, and up to 12 years for a telephone. There is a seven-year wait to get an apartment. The cheapest new car costs the average worker three years' pay—and that car is basically a wooden automobile with a motorcycle engine.

The government recently increased the prison sentences for "workshirkers"—people who, in the opinion of the authorities, are not performing socially useful labor. As *Heti Vilaggazdasag* reported in December 1984, "A Budapest court found guilty a young girl who was capable of working but was supported by her parents because she would not accept employment after she completed her studies, spending her time instead mostly on reading." Even if a person is working twice a week on an occasional basis, the courts will still convict him of "workshirking" and send him off to jail. Since the government can imprison people for the crime of not producing, the government, in effect, owns the people—people exist for the good of the government, and not government for the good of the people.

The inflexible, unresponsive labor market also drives the government to use coercion instead of voluntary agreement in other areas. Coal production has been declining, and the government recently ordered coal miners to work on Saturdays and Sundays. In a free society, workers are enticed with higher pay to work longer hours. In a socialist economy, where many people consider wage incentives to be immoral and selfish, coercion is the only substitute.

The Continuing Problems of Hungarian Industry

Though Hungary is praised as having a working combination of socialism and capitalism, the Hungarians themselves are increasingly critical of their malfunctioning economic system.

Hungary's Ministry of Industry recently complained, "The productivity of Hungarian industry is approximately half of that of countries that are comparable to us in terms of size and industrial development. . . . We have not been able to reduce the proportion of defective production and have an excessive number of accidents" (quoted in Paul Marer, *East-West Technology Transfer*).

A recent World Bank report concluded that "industrial efficiency . . . appears to have declined over the 1970s." According to Hungarian technology expert Laszlo Pal, "It can be proven by facts that our backwardness compared to the industrially developed countries is growing year by year" (*The Washington Post,* October 19, 1986). Lazlo Fodor recently complained in *Heti Vilaggazdasag* (August 2, 1986), "We are lagging behind the international development of science and technology, and our technology gap is widening year by year. . . . The Hungarian economy's competitiveness and ability to generate income has declined, its terms of trade have worsened, and its unprofitable economic activity has increased."

Further insight into the Hungarian economy can be gained from a recent exchange on Hungarian radio (8/29/86). Interviewer Gyorgy Ney was speaking with Laszlo Bukta, Deputy Chairman of the State Office for Wages and Labor. Ney asked, "The budget devoted 157 billion forints [about $3.4 billion] last year to loss-making enterprises. . . . If my calculations are correct, this is roughly a quarter of the national income." Bukta responded, "The facts are correct and your calculation as regard the per cent is also right. This is an intolerable situation."

The Hungarian government wants to structurally transform the economy—while remaining totally in control of it. They want the benefits of capitalism while retaining the iron-grip of socialism. As economist Kazimierz Poznanski concluded in a World Bank study, "The main result has been an expansion of new regulations, not a strengthening of the motivation for efficiency in industry."

And the government still has much hostility to the private sector. Fifteen private Hungarian investors recently opened the first privately built and managed hotel in the Eastern Bloc. But the hotel was driven out of business when government "forced the management to reduce the number of beds available and to meet subsequently introduced laws governing private guest houses," according to an Economist Intelligence Unit report in early 1986.

Hungary has one of the most highly concentrated industrial sectors in the world. The economy is dominated by huge trusts that effectively make their own rules. In 1938, before the communist takeover, Hungary had almost 4,000 manufacturing enterprises. By 1960 there still were nearly 1,400 state industrial enterprises, but by 1980 the number had fallen to under 700. There has been some limited reform in recent years—but large firms still dominate the economy. Thus, the domestic economy is largely a handful of monopolies and monopsonies—with little real competition.

Many Hungarians view the large firms as economic dinosaurs which are dragging down the entire country. The highly respected Hungarian weekly economic paper, *Figyelo,* found "that for a wide range of measures, enterprise efficiency declined with size; in particular, enterprises undertaking dynamic investment programs were very likely to suffer a loss of efficiency in terms of return on capital."

Not only do the large companies usually function poorly, they are also powerful opponents of reform. According to Andras Hegedus, a prominent sociologist who was Hungarian Prime Minister in 1955-56, "Managers of big enterprises are not only against reform in general but, in view of their particular interests, also form obstacles to the achievement of particular economic policy aims. . . ." Hegedus believes that "the government's fear of autonomous economic units is today far greater than its wish for dynamic economic development" (Economist Intelligence Unit, *Quarterly Economic Review,* February 1984).

Subsidized Failures

The government repeatedly has announced its commitment to more competition—and then followed up by pouring in massive subsidies to firms that founder. As economist Janos Kornai notes, "One of the means by which the 1979 reforms sought to 'toughen up' conditions for price formation by enterprises was to compel them to adjust their prices to those prevailing in Hungarian export industries, which try to compete on Western markets for hard-currency sales. When it appeared that only very few enterprises could live up to such high standards, their supervising ministries provided relief to as many as 741 out of 1136 firms" (*Problems of Communism,* p. 12).

One test of whether a free market actually exists is whether firms are allowed to fail. If firms can't go bankrupt, then the economy never will be able to discard its most inefficient producers. In Hungary, profits and losses are largely dependent on political decision, and "losses" are very rare. As the World Bank noted, "Only 10 Hungarian enterprises of 1,735 showed a loss in 1980—a crisis year for Hungary." In 1984, only 28 firms showed a loss.

The problems of investment in Hungary were summarized recently by the Deputy Director of the Investment Division of the Ministry of Housing, Public Construction, and Town Development: "A comparison of similar kinds of investment projects found that in Hungary completion takes an average 30-50 per cent longer than in the other CMEA (Council of Mutual Economic Assistance) countries and 200-300 per cent longer as compared with the best firms in developed capitalist countries. Our costs are from three to seven times larger."

Maximum government intervention characterizes Hungarian investments. As Miklos Nemeth, Deputy Director of the Party's Central Committee Economic Policy Department noted, "The collection of rules and regulations that control all of the important aspects of enterprise investment activities represent a 700 page book, in which one finds approximately 150 decrees. As one of the authors of the volume, I calculated that there are, on average, 1.6 changes in the decrees each week. . . . At the present time both the investor and contractor have incentives to make the project as expensive as possible—and poor management provides plenty of opportunities to realize this" (*Heti Vilaggazdasag,* March 17, 1984).

Rational investment is difficult because the state still controls—and distorts—the prices of many key inputs, such as labor, energy, and raw materials. Investment requires central approval—and the central planners are still strongly biased in favor of the huge inefficient firms that dominate Hungary's economy.

Labor is not the only scarce resource that the Hungarian economy squanders. Hungarian industry is extremely inefficient in utilizing raw materials. As the Economist Intelligence Unit noted, "Materials make up about 65 per cent of industrial production by value and studies show that Hungarian engineering products use too much material, often one-and-a-half to three times higher than international standards" (*Annual Report on Hungary,* 1985). This higher cost base diminishes the competitiveness of Hungarian goods on the world market.

Socialism and Shabby Goods

But probably Hungary's greatest problem in competing on world markets is the poor quality of its goods. As in everywhere else in the Eastern Bloc, shabbiness and socialism appear to go hand in hand. As Jan Vanous, research director for Planecon Consultants observes, "The Hungarian decision makers have selected the worst of all combinations in the area of exports. They have sufficiently weakened central control . . . while failing at the same time to put into place an alternative mechanism that would do the job (an open, competitive, market-driven system)."

Though it has been obvious for decades that better quality production is Hungary's only hope of success on the world market, the economy has been unable to meet the challenge. There have been some exceptions—Ikarus sells over ten per cent of its bus production to the West. But most of the manufactured goods Hungary sells to the West contain a large amount of western components—and Hungary often makes scant profit on the sales.

Trade among Hungarian firms tends to be limited and highly inefficient. It is often difficult for a company to get recourse from another company that fails to fulfill its contract. As a result, Hungarian companies often go to great lengths to manufacture their own components—usually very inefficiently and at far higher prices than could be done with a more advanced division of labor. As an OECD study noted, "It is characteristic of Hungarian industry that many firms have their own foundry. Thus, products and inputs that manufacturers in much of the rest of the world would buy from outside suppliers or subcontract to specialized firms, are produced internally in Hungarian enterprises, typically under primitive workshop conditions."

Even when Hungary has a good idea, it often cannot cash in. The Rubik Cube was a Hungarian invention—but the Taiwanese profited more from it because it took the Hungarians several years to boost their production of the cubes—and by then it was too late. The Hungarians even had difficulty exporting to the Eastern Bloc, because Hungarian industry could not produce high quality color labels for the blocks. Hard currency had to be spent for the color labels—which made the government reluctant to sell the cubes to socialist countries for soft currency. And, since Eastern Bloc trade agreements leave little or no room for new products, Rubik Cube exports likely would have displaced other Hungarian toy exports.

Hungary is also severely handicapped by its reliance on COMECON (Council of Mutual Economic Cooperation) trade. During the 1970s, the leadership borrowed heavily in the West in order to increase Hungary's sales to its fellow Warsaw Pact members, especially the Soviet Union. It was a peculiar strategy, since it is difficult to pay off hard-currency debts in near-worthless Soviet rubles.

Trade among COMECON members usually is based on primitive barter arrangements—trading two car tires for one truck tire, trading a rear axle for a front axle, and so on. A few years ago, Poland and Czechoslovakia were exchanging tractor parts—based solely on one kilogram of Czech parts for one kilogram of Polish parts. Since the centrally planned economies do not rely on prices, and each contrives its prices differently, they simply agree to exchange quantities of specified goods.

This leads to numerous problems. As OECD notes, "If a component is imported from a CMEA supplier, the Hungarian customer has no direct recourse to solve problems of quality or delays in delivery." Hungary's reliance on COMECON trade has been particularly harmful to the competitiveness of its Ikarus buses. OECD found ". . . the Hungarian party was regularly forced to accept and use subassemblies of unsatisfactory quality and technological standard, which impairs the technological standards of the completed vehicles and their competitiveness" (Paul Marer, *East-West Technology Transfer*).

If companies want to use Western technology for their goods, they must get central approval for the imports. But the central planners are still strongly biased in favor of the huge enterprises. Thus, scarce foreign currency is squandered to provide inputs for companies that cannot efficiently use them while smaller and more dynamic companies or cooperatives are denied the resources that would give them a better chance to export to the West.

The lack of market prices and market signals often cripples Hungarian export efforts. As *Figyelo* recently reported, some products which are exported in response to government pressure are imported by other firms at higher prices.

Hungary is also handicapped by its inadequate infrastructure and the incompetent state organizations responsible for its upkeep. The Hungarian communications system is extremely backward. Hungarian estimates show that the telephone network is so poor that the extra work and costs it imposes on users (in terms of extra correspondence, delays in arranging transactions, etc.) may amount to as much as 10 per cent of national income.

The electric power supply is just as bad. Hungary receives much of its electric power from Russia—but the quality of the connecting grids is very poor and appears to be deteriorating. If power wavers too much, it could wreck sensitive electronic components in computers throughout the country.

The one bright spot in the Hungarian economy has been agriculture—largely because of the long history of tolerating or encouraging private activity. In 1979, exports of slaughtered rabbits from private operations yielded the same amount of foreign exchange ($50 million) as exports of the entire state pharmaceutical industry. But private agricultural activity is too limited to make a significant difference in the fate of Hungary's economy.

Hungary on the World Market

Since the 1960s, Hungary's performance on the world market has sharply deteriorated. Hungary has failed to increase significantly the dollar value of its exports since 1980—despite receiving billions of dollars of western credit and volumes of advice from the World Bank and IMF. Between 1980 and 1985, Hungary's market share in developed countries' imports of machinery and equipment fell by over a third —from 1.25 per cent to less than 0.8 per cent.

Hungary's inability to increase the dollar value of its exports prevents it from digging out from under its mountain of debt. Hungary continues massive borrowings—pulling in $1.6 billion in 1985 and another $1 billion in 1986—rolling up its debts and postponing the day of reckoning. Hungary's main asset appears to be the illusion in the West that its economic reforms are succeeding and that it continues to be a good credit risk.

Changes in Per Capita Income

	1949	1976	1984
Hungary	$269	$2,280	$ 2,100
Austria	216	5,330	9,140
Italy	235	3,050	6,420
West Germany	320	7,380	11,130
Japan	100	4,910	10,630
Singapore	n.a.	2,700	7,260
Taiwan	n.a.	1,070	3,140
South Korea	n.a.	670	2,110

(n.a. not available)

Source: 1949: United Nations Statistical Papers, Series E, No. 1, October 1950, pp. 14-16.
1976: World Bank, *World Development Report,* 1978, pp. 77-78.
1984: World Bank, *World Development Report,* 1986, pp. 180-181.

The Failure of Hungarian Socialism

Economic mismanagement is having an apparent effect on Hungarians' health. As in the Soviet Union, the mortality rate is rising—an anomaly for an industrial country and an indication that public health is seriously deteriorating. According to the United Nations, average life expectancy at age 35 for Hungarian males declined by 2.7 years between 1964 and 1982. There was an especially sharp increase in mortality during 1980-1982. Mortality for males ages 30-44 increased 4 per cent, ages 45-59 increased 5 per cent, ages 60-74 increased 2 per cent (*East European Economies,* Spring-Summer 1984).

To fully appreciate the cost of Hungarian socialism, it is instructive to compare the changes in per capita income for Hungary and other nations after World War II.

Clearly, Hungary has done dismally compared to other countries. Hungary was on a par or in the same league with Austria, Italy, and not far behind West Germany in 1949. Now West Germany's standard of living is five times higher, Austria's is four times higher, and Italy's is three times higher. Japan's per capita income was less than half of Hungary's per capita income in 1949; now, it is five times higher and rising fast. The real cost of socialism becomes apparent when seeing what might have been—seeing how much more prosperous other countries have become by following more market-oriented policies.

Conclusion

What has failed in Hungary is not the reforms—but the perpetuation of the basic structure. The economy has not suffered because government has allowed private citizens to drive taxis and sell ice cream, but because government continues to prohibit private citizens from combining to form large companies and to organize production according to market demands rather than political imperatives. Hungary remains poor not because of what it has allowed, but because of what it continues to ban. As economist Tamas Bauer observes, "The kind of 'renaissance' prevailing in Hungary . . . may easily discredit the entire idea of reform by destroying its validity."

Market socialism is the great illusion of the 1980s. As long as the government controls production, distorts prices, and misallocates resources, no amount of private initiative in retailing or in selected services will resolve the fundamental problems of uncompetitive, low quality goods, depressed productivity, and an inadequate standard of living. □

Capitalism at a Crossroads: 1875-1900

by J. Brian Phillips

The last quarter of the nineteenth century was a turning point for American capitalism. Just when free enterprise seemed to be enjoying its greatest success—with technological advances creating many new industries, opportunities opening for millions of workers, and living standards on the rise—the intellectual roots of capitalism came under relentless attack. When the proponents of capitalism were unable to mount an effective defense, popular support shifted toward interventionism, and the American era of laissez faire came to an end.

Who were the critics of capitalism—the collectivists who overthrew laissez faire? Who were capitalism's defenders at this critical juncture? Let us consider each in turn.

The Collectivists: George, Bellamy, and Lloyd

In 1879, journalist Henry George published the immensely popular *Progress and Poverty,* in which he argued that private ownership of land is the cause of many of the world's evils. "To extirpate poverty," he wrote, "to make wages what justice commands they should be, the full earnings of the laborer, we must therefore substitute for the individual ownership of land a common ownership."[1] George arrived at this conclusion by declaring that "Land is the source of all wealth."[2] Consequently, a man who is denied land is denied the right to earn a living.

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A man has a natural right to the products of his labor, George argued, and therefore should not be forced to pay rent to a landowner, who contributed nothing to production. To George, the capitalist was an exploiter, who got rich on the backs of the workers.

To ensure that people would be rewarded for their efforts, George devised a system in which an individual would be guaranteed the right to use a specified parcel of land. However, rather than owning that land, the individual would be little more than a rent-paying tenant. This, George assured his readers, would provide opportunities for all and bring a quick end to poverty.

But, if George's system were fully implemented, such assurances would amount to idle promises. If all land were publicly owned, the public would have the power to determine its use. A man would have no guarantee that the factory he built this year would be allowed to stand the next year, if the public should decide on another use for that land. And, if this policy were applied to land, it soon could be extended to other forms of property. If the source of all wealth is public property, it is only a matter of time before all wealth becomes public property.

In 1888, Edward Bellamy published *Looking Backward,* a novel in which the hero falls asleep in 1887 and awakens in the year 2000 to find America has been transformed into a socialist utopia. *Looking Backward* was so popular that "Bellamy Clubs" sprung up across the nation and at one time had an estimated membership of over 500,000. Bellamy's vision, which included nationalization of the trusts (a common target of collectivists), was often quite similar to Marxism. However, Bellamy believed that the word "socialism" would not be politically palatable in America, and preferred to call his ideas "nationalism." Nationalists, he wrote, "are socialists who, holding all that socialists agree on, go further, and hold also that the distribution of the cooperative product among the members of the community must be not merely equitable, whatever that term may mean, but must be always and absolutely equal."[3]

In 1894, a Chicago journalist named Henry Demarest Lloyd published *Wealth Against Commonwealth,* an attack on the Standard Oil Trust. Lloyd believed that Standard Oil and its founder, John D. Rockefeller, represented everything wrong with society in general, and capitalism in particular.

To Lloyd, the capitalists were as evil and tyrannical as King George III had been prior to the American Revolution. They were individualists, he declared, who placed their own self-interests above the public interests. Individualism, he believed, had served its purpose. "The *laissez-faire* of social self-interest," Lloyd wrote, "if true, cannot conflict with the individual self-interest, if true, but it must outrank it always."[4] In other words, the individual is to be subservient to society.

Lloyd believed that society is the measure of good and evil, right and wrong. "Nothing is needed but one thing," he wrote, "no new laws nor investigations by Congress, no amendment of the Constitution, nothing but public opinion. Here lies ready to the hands of the people every tool they need."[5] In other words, laws and Constitutions are irrelevant—all that counts is the will of the people—unlimited majority rule.

Capitalism's Defenders

In the late nineteenth century, the most prominent defender of the *status quo* in America was William Graham Sumner, a sociologist at Yale University. Sumner adhered to the theories of Herbert Spencer, an English philosopher who had developed a defense of capitalism based on the work of Charles Darwin. Popularly called Social Darwinism, Spencer's ideas explained society in terms of the "survival of the fittest." Industrialists, the theory held, were merely the fittest humans.

The practical result of Social Darwinism was the creation of two classes of men—one class inferior to the other. Furthermore, Social Darwinism provided justification for the superior class to exploit the inferior class. And to the workers and collectivist intellectuals, this was precisely what the capitalists were doing.

While Sumner advocated laissez-faire economic policies, he failed to justify his position on the basis of individual rights. To the contrary, Sumner held that rights are neither inviolable, nor are they applicable to all equally. Rights, Sumner believed, are merely social conventions which have proven to be effective means of promoting production. Expediency, not principles, dictated rights.

On what terms was expediency determined? By the will of the people. "Might makes a right," Sumner wrote. "Whether that right is or is not rightful, just, fair, good, seemly, or proper, is quite another matter, for it involves a moral judgment."[6] And it was moral judgments which Sumner sought to avoid. In the absence of moral judgments unfortunately, any political action could be justified.

It is important to realize that capitalism does not ultimately rest on ethical principles, but rather on fundamental premises about the nature of reality and knowledge of that reality, i.e., metaphysics and epistemology. Ethics defines the principles of proper human action. Politics, as the final expression of a philosophical system, is a form of social ethics. Which is to say, politics defines the principles of an individual's actions within society, and more importantly, society's actions against individuals.

Andrew Carnegie, one of the great industrialists of the age, was not an ardent advocate of capitalism, but he was a vocal critic of communism. However, Carnegie was not an intellectual, and he had to choose between the popular theories of the day. He chose Social Darwinism.

But Carnegie added an altruistic twist to Sumner's ideas. Inherited wealth, he believed, is corrupting. Carnegie maintained that the wealthy should give their money to the public, in the form of philanthropic endeavors. To encourage this activity, Carnegie advocated high estate taxes. "By taxing estates heavily at death," he wrote, "the state marks its condemnation of the selfish millionaire's unworthy life."[7] To Carnegie, a man's wealth was not truly his, but only held in trust for society. It could be relinquished "voluntarily" during one's life, or forcibly seized upon one's death.

Another great industrialist, John D. Rockefeller, shared Carnegie's belief that the rich should use their wealth for the betterment of society. Rockefeller, however, found his guidance in the teachings of the Episcopal bishop of Massachusetts, William Lawrence. Lawrence believed that wealth came only to the moral man. The virtues which resulted in material prosperity, e.g., industry, frugality, and temperance, were also espoused by the clergy. Wealth, Lawrence believed, was God's means of allowing moral men to help the masses.

At the most essential level, capitalism's alleged defenders agreed with capitalism's critics. Carnegie and Rockefeller believed that men are morally bound to use their wealth to promote the public welfare. Henry George agreed, but he wanted the State, rather than capitalists, to determine what the public welfare is. Sumner argued that might makes right; Lloyd agreed, advocating that people use force to seize whatever they want. The Social Darwinists argued that the fittest men have a right to trample on the rights of others. They may have disagreed on the particulars, but each side of the debate concurred that individual rights are neither sacrosanct, nor the basis for a civilized society.

More Government

It was within this intellectual atmosphere that American capitalism reached its zenith. But even from its inception, America's economy was never completely free of government controls. Tariffs and duties were used to collect revenue and protect domestic industries. As the economy grew, the effects of these interventions increased to the point where many industries were completely insulated from foreign competition. Indeed, less than three months after the passage of the Sherman Antitrust Act in 1890, the McKinley Tariff Act imposed the highest and broadest tariffs in the nation's history. Evading the contradiction, the American people complained about the anti-competitive nature of the trusts, while simultaneously clamoring for higher tariffs to protect domestic industries from foreign competition.

When farmers complained about high shipping costs, they did not question the governments's role in giving land grants and other monopoly privileges to some railroads; the farmers questioned the morality of the railroad owners. When workers and consumers complained about the trusts, they did not question the government's policy of high tariffs which curtailed competition; they questioned the morality of the industrialists. When reports of government corruption surfaced, people did not question the ethics of the legislators; they questioned the morality of men who had to resort to bribes to secure government permission to operate their business as they saw fit. Regardless of the issue, the industrialists and businessmen were condemned.

The growing unrest began to manifest itself politically during the 1870s. The Granger Movement united farmers in protest over the policies of the railroads. The agrarian movement continued with the Greenback and Populist Parties. The Populist Party platform for 1892 called for, among other things, nationalization of the railroads, free coinage of silver, a graduated income tax, prohibition on foreign ownership of land, and tighter restrictions on immigration. The Populists, however, did not consider themselves socialists, but espoused collectivism only as a means to a more "enlightened individualism." The fact is, "enlightened individualism" cannot be achieved by obliterating individual rights—collectivism and individualism are incompatible.

The intellectual climate of the post-Reconstruction era was best described by Henry Demarest Lloyd:

> Monopoly and anti-monopoly, odious as these words have become to the literary ear, represent the two great tendencies of our time: monopoly, the tendency to combination; anti-monopoly, the demand for social control of it. As the man is bent towards business or patriotism, he will negotiate

> combinations or agitate for laws to regulate them. The first is capitalistic, the second is social. The first, industrial; the second, moral. The first promotes wealth; the second, citizenship.[8]

But monopoly and anti-monopoly were merely the political manifestations of a more fundamental conflict—the conflict between individualism and collectivism.

The populist/reform movement was concerned primarily with the distribution of wealth, not its creation. Lloyd and his fellow reformers viewed wealth as a static quantity, and rather than encourage further production, they preferred to advocate more equal distribution of that which already existed. However, they overlooked the fact that when production is discouraged, the amount of wealth available to distribute ultimately falls. This is why plans to achieve equal wealth invariably result in equal poverty.

One of the catch phrases of the era was cooperation. This, the intellectuals argued, was the key to the future of society. Capitalism encouraged competition, to the benefit of the few at the expense of the many. A socialist society would be based entirely on cooperative effort, to the benefit of all.

But as is often the case, the opposite is true. Because capitalism prohibits initiation of force, the only alternative means of interaction between individuals is through cooperation. Conversely, collectivism encourages competition in securing government power. Capitalism encourages men to trade to mutual benefit; collectivism encourages men to join warring factions in order to secure privileges for themselves at the expense of others. In a capitalist society, in which the government has no control over the economy, there is no benefit to be derived from pressure group politics; in a collectivist society, in which the State controls the economy, pressure groups are a matter of economic survival.

Conclusion

Throughout history, some people have enjoyed greater wealth than others. However, American society was the first in which that wealth was attained, not by conquest or confiscation, but by production and trade. For this, America's capitalists were condemned.

The few voices which attempted to justify capitalism did so, not on moral grounds, but on the basis of expediency. Conceding morality to their opponents, capitalism's defenders had no meaningful basis for their arguments. The entire intellectual spectrum agreed that wealth ultimately belonged to society; capitalism's supporters insisted that it was in society's interest to allow a few men to enjoy that wealth so that all of society eventually would benefit.

Just as a skyscraper cannot be constructed on quicksand, capitalism cannot be defended by conceding moral premises to capitalism's enemies. Any defense of capitalism which is not founded on individual rights is a fraud.

America's Founding Fathers proudly proclaimed that individuals have a moral right to live for themselves, and the purpose of government is to protect that right. This was America's greatest accomplishment.

But the Founding Fathers were political philosophers, not moral philosophers; therefore, capitalism was never provided with the proper moral justification. Unable to refute capitalism's superiority, its enemies resorted to lies, misrepresentations, and historical evasions. Unable to construct a new moral code, its defenders abandoned morality altogether. The result was not so much the intentional murder of capitalism, but rather, suicide by default. □

1. Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1955), p. 328.
2. *Ibid*, p. 272.
3. Edward Bellamy, Introduction to *Socialism: The Fabian Essays*, edited by G. Bernard Shaw (Boston: Charles E. Brown & Co., 1894), p. xvi.
4. Henry Demarest Lloyd, *Wealth Against Commonwealth* (New York: Harper & Brothers, 1894), p. 497.
5. Henry Demarest Lloyd, *The Lords of Industry*, reprint of 1910 edition (New York: Arno Press, 1973), p. 300.
6. William Graham Sumner and Albert Galloway Keller, *The Science of Society* (New Haven: Yale University Press, 1927), Vol. I, p. 591.
7. Andrew Carnegie, "Wealth," in *Great Issues in American History*, edited by Richard and Beatrice K. Hofstadter (New York: Vintage Books, 1982), Vol. III, p. 83.
8. *The Lords of Industry*, p. 146.

Public Choice Theory: Not the Whole Story

by Tibor R. Machan

In October 1986 Professor James M. Buchanan was awarded the Nobel Prize for economics. He received the award for his pioneering work in public choice theory, a branch of economic analysis that studies the behavior of politicians and bureaucrats, especially in a representative democracy such as the United States.

Professor Buchanan, who now teaches at George Mason University in Fairfax, Virginia, developed his theory in cooperation with several other economists, most notably Professor Gordon Tullock. (During the development of public choice theory both of these economists taught at the Virginia Polytechnic Institute and State University, Blacksburg, Virginia.) Their book, *The Calculus of Consent* (University of Michigan Press, 1962), pioneered this new application of economics. Since its publication, other books and journals have followed, including the scholarly journal of the Center for Study of Public Choice, *Public Choice,* which published extensive and complex studies on a great variety of topics of concern to public choice theorists. Professors Buchanan and Tullock also have inspired numerous other economists, philosophers, political scientists, and legal theorists to explore various implications of the public choice approach.

What do public choice theorists claim? Essentially they hold that when people enter government and become "public" servants, they act on the same motives they would if they were agents in the marketplace. "Public" servants are motivated no less by private interests than are men and women in business. As Buchanan puts it, "Politicians and bureaucrats are seen as ordinary persons, and 'politics' is viewed as a set of arrangements, a game if you will, in which many players with quite disparate objectives interact so as to generate a set of outcomes that may not be either internally consistent or efficient."[1]

Public choice theory also implies, in Buchanan's words, that "The bureaucracy can play off one set of constituents against others, insuring that budgets rise much beyond plausibly efficient limits."[2]

To appreciate adequately why public choice theory delivers its paradoxical conclusions concerning what our public servants actually do—namely, further their own private or vested interests—one needs to know the basic postulates of contemporary economic science. Mainstream economics today assumes that we always behave so as to maximize our satisfactions or wealth. As another Nobel winner in economics, Milton Friedman, put it,

> . . . every individual serves his own private interest. . . . The great Saints of history have served their "private interest" just as the most money-grubbing miser has served his interest. The *private interest* is whatever it is that drives an individual.[3]

Or as another influential economist, Professor Gary Becker, put it as he spelled out the

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fundamental tenets of his social-scientific approach to understanding human affairs, "The combined assumptions of maximizing behavior, market equilibrium, and stable preferences, used relentlessly and unflinchingly, form the heart of the economic approach as I see it."[4]

What this view means in common parlance is that economic science assumes that we are all driven by our desires. These are ranked in order so that some of us prefer sweet things, fresh air, excitement, music, sports, in that order, others don't. It is such desires to have or do various things that motivate us and there is nothing from the economic point of view that needs to be said about whether these are good things or bad. And in the more extreme scientistic versions of economics, there is nothing anyone can do about what will motivate people. Our motives are simply what explains what we do, period. And if we wish to understand people's behavior, we need to pay attention to the fact that they are motivated by their desires.

Of course, there are various nuances in economic theory which are not captured in the above general statements. But the main point is that we must do what we desire to do. And public choice theorists take this view into the special area of understanding the behavior of public officials by asserting, as a corollary of general economic analysis, that not only do we do this as shoppers, bankers, merchants, corporate executives, brokers, and the like, but also as "public" servants.

Revising Common Sense

There would be little interest in public choice analysis if it did not serve to modify our nontechnical understanding of how public servants behave. That is why Professor Buchanan was honored with the Nobel Prize. He points out something that we normally were not aware of —indeed, something that we very likely would have missed without him.

Ordinarily we take it that politicians, bureaucrats, diplomats, and other "public" servants are devoted to the public interest, not to what they privately desire. At least, we take this as their professional responsibility, something they ought to be doing, at least when they carry on in good faith. A public servant is not supposed to be a profit maximizer, one who wants to satisfy himself in a competitive marketplace. Put plainly, such as person is supposed to pursue the public interest.

Yet public choice theorists deny this common assumption. What they say by way of economic analysis may be put in more familiar terms: They believe that people in public positions really try to advance their own lot before anyone else's. But is this the whole story?

Public versus Private Service in the Welfare State

Governments of welfare states get involved in all sorts of activities to pursue particular goals that various individuals and groups of citizens seek to achieve. They further the lot of artists (via the various arts councils and endowments), farmers (via subsidies and price support programs), various professions (via licensing requirements), auto workers or high-tech industries (via trade policies), and so on. The welfare state expects a great deal of its government and even if officials conscientiously tried to fulfill their duties to their constituencies, they would go astray in their assigned tasks. It is not surprising, furthermore, that "public servants" who serve special interests are not able to keep their minds on what the public interest happens to be.

Virtually no meaningful distinction betweeen the public and the private interest is possible when government promotes the same ends that are pursued in the private sector. Indeed, as soon as some people are dissatisfied with how the private sector achieves some private purpose, governments are quickly approached to promote that same purpose. Too many examples come to mind to pick the most appropriate one, but a very apt recent case is day care centers. Although hundreds of private companies and other agencies fulfill the task of serving single or working parents with child care facilities, there is constant support from various segments of the public for government to expand its involvement in this activity. From AIDS research to trade restrictions, the bulk of contemporary legislation comes to little more than government helping people with their private or vested interests, misnaming it all as the pursuit of the public interest. There appears to be no public interest distinct from the varied private or special interests the government now serves.

Here is a case that is familiar to me. The federal government recently started the Jacob J. Javits National Graduate Fellowship Program (NGFP). People from various branches of the educational establishment were appointed to a board of overseers. Colleges and various groups devoted to undergraduate education beseech the board to conduct an effective program, one that really helps deserving undergraduates. At the same time, of course, other people are asking the government to work toward other goals.

In this example the public choice theorist would find a clear application of the assumptions of his view. Indeed, this is one way of describing what happens in cases such as the above that conforms to what public choice theory would predict: To wit, those on the overseeing board eargerly promote the efficient administration and ample funding of the program in question. They select the appropriate panels and panel chiefs, they encourage the supporting staff, in this case from the Department of Education, and they report back to Congress with requests of further and more abundant support for the program.

Vested versus Public Interest: A Meaningful Contrast

But there is another way to describe what is going on here, a way that may be compatible with public choice theory yet does not cast the situation in the same conceptual light. And it may be important to try to do this because the public choice theory idea is rather pessimistic —if we really are all just trying to gain our own advantage, even when we swear that that is not what we will be doing in our role as politicians or bureaucrats, what's the use of even pointing this out? Those assigned to fix the situation, even at the institutional level (as Buchanan suggests), would be simply carrying on in the same hopeless way as have all the other "public" servants.

In a case such as the NGFP, the appointed overseers and administrators are asked to do a good job. And they are asked to report to Congress about how well they are managing to do what members of Congress have decided on doing. And in most of these cases these people see that the money they have to administer is not enough to do the job as well as they can conceive of doing it. After all, if the program is to be carried out, it should be done right, shouldn't it?

As described above, this does not seem to be a case of politicians and bureaucrats simply wishing to fulfill their desires, nor of being driven by private interest. Not quite, although that is clearly part of it, especially when we focus on the staff hired to administer the programs in question, that is, "those persons," as Buchanan describes them, "who actually *supply* the goods and services that are provided via governmental auspices."

Modifying Public Choice Theory

Some friendly critics now make a point against public choice theory that seems to take into account the above understanding of what goes on in public administration. They seem to be aware that referring merely to the private or vested interest of those involved in carrying out the project fails to give full justice to the situation. They contend that in order for public choice theory to be an adequate explanation of how politicians and bureaucrats behave one must also consider the belief system that motivates them—e.g., whether they are conservatives, liberals, libertarians, socialists, whatnots, and whether they have a bona fide commitment to the programs involved or are merely advancing their private roles in the administration of such a program. They may even have a bona fide public service orientation, albeit somewhat unorthodox in what this means.

Professors Joseph P. Kalt and Mark Zupan, of Harvard's Kennedy School of Government and the University of Southern California, respectively, have argued that an "ideology" variable must be added to the public choice or "economic man" model so as to explain what members of the U.S. Congress and other bureaucrats do as they approach their various projects. In particular, they studied what the United States Senate did in the case of coal strip mining. Their statistical analysis shows that the "ideology" variable explains the voting patterns of the Senate on the Surface Mining Control and Reclamation Act (passed in 1977) better than does the public choice model. In short, in addition to considering the desires of the legislators to be re-elected, the bureaucrats to continue on and expand their jobs, etc., we need also consider the broader political ideals of public agents.

Some people, of course, will suggest that adding the ideological variable does no damage to the economic man model. They will say that the urge to follow an ideology is no less a case of utility maximization than the urge to seek a vacation in the Bahamas or to increase one's income. But this simply makes shambles of the explanatory value of the economic man model. Any factor or model that explains anything whatever—e.g., self-defeating as well as self-serving conduct—simply explains nothing much! If economic man explains the bank robber as well as the banker, what can we learn from the explanation? In no science would this kind of approach be admitted.

In order to avoid this vacuousness, the ideological variable has to be seen as adding a dimension—namely, what kind of conduct human beings take to be proper, what they see as binding on them quite apart from what they may prefer. This is how we can make sense of self-control, restraint, integrity, etc., not by lumping them all together and thereby wiping the human world clean of meaningful distinctions.

Indeed, Professor Buchanan himself has focused his attention on some of the broader philosophical issues concerning public choice, finding the pure economic explanation of human behavior insufficient. The following passage from Buchanan will shed light on just how his thinking differs from the pure economic man approach to understanding political behavior:

> . . . once the body politic begins to get overly concerned about the distribution of the pie under existing property-rights assignments and legal rules, once we begin to think either about the personal gains from lawbreaking, privately or publicly, or about the disparities between existing imputations and those estimated to be forthcoming under some idealized anarchy, we are necessarily precluding and forestalling the achievement of potential structural changes that might increase the size of the pie for *all*. Too much concern for [distributive] "justice" acts to insure that "growth" will not take place, and for reasons much more basic than *the familiar economic incentives arguments*.[5]

In other words, focusing on the behavior of public servants within the current political and legal framework is not sufficient for understanding what alternatives face us in understanding and conducting public affairs. It can serve to block basic reform which is itself not impossible despite the motivations of public servants.

Ideas Can Have Consequences

Basic reform may emerge as part of the ideology that public servants themselves can infuse into their conduct in the public realm. If public servants were to become convinced that the promotion of some popular project is indeed *not a proper government activity* in the first place, then despite what they might do in circumstances which are not governed by this "ideological" consideration, they could come to behave very differently from what public choice theory predicts.

In particular, suppose that a politician or bureaucrat came to understand that as the government is conceived under the welfare state, its operations must produce the famous tragedy of the commons—the overuse of the public realm (which in this case is public funds). This is a genuine tragedy in that something is morally amiss, yet given some of the structural features of government, it is not possible to remedy matters. Indeed, the problem of balancing the budget versus promoting worthwhile goals is just the sort that characterizes this tragedy—everyone conscientiously aims to serve worthwhile goals, yet in the process a general shortage of the means to support such goals is created throughout the community.

Once this is understood by public servants, it could turn out that they will discipline themselves to focus on the appropriate reforms. There are in our time ample cases of such realignment of public behavior. Despite the fact, for example, that the Javits Program serves a valuable purpose that no one can fault, there are those involved in it who regard it as not the proper function of government to serve this purpose. This idea may be unusual these days and indeed such people are sharply resisted by many of their colleagues and those who come to "testify" before board meetings of the administrators of the program—i.e., supporters and lobbyists. Pleas about how similar projects, aimed at helping the sciences, are receiving so much more funding, so why not carry forth with this little bit for the humanities are often met with: "This is where I can do public service and if I had the chance to do it elsewhere, I would."

The realignment may, of course, come from a different understanding of public affairs, so the particular "ideology" that may lead to the reform must be carefully scrutinized, apart from the analysis of public conduct itself. But clearly the "ideology" of the public servant, not simply his or her vested interests, has a bearing on the development of public affairs. The reason this is obscured and why public choice theory is only now adjusting itself to the insight is that the welfare state is structurally incapable of facilitating the serving of a distinct public interest when it implies by its scope that no distinction between public and private concerns exists. This (socialist) notion can cause much confusion.

Conclusion

There is reason to think that while economic analysis is crucial for understanding virtually any area of human behavior, it is not sufficient for such an understanding. There are, for example, politicians who buck trends, who see that the fulfillment of their responsibilities lies with remedying, as best as possible, the consequences of the special interest hustling that dominates the politics of the welfare state.

James Buchanan

Some of these support—incidentally, with the advice of Professor Buchanan—the Balanced Budget Amendment movement. Others support appointments to various government bodies knowing that those whom they will appoint are not going to ask for more support for these programs. They will, instead, urge greater and greater restraint so as to solve the broader problem of creeping statism, holding that the special problem the program had been established to solve should be handled by people outside the scope of politics.

Professor Buchanan taught us that when government extends beyond its proper scope, it is very hard to limit its expansion. Yet we can still rely on the convictions of a few brave public servants who will try to resist the advances of statism and on the James Buchanans of the world to tell us that government must be limited to genuine public service—the maintenance and preservation of justice as spelled out in the Declaration of Independence. □

1. James Buchanan, "Why Governments 'Got Out of Hand,' " *New York Times*, October 26, 1986.
2. *Ibid.*
3. Milton Friedman, "The Line We Dare Not Cross," *Encounter*, November 1976.
4. Gary S. Becker, *The Economic Approach to Human Behavior* (University of Chicago Press, 1976), p. 5.
5. James Buchanan, "Boundaries on Social Contract," *Reason Papers*, No. 2, 1975, p. 27 (my emphasis in last sentence).

Lessons from Computers and Helium

by Jane S. Shaw

In the continuing debate over the proper roles of government and the private sector, advocates of the market sometimes seem to imply that the private sector does no wrong. Of course, this is absurd. In fact, it is likely that the private sector makes more—perhaps many more—mistakes than the public sector does.

The saving grace of the market process is that, unlike government, private individuals and corporations catch their mistakes. They do not—cannot—perpetuate them for long. If the market tells them, through mounting losses, that their dreams and visions are wrong, they cut short their plans and stop pouring money into losing propositions. It may hurt, but they do it.

One dramatic example of a private sector mistake is the failure of the major computer companies to anticipate the personal computer. Two firms, Digital Equipment and Hewlett Packard, at least considered the idea of a personal computer, says Stan Augarten in his history of computers, *Bit by Bit* (Ticknor & Fields, 1984). But most computer companies didn't. They envisioned a future of giant machines providing brainpower on a time-shared basis for multiple customers. With that vision, Augarten explains, they "couldn't imagine why anyone—any ordinary person, that is—would want a computer."

It was electronic hobbyists, not experts, who figured out how computers could be put together cheaply enough for an individual to own one. The first crude personal computers appeared as computer kits sold through popular science magazines. And in 1977, two young hobbyists, Stephen Wozniak and Steven Jobs, formed the Apple Computer Company and introduced the Apple II.

The industry has never been the same since. The dazzling growth of personal computers has shattered forever the concept that the world would simply progress step-by-step to ever-larger computers. The future will be much more diverse!

IBM, which introduced its own personal computer in 1981, landed on its feet. But the big old companies that made giant "mainframe" computers gradually retreated into narrow niches in the face of burgeoning competition.

By 1983, *Financial World* called the mainframe companies "dinosaurs" headed for extinction and warned that a couple of the big ones might not be around in the 1990s. By mid-1986, two of the behemoths, Sperry and Burroughs, announced a merger. Even though the stock market was booming, Wall Street valued some of these companies—Control Data, Data General, and Honeywell—at less than their annual revenues, and a Wall Street analyst quoted in *Business Week* called the industry "ripe for consolidation," with many companies up for sale.

We are seeing a multi-billion dollar transformation in the computer industry. The striking thing is that it has been occurring quietly and peacefully. You don't read about it in the headlines, except in places like *The Wall Street Journal;* no one has called congressional hearings, no political coalitions have formed to save the industry. Stockholders have quietly bought and sold their shares. Those who invested in winning firms made money; others lost it. Doing their daily business, they completely changed a major segment of the corporate world.

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In contrast, when government makes a mistake, true corrective action is rarely taken, and then only when the situation has reached scandal proportions and a politician is able to make hay out of exposing it. All too often, the commotion dies down and taxpayer money continues to flow for years into misbegotten projects.

An example: Twenty-five years ago, influential scientists worried that the nation might run out of helium. Inert and lighter than air, helium has "space-age" properties and, at the time, scientists feared there were no substitutes. By usual standards, helium is nonrenewable. If it is not extracted when natural gas is pumped out of the ground, it disappears into the atmosphere and can be recaptured only at high cost.

So, under pressure from experts and some private firms, Congress established a helium storage program. Helium would be extracted, purified, and re-injected into natural gas wells. Congress gave the Interior Department authority to borrow from the Treasury up to $47.5 million each year in loans to be paid back through helium sales.

But very quickly the project began to show signs of trouble. The sales that had been counted on to provide funds dried up. Substitutes were found after all. Moreover, new sources in the ground—promising enough helium to last hundreds of years—were found, making government storage superfluous.

The program became embarrassing enough for Congress to hold hearings. One congressmen called the continual borrowing from the Treasury an "albatross around our necks" and in 1973 the Interior Department stopped adding helium. But it continues to store billions of cubic feet of helium at taxpayers' expense. It now has in storage 140 years' worth of processed helium (assuming present rates of usage), and a recent count showed that it owed the Treasury $790 million!

Even so, suggestions that part of the helium stock should be auctioned off to help repay the Treasury were firmly rebuffed, year after year, by the Interior Department. Finally, in 1987, in an effort to cut the deficit, the President proposed selling the processing facilities (while keeping the helium). Congress has yet to take any action on that plan.

The helium program is only a small example of the failure of the government to correct its mistakes. The taxpayer continues to pour money into the farm program, even though it aids millionaires and increases rather than decreases the instability of the "family farm"; into subsidizing Amtrak, a perpetual moneyloser that transports affluent customers along the Northeast corridor; into environmentally unsound cutting of timber that can only be sold at a loss; and into the Bonneville Power Administration, whose policies brought about the $2.25 billion default of the Washington Public Power Supply System and currently cost the taxpayers several hundred million dollars every year.

Contrast these examples with the experience of the computer industry. One by one, the managers of the computer companies recognized that their image of the future was not the way it was going to be and they adjusted their companies in the light of that new reality. They may still think that the future should have gone their way, but the message from investors on Wall Street got through.

Government managers have little incentive to recognize reality. The taxpayers, not the managers, pay the losses, and few taxpayers realize they are doing so. Even when the losses become so visible that politicians can attract media attention by exposing them, the projects survive in less obvious form for decades. Unlike mistakes in the private sector, government errors haunt us generation after generation. □

A REVIEWER'S NOTEBOOK

The Silk Road

by John Chamberlain

If there is one big lesson to be derived from Irene M. Franck's and David M. Brownstone's *The Silk Road: A History* (New York: Facts on File Publications, 294 pp., $24.95), it is that people will trade with each other despite all the man-made and nature-made difficulties in the world.

For centuries our ancestors on the western reaches of the Eurasian continent had little contact with the East. They knew the Mediterranean, and they had managed to sail to Iceland and to "Vinland the Good" but their contact with China was blocked by desert climates in central Asia. The windblown sands of routes that skirted the fringes of the Tibetan highlands and the Gobi Desert could quickly bury trading posts, and even obliterate whole cities, which meant that travelers from East to West or West to East had continuously to rediscover ways that their forebears had pioneered over 4,000 years. In addition to the ever-encroaching sands, there were the nomads, the robbers, and the various tribes (the Huns, the Turks, the Mongols) that regarded all settled people as their natural prey.

Oddly, it was the aesthetic instinct that not only named the Silk Road, but also kept the overland routes between Europe and China open from the time when, in the second century B.C., the Chinese drove halfway across Asia to link up with western pathways that went north and south of the Caspian Sea. The Chinese had a passion for jade. The Roman world had a consuming hunger for silks. There had to be a meeting, and there was. It led to 400 years of happy accommodations.

According to Pliny, however, the Roman demands for luxury were an ultimate disaster for the empire. The Roman world in pre-Augustan times had been a farming world that fed itself. But in conquering lands to the east, the legions opened the way for Pliny's drain theory. The terminus for the Silk Road in Augustan times was Antioch, the capital of the Roman Orient. Here the silk was brought to be dyed and woven and embroidered to Roman tastes. The Phoenicians had discovered a Mediterranean mollusc that yielded a gorgeous purple dye, and the Romans loved it. From the Levantine ports, the dyed silks were shipped to the cities of the western empire. In return, the western Romans sent their gold and silver to the East, thus draining the empire of its monetary base. "This," said Pliny, "is the price that our luxuries . . . cost us."

The Pliny drainage theory is one way of accounting for the coming of the Dark Ages. But the disappearance of the precious metals couldn't have been the whole story. Before the second century A.D., merchants and caravans in central Asia, and on precipitous routes leading down past the Pamir mountains to India, were well protected by Roman, Parthian, Kushan, and Chinese rulers. But Franck and Brownstone tell us that the whole aspect of the Silk Road changed around 200 A.D. "Powers that had once ruled in splendor," they write, "fell into ignominious decline, each in its own way and for different reasons. The increasing dryness of Asia's steppes and deserts contributed to the upheaval, setting in motion the great hordes of nomads who had always lived a precarious existence, and who now toppled the great civilizations on Asia's perimeter. Activities on the great trans-Asian highway, which had long had a largely commercial-political-military cast to them, now came to have an increasingly religious tinge. In truth, there is more than a little truth to the suggestion that the insecurity and fragmentation of Asia in the fol-

lowing centuries caused many people to turn to the relatively new religions that were to change the face of the Silk Road."

There was, of course, the alternative cold climate route between East and West across the Siberian steppes. But this was always dangerous once the Siberian tribes had become horsemen. Atilla the Hun at one time, and Genghis Khan at another, made far more effective use of the northern steppes route than could be managed by anyone in the West. The Roman bastion at Constantinople held until its capture by the Turks in 1453. But Constantinople—or Byzantium—had lost the power to project itself eastward when it was sacked by the Venetians in the early thirteenth century.

Kublai Khan

History was to take a strange turn when Kublai Khan, the descendant of the fearsome Genghis, decided to become the peaceful protector of the Silk Road. It was Kublai Khan who, in the late thirteenth century, gave the Polo brothers from Venice a golden tablet on which was inscribed the command that they should be given "everything needful in all the countries through which they should pass," including horses and armed escorts. The record left by Marco Polo indicates that the Silk Road had become relatively comfortable and safe under the later Mongols. The Polos stayed in China for 16 years, traveling in the Khan's service from Cathay in the north to various cities in Manzi, as the southern part of the country was then called. They eventually came home to Europe by sea, taking the Spice Route around India to escort a Mongol princess to her promised husband in Persia.

The Crusades were only one protracted episode in the religious wars that, from the fourteenth century on, ended the Pax Mongolia. During the years of the Mongols' peace, European traders could set out for China with full knowledge that they could get there and find the best markets. But the contentious Moslems, Turks, and Christians brought an end to the harmonious years.

In the whole course of the Silk Road's history, so Franck and Brownstone write, "few people ever completed a round trip" on a highway that passed through many nations each jealous of taking its middleman's profits. "Even in the greatest days of the Silk Road," the authors say, "we know of no person who travelled the length of the Silk Road and back."

The voyages of Columbus, Magellan, and da Gama made the safety of the Silk Road an academic matter from the sixteenth century on. Even so, the Franck-Brownstone pages devoted to the centuries-long struggle for the Iranian plateau have a most contemporary flavor. The Shiite Moslems and their ayatollahs who now pose so many difficulties for Western nations desirous of Persian Gulf oil are acting in ways that would have been well understood by their fifteenth century ancestors.

The Silk Road: A History should be pondered in Washington. What it indicates is that a war for the Persian Gulf might end with just one more Western ignominy. □