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IDEAS ON LIBERTY

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PERSPECTIVE

My Brother's Keeper

The first murder in history was a fratricide. In malice and jealousy, the first son of Adam and Eve lured his younger brother into a field and slaughtered him there. The crime was heinous, but Cain's defense has done more lasting damage. When God, knowing the answer quite well, asked Cain, "Where is Abel, your brother?" Cain lied, "I do not know." Then Cain asked a question that has been both misunderstood and misused by religious socialists for centuries: "Am I my brother's keeper?"

Religious socialists believe that every man is his brother's keeper, and that governments are instituted among men to guarantee them living wages, adequate housing, health care, education, recreation, and a comfortable retirement. Furthermore, say the religious socialists, only the moral equivalent of a murderer—the moral equivalent of Cain—would question these axioms.

But the religious socialists have misunderstood both Cain's defense and God's response. After he lied, Cain, not liking the direction in which the conversation was likely to go, tried to forestall further embarrassing questions by steering the conversation away from the matter of Abel's disappearance to Cain's lack of obligation to supervise his adult brother. God asked where Abel was. Cain denied that he knew and implied that he had no obligation to know: "Am I my brother's keeper?" It was not Cain's job to keep track of his adult brother. Cain wanted God to think that he was quite properly minding his own business.

The religious socialists fail to realize the shrewdness of Cain's defense: Cain, like any man accused by a policeman or judge, put forth a defense that he believed the judge would accept. (Defendants do not put forth arguments they believe the judge will reject.) He asked the question, "Am I my brother's keeper?" because he believed God would accept that defense. God, in fact, did not say Cain was Abel's keeper. He does not respond to the impertinent question at all.

But Cain's clever defense, however greatly it has befuddled generations of socialists, was wholly wasted on God. God knew that Cain had not been minding his own business, nor had Cain allowed Abel to mind his. Cain had murdered his brother, and now he sought to defend that murder by appealing to a principle—minding one's own business—that was both true and irrelevant. Cain was not his brother's keeper; he had no obligation to supervise Abel, but he did have an obligation not to murder him. God accused Cain directly of violating that obligation not to murder, and cursed him.

Cain's deceptive and clever defense has done enormous harm to mankind; its effect on morals and politics has been continuing. Cain was both a murderer and a liar, but his misuse of a true principle in a futile attempt to justify murder has caused millions to err.

—JOHN W. ROBBINS

Readers' Forum

Dear Editor:

In your August 1992 edition of *The Freeman*, James Payne states that *Habitat for Humanity accepts no government funds* and relies on donations.

I have always admired the group for that reason, so you can imagine my disappointment when I found that Habitat for Humanity *does* accept state government funds in Michigan and Community Block grants from the federal government.

Every year I put out a booklet of wasteful spending in the state of Michigan. In 1990-91 the following grants were awarded:

Genessee County Habitat for Humanity/Flint Purchase of property for 2 homes	$ 4,400
Habitat for Humanity of Isabella County/ Mt. Pleasant Purchase a lot for construction of a home for low-income family	11,000
Kalamazoo Valley Habitat for Humanity, Inc. Purchase and renovate two homes for low-income families	16,000
Habitat for Humanity of Isabella County/Mt. Pleasant Purchase a lot to relocate a two-story house	28,000
Habitat for Humanity of Grand Rapids Partial funding for construction of six housing units for low-income families	6,000
Lake County Habitat for Humanity Construction of 10 homes	44,000
Roscommon County Habitat for Humanity Housing acquisition and rehabilitation of five vacant single-family homes to be resold to low-income families at low cost	99,000
South Haven Area Habitat for Humanity House demolition/home construction	11,000
Total for 1990-91	**$219,400**

I have enclosed my Pork Barrel Awards for 1990-91. I think you will be surprised to find that many "private" charitable groups take *taxpayers' money.*

—MARGARET O'CONNOR
State Representative, 52nd District, Michigan

(*The Freeman* thanks Representative O'Connor for her diligence in researching this issue; we intend to publish a study of the government takeover of the non-profit sector in an upcoming issue of *The Freeman.*—Editor)

James L. Payne replies:

Mrs. O'Connor is to be commended for spotting how the Habitat for Humanity chapters in Michigan have departed from the organization's ideal. Each Habitat chapter signs a "Basic Covenant" with Habitat for Humanity International to become an approved affiliate. Clause #8 of this covenant runs as follows:

> Habitat is a Christian ministry that appeals to the stewardship of Christians and others of good will in the sharing of their resources with the economically poor. Government funds will not be used. However, streets, utilities, land, or old houses needing rehabilitation may be acquired from government agencies if no strings are attached that violate Habitat principles.

The chapters therefore seem to have violated their covenants. They certainly have violated the spirit of the covenant, since the money from the Michigan state department of commerce is taken involuntarily and is therefore no reflection of "stewardship."

Another point: The Covenant's clause #2 declares that Habitat is "avowedly Christian, seeking to exalt Jesus Christ as Lord by demonstrating His love to all people." So somebody is engaging in deception. Either Habitat fund-seekers denied their Christian commitment, or Michigan officials are covering up giving taxpayer funds to "avowedly Christian" organizations. It sounds like the lawsuits are just around the corner. Hello, strings!

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The Rise of Markets and the Fall of Infectious Disease

by Stephen Gold

My grandmother was deaf, a fact I got used to early in life, but something to which she never fully adjusted. Born with the ability to hear, she lost it in her teens to scarlet fever. The fact that I was unfamiliar with this affliction was of no surprise—most of the serious illnesses my grandmother talked about were foreign to me. The free enterprise system had wiped them out before I was born.

My birth followed my grandmother's by only six decades, a mere blink of an eye in the annals of history. Yet in that brief time civilization had changed more than in all previous centuries combined, mainly through the evolution and expansion of capitalism. Political leaders first recognized the value of free trade and open markets in the 1700s. The concept spread steadily in the 1800s, until by the turn of the century much of the world—most of Europe and North America, as well as the colonies of the far-reaching British Empire—had adopted market economies.

Those countries that opted to remove government controls over the economy and allow private enterprise to flourish saw their citizens grow more affluent. More money meant higher living standards through scientific and technological advances, better nutrition and medicine, and better products and services that were more readily available to the public.

Stephen Gold is policy adviser for Citizens for a Sound Economy.

More than anything else, increased wealth brought people increased health.

There's no better example of this than the dramatic reduction in deaths from infectious disease in Western society. It's a David and Goliath story, a tale of how one portion of mankind came face to face with its most formidable enemy, and—using newfound knowledge and skills—vanquished its terrifying foe.

And yet, success came so quickly and thoroughly in this battle that most contemporary Americans don't realize how very serious the threat once was. Even with the emergence of AIDS, younger generations of Americans do not fear communicable diseases the way their ancestors did. They take for granted the environmental and health gains we have made this century—and forget how these came about. Sadly, having won the battle so efficiently, we have lost perspective on how America got from *there* to *here* in such a short span of time.

It wasn't too long ago that Americans, like so many others around the world, were caught up in a lifelong struggle with such terrifying but familiar contagions as diphtheria, tuberculosis, and typhoid fever. In fact, infectious disease has long been the scourge of human civilization. These restive viruses, bacteria, and protozoa often travel in contaminated water or droplets of saliva, grow on spoiled food, or hitch a ride on parasites like fleas and lice. They thrive in crowded living conditions and filth, and can generally be found in poorer societies that cannot afford the luxury of a cleaner, healthier lifestyle. Each year, for example, 900 million people in underdeveloped countries contract diarrheal diseases stemming from contaminated water and inadequate sanitation.[1]

Historically, the most devastating communicable diseases were plague, smallpox, and typhus. In the almost 3,000 years from the Trojan War to the First World War, those infectious diseases claimed probably hundreds of millions of lives worldwide. Fortunately for my grandmother, by the time she was born in 1896 most Americans did not have to deal with these afflictions. The U.S. had already made significant advances in health and environmental protection, especially as compared to the impoverished nations of South America, Africa, and Asia. Average life expectancy was about 40 percent longer in America than in those pre-industrial societies, and pandemic outbreaks were virtually unknown here.[2]

Even so, the United States at the turn of the century—far from being the simple, rustic country envisioned by Americans today—was in fact a nation under siege by infectious diseases. In 1900 over 500 Americans out of every 100,000 died from them, or the often inevitable complications resulting from such illnesses.[3] To put this kind of health threat into perspective, cancer, the scourge of modern America, kills about 200 of every 100,000 Americans each year.[4]

Influenza

As the nineteenth century yielded to the twentieth, America's top killer after heart disease was influenza and its companion, pneumonia. Back then prevention and treatment techniques for such illnesses were still in their infancy. As a result, in 1900 over 200 Americans out of every 100,000—more than 150,000 people—died from influenza or a subsequent case of pneumonia.[5]

The medical record got worse before it got better. In 1918, the final year of World War I, a flu epidemic claimed 550,000 lives in America, 30 million worldwide—three times the number that died in combat in four years of war.[6] Even today, the flu is nothing to sneeze at. About 30 out of every 100,000 Americans, primarily elderly, die from flu complications annually.[7] Still, influenza no longer represents the risk that it once did in our society.

How did we conquer such a devastating illness? Unlike most other communicable diseases, influenza is not associated as much with filth and overcrowding as with a lack of good medical care. Of course, modern medicine is as much a part of the free enterprise story as clean water, adequate sanitation, and improved nutrition. True, much of the foundation for our medical achievements may be traced to the work of dedicated scientists and mathematicians in the pre-industrial age. But it took far more than just brilliant minds to produce a healthier population.

In free market societies, a scientific discovery usually results in competition by entrepreneurs, producers, and doctors to make a profit from a marketable item. In such an atmosphere, each new discovery usually leads to an advance in technology, and ultimately to a new product or service for consumers.

In the battle against flu symptoms, this competitive process led to the development of antipyretics to reduce fever and analgesics to reduce aches and pains. Aspirin, developed near the turn of the century, was both, and as such was considered a miracle cure. Had it somehow been invented in the pre-industrial era, only one company would have been licensed to produce it, and only the politically favored rich would have had access to it. But in our market economy, numerous companies competed to get the drug into as many hands as possible. That meant coming up with less expensive ways to manufacture and sell it.

When it turned out aspirin was too acidic for some people's stomachs, researchers turned their attention to developing a more soothing medicine. The result, acetaminophen, is used in hospitals nationwide under the brand name Tylenol. Most recently an even stronger analgesic, ibuprofen, has become popular with consumers.

Man *versus* Mycobacterium

After influenza, tuberculosis was the next great environmental threat to Americans at the century's turn. The germ *Mycobacterium tuberculosis* is sometimes associated with poor hygiene—a social stigma for many turn-of-the-century Americans, a fact of life in much of the rest of the world, even today. Back then TB was also known as "consumption," a telling description of the suffering it caused its victims. Another strain, usually transmitted to children through raw cow's milk, was in past centuries a cause of severe deformities. In all, TB claimed about 195 out of every 100,000 American lives in 1900.[8]

The only effective treatment for turn-of-the-century Americans (aside from removing the infected lung) was bed rest, sometimes years of it. In fact, "TB farms" used to dot the countryside, isolating the sick from the rest of the population.

Fortunately, the rise of capitalism provided us with an assortment of tools with which to detect and fight *Mycobacterium tuberculosis*.

For starters, Louis Pasteur's mid-nineteenth century research on bacteria led other researchers to develop a sterilization process for milk which kills the TB germ. But to market such a product, even regionally, would take special equipment that could heat large quantities of milk to 145° Fahrenheit, then rapidly cool it to below 50°. Then the milk would have to be stored at low temperatures, even during transportation. Who would want to invest the capital and manpower in the search for such technology?

The dairy farmers, of course. The fact that they were motivated by profits rather than philanthropy spurred them to action even more. A larger share of the market could be captured if they sold a safer product. There was some risk: Would consumers want to pay higher prices for the extra service? In this case, the answer was clearly yes. Consumers and health officials alike clamored for germ-free milk, and dairies purchased the necessary machinery and started "pasteurizing" their products.

Competition led other dairies to follow suit. The sterilization process was improved upon and made more efficient, making the product even more affordable. Today, of course, pasteurized milk is sold nationwide.

Other medical advancements, such as the development of vaccines, antibiotics, and x-rays, were equally important in the battle against tuberculosis. It took a combination of thorough research, entrepreneurial spirit, easy access to information, and money to develop all of these, conditions readily available through the freedom and economic incentives of our market economy.

In the decades between 1955 and 1985, tuberculosis declined to insignificance. Unfortunately, the U.S. has since seen a rise in the number of TB cases, mostly in large urban areas and at least partly as a result of the spread of AIDS. Yet to most Americans the threat of tuberculosis is still so remote—fewer than one out of every 100,000 dies from it[9]—that the term "TB farm" would, for today's youth, more likely conjure up images of a diet facility than a rest home.[10]

Conquering Other Health Threats

Diphtheria and typhoid fever, caused by roving bacteria, were also among the greatest public health threats in 1900. Together they claimed 55,000 American lives, more than were killed in car accidents in the U.S. last year.

Diphtheria was contained only through the widespread immunization of infants and children in the last half-century. Once scientists discovered that antitoxins could be introduced into humans to fight such diseases, it was not long before pharmaceutical companies were inexpensively manufacturing these drugs on a large scale. Today, the risk of a fatal case of diphtheria is almost zero.[11]

Typhoid fever can present just as great a challenge to society: It kills a quarter of all its untreated victims. Typhoid epidemics are generally caused by contaminated water supplies, though the germ can also be spread by infected workers who handle food. That, in fact, is how Mary Mallon—better known as "Typhoid Mary"—caused the memorable outbreak of 1903. A carrier of the disease but never a victim, she worked as a food handler in New York City, and through her daily tasks managed to infect 1,300 people.

The threat of typhoid fever in this country was for the most part eliminated through technological advancements in water and sewage treatment. The use of chlorine in public water supplies was an especially effective step in preventing the spread of the bacteria *Salmonella typhi.*

Chlorine's value as a purifier was known as early as 1800, but at that time there was no system in place to protect the water supplies of large communities. Only as American cities and towns grew and prospered could they afford such an effort to protect their drinking water. Communities first developed reservoirs, then a process to treat the water before it was consumed, then a network of pipes to bring the water into people's homes, and finally additional treatment facilities to recapture the water once it had been used.

All this costs money, and only a relatively affluent society can afford it. Even today, as we approach the twenty-first century, a billion people in underdeveloped countries don't have access to clean water.[12]

There were other serious infectious diseases in America 90 years ago, ailments which, by the time I came along, seemed as remote as the horse-and-buggy. Pertussis, or whooping cough, a highly contagious bacterial infection, killed a higher percentage of the population in 1900 than chronic liver disease and cirrhosis do today.[13] With the development of a vaccine, the threat was reduced to insignificance by 1960. Scarlet fever has virtually been eliminated, as has polio, a crippling disease which used to strike 20,000 Americans each year.[14] Then there were yellow fever, rheumatic fever, encephalitis—the list seems endless.

My own kids, of course, will never hear about most of these deadly threats. In the nine decades between my grandmother's birth and my son's, life expectancies increased 60 percent, from 47 to 75 years, and life got a lot easier for Americans.

Drugs and chemicals were developed to combat not just the micro-organisms that cause diseases, but the parasitic insects that transmit them. Our food supply became safer, with more widespread use of such things as refrigeration, packaging, preservatives, and cleaner industrial processes. In addition, our diets improved, with more access to vitamins, fresh fruits, and vegetables. Our water supply also became safer, as more and more communities modernized their sanitation facilities, along with their garbage treatment and disposal systems. Personal hygiene progressed as indoor plumbing became commonplace, making it far easier to bathe, wash clothes, and clean dishes. Additional advances in hygiene were made possible as new consumer products came on the market, like deodorant soap and household cleaners.

Wealthier and Healthier

All of these were made possible by our free market economy. The wealthier we've grown, the healthier we've grown. In effect, capitalism, operating under a responsive system of government, has enabled us to eliminate threats that have plagued mankind from time immemorial.

Unfortunately, communicable diseases remain one of the greatest threats to people in the developing world. As a result, there is a great deal more pain and suffering, and life expectancies are often still quite low. (Life expectancy, for example, is the same today for people living in Zambia, Laos, and Bhutan as it was for Americans in 1900.)[15]

But there is hope. True, capitalism is not a magic wand. As the former Communist countries of Europe are learning, an affluent market economy takes time to develop. Still, if the lesser developed countries of the world can liberate their economies from government control and encourage private enterprise, then future generations of children there will look upon infectious diseases like typhus, cholera, and tuberculosis the way I looked upon scarlet fever—as a relic of bygone, pre-market days. □

1. The World Bank, *World Development Report 1992—Development and the Environment* (New York: Oxford University Press, 1992), p. 5.
2. U.S. Bureau of the Census, *Historical Statistics of the United States—Colonial Times to 1970,* Part 1 (Washington, D.C., 1975), p. 55. Human life expectancy in pre-industrial societies is estimated to have averaged between 30 and 33 years. See, for example, *Expectations of Life* by H.O. Lancaster (New York: Springer-Verlag, 1990), p. 8.
3. *Ibid.*, p. 58.
4. U.S. Bureau of the Census, *Statistical Abstract of the United States: 1991* (Washington, D.C., 1991), p. 79.
5. U.S. Bureau of the Census, *Historical Statistics*, p. 58.
6. K. David Patterson and Gerald F. Pyle, "The Geography and Mortality of the 1918 Influenza Pandemic," *Bulletin of the History of Medicine*, Vol. 65 (Spring 1991), p. 19.
7. U.S. Bureau of the Census, *Statistical Abstract*, p. 79.
8. U.S. Bureau of the Census, *Historical Statistics*, p. 58.
9. U.S. Bureau of the Census, *Statistical Abstract*, p. 79.
10. *Historical Statistics,* p. 58; *Statistical Abstract,* pp. 79, 85.
11. National Center for Health Statistics, Vital Statistics of the United States, 1988, Vol. II, Part A (Washington, D.C., 1991), p. 93.
12. World Bank, *op. cit.*, p. 5.
13. U.S. Bureau of the Census, *Historical Statistics*, p. 58; *Statistical Abstract*, p. 79.
14. "Infectious Diseases," *New Cyclopaedia Britannica* (1989), Vol. 21, p. 531.
15. World Bank, *op. cit.*, p. 218.

The Dilemma of Library Censorship

by E. Calvin Beisner

In her 1991 annual report, the librarian of the local public library decried the descent of "book censors" like a "plague" on her library. Yet what she condemns in others she practices herself.

She rightly called the effort by some to exclude certain sexually explicit and pro-homosexual books from the library's collection, or to shield child patrons from them, censorship. But she also reported her own rejection of Ku Klux Klan literature on the grounds that it was "a revisionist history that attempts to disprove that the Holocaust could have ever happened."

We can respect her courage in standing firm against the KKK. But her blindness to her own censorship is typical of the inability of many bureaucrats to see their own infringements on others' liberties.

Webster's Ninth New Collegiate Dictionary defines a censor as "an official who examines materials (as publications or films) for objectionable matter" and the verb *censor* as "to examine in order to suppress or delete anything considered objectionable."

The librarian is an official of the library. She examined the material donated by the KKK—how else could she describe it? She determined that it was objectionable. She suppressed or deleted it from the library's collection. She is a censor.

She imposes her censorship on all who support the library. There is nothing wrong with that. It is unavoidable. The library has limited funds to purchase, catalogue, and circulate books, limited space in which to display them, and limited personnel to care for them. Selection—receiving some, rejecting others—is unavoidable in the finite world of libraries, just as in every other finite world.

And selection necessarily rests on some standards—however ill defined, and whether adopted only personally by the librarian or officially by the library board. The only alternative is to put all book titles into a lottery and select strictly by chance—which might do nasty things to the library's budget and its usefulness to patrons. (It would also make much of the librarian's job unnecessary.)

The librarian's errors are several. First, she either fails to recognize censorship for what it is, or dishonestly pretends it isn't what it is. Confusion seems the more likely, granted that in the same report she contradictorily cites the Freedom to Read Statement's directive to libraries, "It is in the public interest for publishers and librarians to make available the widest diversity of views and expressions, including those which are unorthodox or unpopular with the majority," and yet reports her rejection of KKK materials.

Second, her blanket condemnation of censorship (except her own, which she doesn't recognize) implies that censorship is necessarily a bad thing. But like most unavoidable things, censorship may be good or bad. Deciding which in any given case requires careful judgment informed by standards properly applicable to the case.

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Third, she mistakes those standards. She insists that those who would like certain books excluded from the library, or given restricted access, threaten the First Amendment to the Constitution. This is patently absurd.

The relevant part of the Amendment states, "Congress shall make no law . . . abridging the freedom of . . . the press." Neither the citizens who opposed placing the sexually explicit books in the library nor the city, its council, or its library board is Congress. The First Amendment does not govern them.

Even if it did, it would not apply to this particular action. The critics have not opposed publication and circulation of the questioned books. They have simply opposed subsidy of their circulation by the taxes that support the library. The courts have ruled repeatedly that while the First Amendment protects expression, it does not entail any right to have expression promoted by any level or branch of government.

Neither, by the way, does the First Amendment prohibit any government official's promoting any expression or idea, which is why the librarian's unbalanced promotion of five liberal books and a Democratic presidential candidate in an April 15 newspaper column, however distasteful, was not unconstitutional.

Finally, she insists that the debate is over people's "right to read." It is not. It is over the standards by which books shall be selected for, or rejected from, the public library. Her opponents believe the selection should closely reflect the values of the citizens who pay for the library.

Therein lies the great difficulty not only of public libraries but also of every venture of government into the promotion of ideas—including public schools. It is difficult for many people to identify their own values, let alone to express them. It is more difficult still to ascertain the values of a majority, or even a plurality, so as to ensure that public policy promotes them. Even if we could do that with reasonable certainty on any single issue, that would not be enough; the values of the minority would reasonably demand minority representation.

Extending this argument to its logical conclusion prompts the simple but impracticable solution of polling the public on every issue to see what percent embraces each of a potentially unlimited number of options, and then adjusting government action to ensure that it promotes all of the different views in precise proportion to the segments of the public that embrace them. If we think government is slow and unwieldy and its policy is incoherent now, we shall find it infinitely more so if we adopt such a tactic.

But if time and expense prohibit the library's determining all its selections by repeated public polling, some other standard of selection becomes necessary. Aside from this fastidious reflection of public values, only three other standards are possible: the whim of the officials who make the decisions (we call this tyranny, and in most public libraries it is the status quo), dominant public expression in open debate (which rapidly degenerates into the tyranny of special interests, particularly those who have little better to do with their time than to attend public meetings), or some moral criteria.

The two tyrannies are objectionable, but so is the option of resorting to some moral criteria. Whose criteria shall they be? Who shall determine them? In a society committed both to pluralism and to public expenditure to promote learning, thought, and ideas, the dilemma admits no solution.

What shall we do? Consider a radical idea: end government's role in promoting ideas and restore its original role of protecting the freedom to express ideas. Make libraries private, not public, and force no one to pay for books he detests. Private libraries that wish to stock books promoting fornication or homosexuality, or racism, or democracy, or Christianity, or paganism, or tyranny, or liberalism, or conservatism, or any other notion or perversion—may do so. But they may not force anyone to pay the bills for them. □

Does Occupational Licensing Protect Consumers?

by John Hood

It takes more to become an auctioneer in North Carolina than just experience, desire, and above-average verbal dexterity. It also requires a license from the North Carolina Auctioneer Licensing Board. Similarly, while a flashy television ad and a good reputation can give retailers of hearing aids a competitive edge in Missouri, they won't sell a single device without first obtaining a license from the state's board regulating hearing aid dealers.

While many Americans know that their doctors, lawyers, and other specialized professionals are closely regulated by state boards and commissions, most don't know that barbers, plumbers, morticians, "cosmetic artists," and a host of other occupations—1,000 at last count—are regulated, certified, or licensed by states. What consumers don't know is nevertheless supposed to help them. Advocates of government licensing and other occupational regulations contend that unless the state has a hand in guaranteeing quality, consumers will receive shoddy and overpriced services. And professional organizations frequently support government regulations on their members in order to "protect them from fraudulent and unscrupulous competitors" and to maintain the reputation of their profession.

In most cases, professions are licensed by state boards or commissions, established by legislatures, and staffed by gubernatorial or legislative appointment. These panels establish and monitor entrance requirements for new practitioners, handle consumer complaints, and undertake disciplinary actions against professionals who violate state regulations. The average number of occupational licensing and regulatory boards in a state is 17, but the number ranges from 29 in California to five or six in such states as Wyoming, where only professions like doctors, lawyers, and dentists are regulated.

But while the promise of occupational regulation is great, research shows that it is rarely fulfilled. In the United States, at least, these regulations typically raise the price of services without significantly raising service quality—and indeed, in many instances regulation appears to lower the quality of services consumers buy.

How Licensing Limits Competition

One of the most well-known effects of occupational licensing and regulation is reduced competition. The theory is that by excluding some providers of a service from the market, regulations reduce competition and form a kind of "cartel" in which service providers can afford to charge high prices without fear of losing customers. Potential competitors are excluded by state requirements regarding years of education, college degrees, apprenticeships, or licensing examinations. In some states, barbers or hair

John Hood is research director of the John Locke Foundation in Raleigh, North Carolina, and a columnist for Spectator *(N.C.) magazine. A portion of this article first appeared in* Consumers' Research *magazine.*

stylists must receive at least an associate (two year) college degree, despite the fact that even the trickiest tasks they perform—dealing with treatments or chemicals, for example—can be mastered through on-the-job training. Similarly, while everyone would like to visit the highest-skilled dentist (if it cost no more to do so), surveys of dental practice find that about 80 percent of the work performed by dentists are routine tasks that can be performed by a high-school graduate with only 20 months of post-secondary-school training.

Experience requirements seem particularly arbitrary, related less to minimum competency than to excluding people from the profession. Until recently, becoming a master plumber in Illinois took longer than becoming a Fellow of the American College of Surgeons. Similarly, an Oregon board regulating cosmetology raised the number of training hours required for entry from 1,500 to 2,500. According to Cato Institute author David Young, pressure for the change came not from disgruntled cosmetology consumers but from beauty schools that were able to charge more tuition and serve more consumers in school training salons. In addition, experience standards frequently govern not just how much experience a potential professional has but also where that experience is gained. In New York City, a "master plumber" must have 20 years of experience as a "journeyman" under a master plumber *in New York City.* Ten years of experience in Philadelphia or Akron do not count.

Some states require U.S. citizenship for licenses, which might make some sense for lawyers trained in French or Islamic law but not for other professions, including doctors, where knowledge of a particular culture is not needed or can be gained on the job. Other states impose residency requirements, with the same apparent irrelevancy to actual job performance.

Licensing examinations frequently reflect their true purpose of excluding competition more than their ostensible purpose of guaranteeing quality. A national exam for landscape architects, required in many states, was studied by consultants to the California Board of Landscape Architects in 1983. They found that fewer than half of exam questions had a direct relationship to public health or safety. On the portion involving history, 40 out of 45 questions were unrelated to the job. In another section, 32 of 98 questions were found to require more advanced knowledge than that normally considered "entry level"—in other words, they expected new landscape architects to mirror experienced architects in knowledge. These kinds of barriers to entry seem to be designed not so much to aid consumers as to aid those already in the professions regulated. After all, if new entrants to their professions are few, established professionals have less competition and thus can afford to charge higher prices without driving their customers into the arms of lower-priced competitors.

The Effects on Consumer Prices

Researchers have found it difficult to estimate the precise impact of licensing and other regulations on price, because of the way these impacts are generated. Not surprisingly, it is difficult to guess at how many people would enter a given profession if regulations were lifted, and how prices would adjust to the enhanced competition. Moreover, licensing boards affect not only the specific occupations they regulate, but also new or innovative occupations that may compete with them by offering to solve a particular problem or provide a service in a whole new way. One example of this effect is the return of midwives as a low cost substitute for obstetricians and hospital-based birthing. According to a 1987 survey, 16 states prohibit the practice of midwifery. Seventeen states have licensing or registration laws governing midwives, and 17 have no law specifically prohibiting midwives from working (because professional regulations are constantly evolving and changing, these figures may understate or overstate the regulation of midwives). Because in-home births assisted by midwives cost significantly less than hospital stays, it is not surprising that medical boards have sought regulation of midwives.

The midwife case demonstrates how risk enters into the professional licensing picture. Though midwives may challenge this assumption, most people believe that in-home childbirth is more risky than birth at the hospital, chiefly because hospitals have equipment and specialists with which to intervene should complications or atypical medical problems develop. Thus, potential parents who choose midwifery over the traditional approach are apparently taking a risk in exchange for a price break. By disallowing this type of consumer risk, licensing boards may advance their notion of consumer safety—at the expense of lower-price choices for consumers.

Despite the difficulties in gauging price effects, researchers have been able to estimate how far prices might drop if licensing were lifted. In a 1978 study, Lawrence Shepard of the University of California at Davis examined the price differences between dentists in states where out-of-state licenses were honored to those in states where such licenses were not honored. In the latter group of states, dentists moving into the area had to meet new state or local licensing requirements, thus increasing the barriers to entry in those areas. Therefore, recognizing out-of-state licenses is to some extent a less restrictive form of regulation.

Shepard found that the price of dental services and the average income of dentists were 12 to 15 percent higher in the states where out-of-state licenses were not honored. In other words, regulation increases price, and the more restrictive the regulations, the higher the price will be. In the early 1980s, a set of studies by Canadian researchers found that licensing regulations imposed on some 20 professions increased potential earnings of professionals by nearly 27 percent.

The Effect on Quality

Consumers might still think these inflated prices to be a bargain if they resulted in higher quality services. Unfortunately, this is not the case. Several studies have shown that regulations reduce the quality of services and consumer safety. Quality declines because the *quantity* of professionals falls. Even if the professionals remaining in a field after the advent of regulations are more qualified than their pre-regulation predecessors, consumers can still suffer from reduced quantity and availability of services. There are several ways reduced quantity leads to reduced quality.

1. Substitution. When consumers cannot find a professional to provide a service—or if they cannot afford the higher prices charged by professionals with scant competition—they frequently try lower-quality substitutes. Homeowners may try to do their own electrical work, for instance, because licensed electricians are few and charge high hourly rates.

2. Over-training. Ironically, if high licensing barriers permit only the most skilled professionals into the market, more routine tasks which could be performed by less-qualified entry-level professionals are performed by the highest-qualified ones. This, in effect, wastes their expertise and their time. The minutes or hours a dentist spends on routine maintenance, for instance, leave less time to perform delicate operations.

3. Visit tradeoff. Consumers maintain their health and safety not only because of the skills of the professionals they use but also because of the frequent visits to or by their professionals. Therefore, if regulation boosts the price per visit or reduces the number of professionals, thus reducing the available appointment times for each consumer, consumer health and safety will suffer. Obviously this is especially true in the case of medicine. It may take an incredible amount of skill and resources to treat a serious disease, which in its early stages can be prevented—if detected by regular vigilance. Similarly, regular visits to an accountant to keep financial records and tax plans in good order can be less expensive and more productive in the long run than once-a-year tax-a-thons for some consumers.

Researchers Sidney L. Carroll and Robert J. Gaston have studied the various effects of professional quantity on service quality for a number of professionals. In general, they found that licensing and other regulations can reduce quality by reducing quantity. Here are a few examples of professions they studied:

- **Electricians.** Carroll and Gaston found that licensing restrictions such as prior experience and oral licensing examinations reduced the number of electricians offering services in a given area. Then they compared the availability of electricians with rates of accidental deaths by electric shock. They found that "restrictions that reduce the density of electricians are significantly associated with a rise in the rate of death from accidental electrocution." Possible explanations for their finding could be that homeowners were attempting their own electrical repairs or installations, or that homeowners ignored potential warning signs of electrical problems because the prospect of paying an electrician to look at them was too daunting.

• **Dentists:** Relying on surveys of dentists, Carroll and Gaston estimated that licensing restrictions lowered the number of dentists available in a given state (judging by the number of dentists complaining of being "too busy" or having long patient waiting lists). Relating these data to other information about the dental health of patients in 22 states, the researchers found that smaller numbers of dentists per capita were associated with, for example, more widespread tendencies among those who own false teeth to never wear them, indicating "that the dentures, for whatever reason, were not satisfactory."

• **Plumbers:** Carroll and Gaston found that the number of plumbers per capita was associated with the retail sales of plumbing supplies, indicating that as plumbing services were made less available or more costly, consumers were more likely to attempt repairs themselves.

• **Real Estate Brokers:** In those states with licensing requirements for real estate brokers, Carroll and Gaston found that the number of brokers per capita was low and that quality of service was correspondingly low, at least measured by how long houses remained unsold on the market.

• **Veterinarians:** Carroll and Gaston found that "the more strict the barriers to obtain a license, the fewer practitioners there are and that this results in an under-discovery of animal disease, thus possibly increasing the risk of infection to both healthy domestic animals and ultimately people." For example, the researchers found that incidence of rabies was higher in those jurisdictions where there are strict limits on veterinary practice.

Other studies have found a similar relationship between licensing and quality—namely that where one is found, the other usually is not. For instance, the Federal Trade Commission studied incidence of fraud in the television repair industry in three jurisdictions: Louisiana, which licenses repairmen; California, which registers them; and Washington, D.C., where the profession is not regulated. Fraud was more frequent and prices were 20 percent higher in Louisiana than in the other jurisdictions.

The Fairness Issue

While research on licensing regulations has generally found limited or counterproductive effects for consumers, the issue is complicated by the fact that all consumers are not created equal. Some have more resources and expertise than others have. Licensing laws are supposed to help those consumers without the necessary knowledge or luxury of finding high quality services in the marketplace by substituting the good judgment of government regulators. Unfortunately, licensing regulation seems to have the opposite effect—it benefits the most advantaged consumers at the expense of the least advantaged.

First of all, lower-income consumers, by definition, will be most hurt by price increases due to licensing. They are the ones most likely to turn to more dangerous "do-it-yourself" substitutes, or to simply stop purchasing a service, deeming it less important than other goods and services they must buy with their limited resources. Furthermore, lower-income consumers frequently form the market tapped by innovators who seek to provide services at lower cost. To the extent that barriers to entry included in licensing laws reduce the potential profits of an entrepreneur or inventor, they are less likely to take the risk of entering the market. Licensing boards are frequently controlled by the professionals they regulate, whether formally (i.e., state bar associations governing the practice of law) or by political pressure. Thus potential innovators who offer quality services at lower prices become the target of professionals already in the market who don't want their collective boats "rocked."

It is certainly true that many consumers do not have expertise to judge the quality of services, but that doesn't necessarily suggest that government would be better at it. In *The Rule of Experts*, David Young points out that even if only some consumers shop wisely for quality services, that creates competitive pressures on professionals to ensure their quality, thus helping everyone. When government sets the standards for quality, rather than quality-conscious consumers, the standards are more likely to be dictated by political pressures, by established professionals concerned with potential competition, than by consumer demand. Importantly, savvy or knowledgeable consumers may still be able to shop around for the best doctor or electrician or plumber under a regulatory atmosphere—and, indeed, can afford the higher prices charged. Other consumers aren't so lucky. And in extreme circumstances, wealthy consumers can travel to other, less regulated jurisdictions to obtain services not offered in regulated areas. Again, lower-income consumers cannot afford to do so. So, while occupational licensing is supposed to help those least able to help themselves—consumers who might be "taken advantage of" in a free marketplace—the reality is quite different.

Attempted Reforms

Recognizing the detrimental impact of licensing and other regulations on price and other consumer interests, some states have tried to reform the operation and makeup of state licensing boards. In many cases, reform has focused on the tendency of professionals being regulated to dominate the membership of regulatory boards. To introduce consumer interests into the process, some states have required so-called "public" board membership, in which non-professional people are nominated to licensing boards. But these reforms apparently do not significantly change either the operation of licensing boards or the barriers to entry they enforce in specific professional fields.

Saundra K. Schneider, a professor of political science, examined the operations of 16 licensing boards in Missouri, trying to relate decisions to such factors as board size, budget, and the existence of "public" members. She found that "the presence of voting public membership has no effect on any aspect of board decision making." Similar studies in Michigan and California found that board decisions were no different after non-professional people were nominated, and that "public" members preferred to serve on advisory boards rather than on enforcement boards with detailed work to do or the responsibility for judging the conduct of specific professionals. One problem might be what economists call "regulatory capture"—the tendency for regulated industries to dominate their regulators because of the technical nature of relevant information or because those regulated are ultimately the source of information for those who are doing the regulating.

In other words, the negative impact of licensing boards is not related to the membership of the boards but to their very nature. These boards are supposed to represent the interests of consumers in various professional fields, but the regulations enforced are more likely to serve the interests of those regulated—by increasing their income, by reducing their potential competition—and favor the interests of higher-income consumers over those to whom price and availability of a service may be more important than the formal education or skills of the service provider. The rationale for occupational licensing assumes that the interests of consumers can be generalized, when in fact different consumers value different things.

More importantly, this rationale assumes that government regulations function as they are intended. But research into the actual effects of licensing laws proves that by reducing the number of providers of a service and increasing the price of that service, they hurt most consumers more than they help them. Given this evidence, the best way to protect consumer health and safety would be to let them choose their own services in a free market. □

IDEAS ON LIBERTY

Woodrow Wilson

I HAVE ALWAYS in my own thought summed up individual liberty, and business liberty and every other kind of liberty, in the phrase that is common in the sporting world, "*A free field and no favor.*"

The Moral Foundation of Western Culture

by Marty Mattocks

Each week, sometimes twice a week when the weather is conducive to growing grass, I drive my teenage son into town where our family lawn mower is transformed into a tool of production in a mutually beneficial voluntary contract: cold cash for a mowed lawn.

I take the trimmers along and help out a little while I'm waiting to help him load the mower back into the trunk. It's a small yard but inevitably there is free time, and this week I thought to myself, what a good idea it would be to take along this month's *Freeman* for some enjoyable reading to pass the time. It is partially due to *The Freeman* that I have come to understand and appreciate the workings of free market transactions like the one I was now supervising. But before I had time to locate the magazine and take it with me to the car another thought came to mind from another publication that has likewise helped me to become a better student and proponent of the limited government, private property, individual freedom way of life.

In the sixth book of the Bible, in what may be one of the earliest success seminars, we find this instruction (my paraphrase): "This book of the law should not depart from your mouth, but you should meditate on it day and night, so that you might be careful to do all of it—then you will have success."

So I decided to use my free time along these lines—meditating on God's law.

We loaded up the mower, drove into town, my son went to work bringing order out of chaos in the sphere assigned to him, and I chose as my focus for meditation a familiar portion of God's law that I have committed to memory: the Ten Commandments.

I remembered there are four having to do with our relationship with God (having no other gods, having no idols, not taking his name in vain or using it loosely, and remembering the Sabbath) and six that concern our relationship with men (honoring parents, not murdering, staying faithful in marriage, not stealing, not bearing false witness, not coveting).

As I watched my son mow and thought about these concepts I began to receive one of the benefits the writer no doubt had in mind when directing those seeking success to meditate on God's law: insight.

I realized that two of the Ten Commandments have to do with family and two have to do with private property. Another one respects life and liberty, and another concerns a man's honor (justice). Still another has to do, albeit through the back door, with productive enterprise; that is, six days we are to labor and the other we are to rest. My insight was that these moral tenets are the basis for the standard of living and way of life we have come to enjoy and appreciate in the West, one that continues to draw immigrants to our shores and is a model for other nations to emulate.

I had recently read in Dinesh D'Souza's *Illiberal Education* that the trend on many leading college campuses is away from an appreciation of Western culture (all the while enjoying its benefits). My meditation gave me this insight: Western culture, and all that we enjoy as a result of it, has

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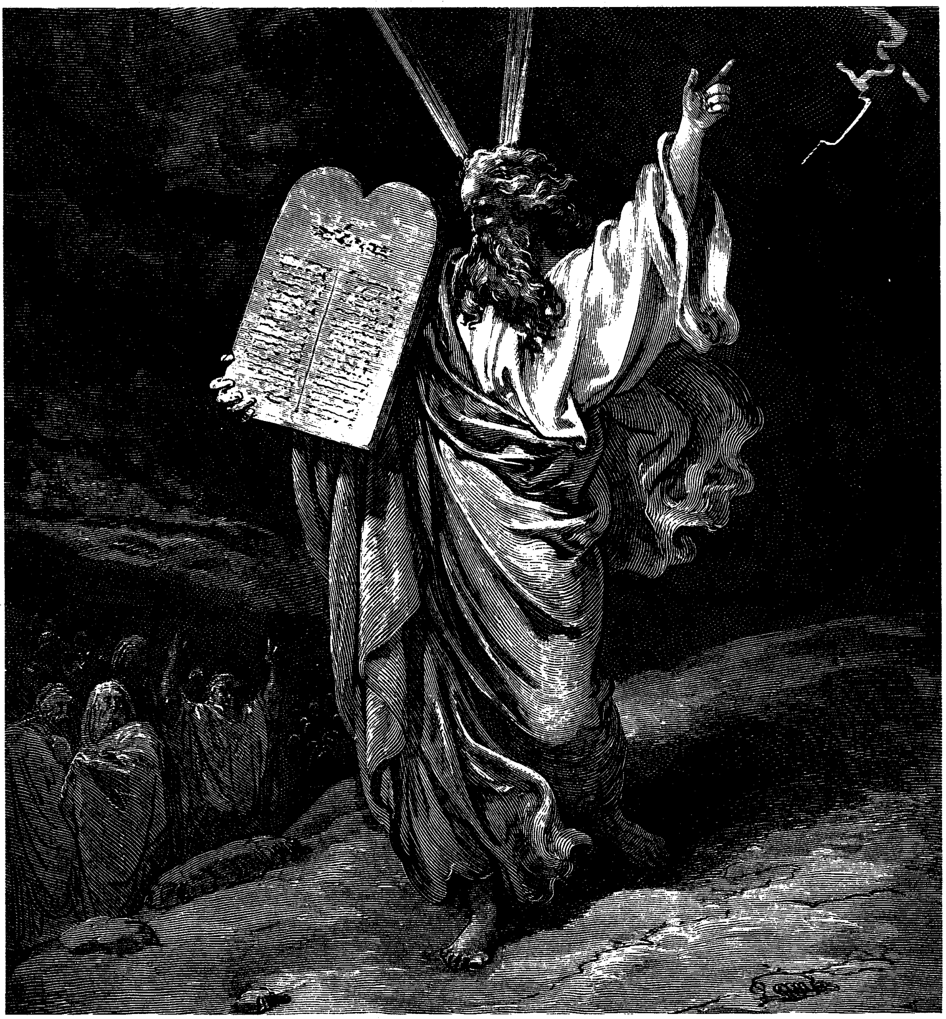

GUSTAVE DORÉ/DOVER BOOKS

at its foundation faith (a personal respect for God to whom we are accountable for our thoughts and actions), family, property, and justice. Western culture stems from the ideas and practice of countless individuals whose lives have been influenced by the Bible and have sought to influence others by it. We have had great success as a people by thinking about the Word of God, by telling others about its application, and by practicing it.

That night around the dinner table I shared these insights with my family on their level by making our devotion time after supper into a quiz game. Which two of the Ten Commandments have to do with the family? Around the table we went and my ten-year-old daughter and twelve-year-old son rose to the challenge with no problem. I was impressed.

Okay, which of them has to do with private property (capitalism)? "Do unto others as you would have others do unto you," answered my teenager. Prophetic perhaps, knowing Jesus' later teaching, but not really the practical application I was looking for. Had the question been "Who is in first place in the National League eastern division?" it would have been no problem, but as mentioned earlier there are powers at work to cause America to forget her faith-filled historic roots.

As it turned out, my wife answered it, and around the table we went.

Faith, family, private property, productive enterprise, justice: We were sowing thoughts that would grow actions that would bear future success. □

Can Politicians Really Care?

by Tibor R. Machan

What does it mean for a politician to care? "Caring" is, after all, what some people believe politicians ought to be, first and foremost. But what does it mean, to care?

In ordinary English caring means making it one's own concern when someone needs something. Thus, if I care about the plight of the coloreds and blacks in South Africa, I make their lot my personal concern. I try to help them alleviate their oppressive circumstances. If I care about my neighbor, I make it my business to look into his situation and help him cope with it.

What does caring for someone involve? First, it requires a clear understanding of his specific situation. At least that is what would be required for caring effectively. There is another kind of "caring," more closely akin to curiosity than to helping. It is more emotional than active. When so many commentators want to test whether political candidates care, do they have in mind the kind of caring that makes a difference? Or does the care involved amount to little more than showing emotion?

In most cases what politicians mean by caring is nothing more than giving some evidence of emotional sympathy with the lot of some bloc of voters. What else could they do? How could even the president of the United States of America actually help people other than those whom he knows personally? That is part of the tragedy of being in the segment of society that is in near-permanent dire straits.

What researchers such as Charles Murray, in his book *Losing Ground*, have finally brought to our attention is that welfare simply does not work. Not only is it stealing from Peter to subsidize Paul, but welfare is making things worse for the people who need the help most. Government welfare must function in an impersonal fashion. But not knowing the recipients of welfare means not knowing their histories, personalities, characters, and circumstances.

Since human beings are individuals, not simply members of some group—blacks, women, Hispanics, teenagers, the poor, the middle class—they require unique help in even the most familiar situations of need. Even disaster victims seem best aided by voluntary groups. Witness how quickly the Red Cross and various church organizations produced millions of dollars of relief and donated goods in the aftermath of Hurricane Andrew. The ways in which these and other kinds of help ought to be delivered—when, where, by what means, in what shape, with what words—all would have to be evident to someone who really intends to care effectively, rather than merely show sympathy by introducing bill upon bill in the Senate or the House of Representatives and voting to appropriate other people's money to pay for them.

The only way a politician can show genuine care is by making certain that government protects individual rights. It should be an easy task, because there is one thing we all need: respect for our human rights. In that we are all alike, and politicians need not know us personally in order to be caring. Perhaps some politician will emerge who will genuinely care for us and devote himself to securing our basic rights to life, liberty, and the pursuit of happiness. □

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Banking Without the "Too-Big-to-Fail" Doctrine

by Richard M. Salsman

Since the failure of Continental Illinois in 1984, the U.S. government has pursued a deliberate policy of bailing out large commercial banks deemed "too-big-to-fail."[1]

The "too-big-to-fail" doctrine has arisen not simply because of the growing number of bank failures in the past decade, though indeed failures have increased. In fact, the doctrine's historical origins go back much further than a decade. More than 40 years ago, a 1950 amendment to the Federal Deposit Insurance Act of 1934 introduced the "essentiality doctrine." As codified, that doctrine states that in its sole discretion the government can rescue any failed bank when "continued operation of such bank is essential to provide adequate banking service in the community."[2] None of the key terms in that provision—such as "essential," "adequate," or "community"—has ever been defined, permitting arbitrary discretion to rule. Coupled with the diminishing financial condition of banks in subsequent decades, the "essentiality doctrine" has given government wide latitude to bail out failed or failing banks for whatever reasons it deems necessary.

Of course, deposit insurance legislation itself arose out of the bank failures of the early 1930s. These failures in turn were largely the result of Federal Reserve monetary mismanagement.[3] In short, today's "too-big-to-fail" doctrine can trace its roots to the very establishment of central banking in this country in 1913. Before we examine the merits of the *manner* in which government has decided to handle bank failures, it is helpful to understand why banks are failing today in such large numbers to begin with.

The main theme of my own research on U.S. banking history has been that central banking is detrimental both to sound money and safe banking. In particular I have found that the U.S. commercial banking industry has suffered a secular decline in financial strength in the 80 years since the Federal Reserve System was established in 1913. For example, capital ratios have fallen from 20 percent at the turn of the century to around 6 percent today. Banks are also far less liquid today than they were in earlier decades. The loan quality of banks has declined steadily over our central banking era. Profitability has been weak and irregular compared to the period before central banking. Finally, bank failures have been more a problem under central banking than under previous banking eras in U.S. history.[4]

To be sure, these measures of banking system strength have ebbed and flowed cyclically over the past eight decades—for example, the dissolution of the 1930s, the seeming calm of the 1950s, and the renewed turbulence of the past two decades. But in my own work, I've identified an undeniably pronounced secular decline in the financial condition of banks, in good times and bad. This leads me to question the legitimacy of central banking as such. I'm encouraged to find that other scholars are also questioning the conventional wisdom about central banking.[5]

I attribute the secular decline of banks to central

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banking not only because that has been the predominant structure governing our money and banking system for most of this century, but because the main features of central banking bear directly on the worsening finances of the banks.

For example, central banking involves a legal tender monopoly on the production of paper currency, and to the extent this money is produced in excessive supply and forms the base of banking system deposit expansion, it inflates bank balance sheets and invites malinvestment of resources. Central banking is characterized by a lender of last resort function that can be seriously mismanaged, as it was in the 1930s, causing widespread bank failures. Central banking is usually accompanied by a system of flat-rate federal deposit insurance, a system known by all to promote excessive risk-taking and imprudence among banks.

It should not have taken decades to see this would happen. Back in 1908, when earlier versions of government deposit insurance were advanced, the president of the First National Bank of Chicago, James Forgan, asked the following: "Is there anything in the relations between banks and their customers to justify the proposition that in the banking business the good should be taxed for the bad; ability taxed to pay for incompetency; honesty taxed to pay for dishonesty; experience and training taxed to pay for the errors of inexperience and lack of training; and knowledge taxed to pay for the mistakes of ignorance?"[6]

As I have argued elsewhere, "deposit insurance is a scheme put in place because the Federal Reserve mismanaged the discount window in the 1930s, and it is a scheme that has been expanded ever since in concert with the Fed's inflation of the money supply (which consists predominantly of bank demand deposits)."[7]

Finally, systems of central banking involve extensive regulation of bank branching, lending, and product offerings—regulations that prohibit sound diversification and invite still greater instability.

Unsafe and Unsound

If the purpose of central banking is to ensure sound money and safe banking, then central banking has been an unmitigated failure. I have already summarized the relative decline of banking's strength as captured in financial ratios. But the purchasing power of money has also declined, so that a 1913 dollar is worth ten times more than a 1992 dollar. We enjoyed much sounder money and safer banking in the eight decades before central banking was established here in 1913 than we have in the eight decades since. I conclude that this is so because central banking represents a special case of the general failure of central economic planning, a failure that most of the world is only now beginning to recognize.[8]

The fact that central banking flies in the face of free-market alternatives is recognized by some of its most prominent practitioners. In a symposium sponsored by the Federal Reserve Bank of Kansas City in August 1990, Paul Volcker noted that, "Central banks were not at the cutting edge of a market economy. . . . Central banking is almost entirely a phenomenon of the 20th century. . . . Central banks were looked upon and created as a means of financing the government. . . . If you say central banking is essential to a free market economy, I have to ask you about Hong Kong, which has no central bank at all in the absolute epitome of a free market economy. Yet it does quite well in terms of economic growth and stability."[9]

My research confirms Mr. Volcker's assessment. The primary purpose of central banking is to finance the government.[10] That's what it does consistently and what it does best—and does so, unfortunately, at the expense of sound money and safe banking. Mr. Volcker would find results in the U.S. similar to those of Hong Kong, as I did, by examining the decades before the Federal Reserve was established.

In the eight decades before 1913 we had a system which can very loosely be called "free banking and the gold standard." There was no central bank, no lender of last resort, no federal deposit insurance. Banks issued currency as well as checking deposits, convertible into the precious metals. Bank note redemptions and the gold standard anchored the money supply. Excessive currency issuance was prevented. Money expanded and contracted with the needs of trade, not with the needs of government. Banks formed clearinghouses to settle balances and they lent on an inter-bank basis to temporarily illiquid but solvent institutions. The few banks that failed were absorbed into stronger ones or simply liquidated at a discount to noteholders.[11]

The free banking era was not totally free, of course. Bank note issues were restricted by laws requiring currency to be backed by state or federal bonds—an indirect means of financing government. Branching was restricted as well, preventing full diversification. But the U.S. free banking era was more in line with a free market system of money and banking than our present era. As such, it should not be surprising that it produced relatively higher quality money and much safer banking. I document these facts in my book. For more background on the favorable history of the free banking era, I recommend the work of Arthur Rolnick and Warren Weber at the Federal Reserve Bank of Minneapolis.[12]

Only with this wider historical and theoretical context can we grasp the full implications of today's "too-big-to-fail" doctrine. In my view, banking without the "too-big-to-fail" doctrine is not simply banking prior to 1984, the year when Todd Conover, Comptroller of the Currency, said the top 11 banks in the country would not be permitted to fail. For me, banking without "too-big-to-fail" is banking before 1913, the year when the Federal Reserve was established. For as I have indicated, the doctrine is inextricably linked with central banking. No free market system of money and banking would aim to sustain insolvent institutions, and there would be no institutional bias in favor of generating insolvent institutions, as central banking engenders. Free banking minimizes the spread of problem banks from the very start. No central bank monetary inflation or taxpayer deposit guarantees are employed to force-feed a free banking system.

Undermining the Financial Integrity of Banks

In two important respects, the "too-big-to-fail" doctrine represents an unhealthy extension of two central banking features that have already been shown to undermine the financial integrity of banks.

First, the "too-big-to-fail" doctrine has transformed the lender of last resort from one providing cash to temporarily illiquid banks to one providing extended credit to permanently insolvent banks. One of the first theorists of the lender of last resort function, Walter Bagehot, warned us that there would be times when a central bank couldn't effectively distinguish between illiquidity and insolvency.[13] But in recent years the discount window has been thrown wide open to banks widely admitted to be insolvent. For example, a 1991 House Banking Committee report concluded that the central bank provided subsidized credit to hundreds of banks that ultimately failed. In six years ending May 1991, 530 of the 3000 banks that drew on the discount window failed within three years. Many more, if not outright failures, had the lowest financial performance ratings assigned by regulators.

Even as a provider of short-term liquidity, the lender of last resort offers a safety valve for banks that do not properly manage their liquidity positions. This subsidy for liquidity mismanagement has been in place for years. We were always assured that the Fed would manage access to the window with prudence and discretion. But now this mal-incentive has been extended still further to cover up the insolvency of banks. Perhaps even worse, access to the discount window was *widened* in the 1991 banking law to include the securities industry. More recently, there was talk among U.S., British, and Canadian central bankers of assisting real estate developer Olympia and York, on the grounds that its bad loans would harm big banks. There appears to be no end to the degeneration of the lender of last resort function.

Second, the "too-big-to-fail" doctrine has unwisely extended deposit insurance coverage from insured depositors to uninsured depositors and creditors. Government guarantees of insured deposits are bad enough in the way they promote reckless banking. The more than doubling of deposit coverage in 1980 institutionalized the recklessness. The extension of coverage to all creditors of banks, as under the "too-big-to-fail" doctrine, is the height of irresponsibility.

Nothing in the 1991 banking law removes the discretion of the Fed or the Treasury in employing "too-big-to-fail" at any time for any purpose.[14] To the extent the doctrine has not been employed as extensively in recent failures, it seems only because of the insolvency of the deposit insurance funds themselves. "Too-big-to-fail" is not a doctrine which can be effectively scaled back in isolation or in increments. Unless there is an outright rule against it, exceptions will always be made to expand it.

"As the late Nobel Prize-winning economist Friedrich Hayek argued, we need 'a denationalization of money,' and the kind of choice in currencies that brought us stable money and banking in the 19th century."

Bad as they already were, discount window activity and deposit insurance coverage have degenerated further in recent decades, in the name of the "too-big-to-fail" doctrine. We need to repeal the structural central banking features that generate failed banks, not simply patch on some extended version of these features, a patch job supposedly justified by pointing to all the failures. Accompanying the unconditional repeal of "too-big-to-fail" must be a scaling back and eventual abolition of federal deposit insurance and discount window lending as well. The sooner this occurs, the sooner banking will be restored to the health it enjoyed before these features were in place.[15]

The Fear of Contagious Bank Runs

Opponents of the repeal of the "too-big-to-fail" doctrine often cite the so-called "contagion" effect of bank failures, the domino effect of large bank failures precipitating other failures, allegedly cascading into a system-wide collapse.

In my estimation, no factor contributes more to this risk than government restrictions on branching. U.S. banking historians know all too well that widespread correspondent banking and extensive reliance on inter-bank deposits in this country stem directly from branching prohibitions.[16] In nationwide banking systems, such as in Canada, inter-bank exposures are minimal.[17] But in the U.S., the government has promoted an interlocking banking system, in effect requiring banks to line up like dominos, preventing them from holding their own direct deposits in their own chosen areas of the country. Having created such unstable links, government has then advanced a "too-big-to-fail" doctrine to prevent smaller banks from being harmed by losses on deposits at bigger banks.

Here is an obvious case of government interventions that have bred further intervention, allegedly to remedy the distortions brought about by still earlier interventions. Eugene White and others have shown that U.S. banking history is replete with evidence of this vicious circle.[18] There is only one solution to this madness, and that is to repeal the interventions *across the board.* Let's start by permitting what every advanced country permits of its own banks—the ability to branch freely and diversify their operations.

I will not repeat here in detail other important refutations of the so-called "contagion" argument, especially those made by economist George Kauffman.[19] Suffice it to say, he argues that if some banks are weak, depositors will transfer their money to stronger ones. If they don't find stronger ones they will make a flight to quality and acquire government securities, the sellers of which must be confident of finding stronger banks, because in selling they expect to deposit the cash proceeds. In either of these cases, there is a redistribution of reserves, but no destruction of them. There is no deflation of the aggregate money supply and hence no contagion effect.

What if the strength of all banks is doubted by all parties? Then there will be a flight out of deposits into currency, a precipitous drop in the deposit/currency ratio so common to deflations. A loss of reserves could kick off a multiple contraction process that affects healthy banks as well as insolvent ones. But observe that such deflations are exacerbated by fractional reserve banking, and especially by very low fractions. Economists who recognize this potential problem tend to argue for some form of deposit insurance to contain it. I believe, to the contrary, that all government deposit insurance is de-stabilizing. I oppose it on principle, mindful of the fact that even limited forms of it soon grow into uncontrollable excess.

Furthermore, my own research indicates that bank liquidity is far lower—that is, reserve fractions are far lower—under central banking than under free banking. Hence a deposit contraction is potentially more severe when a central bank is in charge. More important, free banking offers a direct solution to the problem. A system of free banking permits private bank currency issuance, so banks can easily meet shifts in customer demand for currency relative to checking deposits. Such shifts are far less easily accommodated by a monopoly currency issuer which can misjudge and mismanage the shift, as did the Federal Reserve in the early 1930s.

On these grounds alone, I believe there is good reason to secure some end as well to the legal tender laws which grant a monopoly on currency issuance to the Federal Reserve. I have offered other reasons for the repeal of the legal tender laws in my book. As the late Nobel Prize-winning economist Friedrich Hayek argued, we need "a denationalization of money," and the kind of choice in currencies that brought us stable money and banking in the 19th century.[20] Parting somewhat from Hayek, I believe this free issuance of bank notes must also involve gold-convertibility, as note issue did during our better banking era.

A proper legal structure upholding property rights is also important. Free banking does not entail anarchy. Contracts must be enforced. The repeal of the "too-big-to-fail" doctrine will not be truly sustainable unless banks are fully subject to the general bankruptcy laws. No other industry is exempt from such laws, nor so harmed by the exemption.

Until and unless banks are subject to bankruptcy, we will continue to see failures handled according to politics and bureaucratic motives—such as agency "image"—not according to simple justice and sound economics. We will continue to witness swings from a regulatory policy of "forbearance" to a policy of "early intervention," to forbearance, and back again. Both policies are detrimental to the banking system, and not only because of their unpredictable application from one case to the next or one year to the next.

Forbearance, as is known to all, promotes laxity in accounting and financial control, condoning, if not encouraging, recklessness, hiding insolvency, and ballooning ultimate losses. "Early intervention," on the other hand, has its own dangers. While posing as a remedy for the ills of forbearance, a policy of early intervention actually holds out the very definite prospect of de facto nationalizations of the banks. After all, if banks with 2 percent capital ratios are to be closed down or taken over, as provided in the 1991 banking law, what else can such a policy be called but a nationalization, indeed a "taking," under the Fifth Amendment? The recent nationalization of Crossland Savings Bank offers a chilling precedent for this disturbing new extension of the "too-big-to-fail" doctrine.[21]

If, instead, banks are subject to the bankruptcy laws, the competing interests of management and creditors, including the creditors who are depositors, will prevail. Closures of failed institutions will not be sudden but orderly. They'll be drawn out in a rational manner, but not forever, as in the case of the thrifts or the Rhode Island credit unions. Neither will closures under bankruptcy take place prematurely, while there remains value in the franchise. For a more detailed look at this approach, I commend to you the work of Robert Hetzel at the Federal Reserve Bank of Richmond.[22]

In conclusion, I want to stress that the "too-big-to-fail" doctrine is part and parcel of a wider system of central banking that undermines the financial condition of the banking system. The sooner we phase out this system in favor of free banking and the rule of law, the better off we will be. In other words, repealing the "too-big-to-fail" doctrine will be a good start, but it won't go far enough in curing what really ails the banks. □

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10. Salsman, *Breaking the Banks,* chapter 8.

11. Salsman, *ibid.*, chapter 6.

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15. I have explained in detail how this might be accomplished in Chapter 9 of *Breaking the Banks.*

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We, the People, and Our Deficit

by T. Franklin Harris, Jr.

Criticizing the government's continuing failure to deal with the mounting federal budget deficit, New Hampshire Senator Warren Rudman announced in March that he would not seek re-election. The Senator held nearly everyone responsible for the budget gridlock: the Congress, the President, and—surprisingly—even the American people.

"What?" you ask. "How are we, the people, responsible?" The answer is simple: We, the people, love big government. Oh sure, we complain about high taxes; and we are indignant whenever the government tells us to do something or not to do something; but we love being on the receiving end of government handouts and vote accordingly.

At election time, politicians engage in a bidding war in order to gain—if not affection or trust—votes. If one candidate promises a new interstate highway for his district, the other promises to move the headquarters of the Department of Transportation to the district. If one promises pie in the sky, the other adds a scoop of ice cream. When the auction gavel finally comes down, the high bidder usually wins.

But government programs cost money; the government raises money through taxation; and no one likes taxes—just ask President Bush. The nation is in the midst of a Tax Revolt. In my own state of Alabama, countless attempts to raise property taxes have gone down in defeat when placed on the ballot. The mayor of one city faces possible recall because he reneged on one of those "no new taxes" pledges (he raised the old ones). And, in the state's largest city, Birmingham, a group called HELP (Help Everyone Live Proudly) was formed with the immediate goal of repealing a recent sales tax increase. Nationwide, voters are reacting in similar fashion. Jerry Brown's 13 percent flat tax—whatever its merits or flaws might be—gained attention because people believed it would lower their taxes.

This is not to attack people for not wanting higher taxes—or indeed, wanting to repeal many of the old ones. Public disgust with taxation is justified. According to the Tax Foundation, Americans work from January 1 to May 8 just to pay their taxes. This is not a misprint: Over one third of the year is spent in effective slavery. There can be no justification for this level of taxation, especially when considering that most of that tax money goes to finance someone else's "entitlement." Whether it is farm subsidies or welfare or that sacred (and fat) cow, Social Security, most money is taken from one person's pocket in order to end up in someone else's. In the process, bureaucrats skim some funds off the top through transfer costs and just plain waste. Furthermore, taxation is coercion. We do not hand part of our income over to the IRS because we want to; never mind the IRS's prattling about "voluntary compliance." We pay taxes under threat of penalties: fines and prison terms. It is perfectly reasonable for people to resist coercion; after all, it was just

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such resistance that brought down Communism in Eastern Europe.

The answer to the budget deficit problem is not higher taxes. The deficit has continued to worsen even as taxes have gone up. The answer is to reduce Federal spending substantially. The American voting public must learn to curb its appetite for government programs and benefits.

It is not unreasonable to expect people to live their lives without the "assistance" of government's various agencies and policies. In fact, we got along quite well without them in the past. The arts flourished without the National Endowment for the Arts. Farmers raised crops and fed America (and much of the world) without farm subsidies. Settlers traversed the entire North American continent without the Department of Transportation to pave the way. Children were taught to read and write long before the advent of mass public education, student loans, and the Department of Education. People saved for retirement and lived their Golden Years without dependence on Social Security.

There is something to be said for individual initiative. People working together can accomplish great things without the government's help (or interference). One hundred years ago they raised barns; today, organizations build housing for the homeless. This volunteer work has proved much more effective than the government's ill-managed shelters and counterproductive housing policy.

By returning to "old-fashioned" self-reliance, America can do without the government's assorted boondoggles. Then, spending can be cut and the budget deficit, which is soaking up credit and dragging down the economy, can at last be dealt with. The budget deficit is our fault. We, the People, must recognize this simple truth if the deficit is ever to be brought under control. □

Half-Truths or Consequences

by Gary Galles

The legitimate role of the American government is small, at best. This follows from the plain wording of the Constitution with its grant of tax power only to promote the general welfare, its brief list of enumerated powers, its prohibition against the taking of private property without just compensation, and its system of checks and balances. It also follows from simple logic. All creating a government does is to give one group the power to force involuntary trades on others (although I "volunteer" to pay my taxes as a way to stay out of jail). It does not impart any additional intelligence or wisdom to "governors" in the process, but it does distort their incentives and diminish accountability for their actions. On what basis should we expect improved results?

Given that much of what our government does is indefensible by reference to either logic (e.g., how do farm subsidies advance the general welfare?) or principle (e.g.,"Thou shalt not steal," a rule that clearly advances the general welfare), how are government's actions made to appear worthwhile? They are justified with plausible sounding but invalid arguments, many as old as government itself. It is worth reviewing some of the more frequent political fallacies as a sort of self-defense course.

Half-Truth Number One

During election years we hear that government spending programs create jobs, thus also reducing welfare spending. This is a half-truth. Government spending does create jobs where it is spent, but those same resources, spent elsewhere, would have created other jobs. If the government builds a prison rather than a highway, it has not created jobs—it has only moved them. More importantly, this argument does not support government programs at all, because they require taxes (or deficits, which are deferred taxes) to finance them, and those taxes destroy jobs elsewhere. Further, government spending moves jobs from where voluntary and mutually beneficial market choices place them to where politicians dictate. Given what we know about the failures of governments to plan rationally, government spending provides no assurance of mutual advantage. The truth is that government spending does not increase wealth and prosperity.

Half-Truth Number Two

We have also heard the half-truth that government spending generates multiplier effects, ultimately producing several dollars in secondary benefits for each dollar spent on direct benefits. Added incomes resulting from government spending do generate additional spending and jobs and still more income. However, any government spending would create similar multiplier effects. Further, so would eliminating the taxes that are necessary to finance the spending. In fact, private individuals, allowed to use their money as they see fit, will use it more efficiently than government, creating greater real income than government spending. The truth is that government spending delivers gains in one area only by imposing greater losses elsewhere.

Half-Truth Number Three

We have heard innovative ways of counting the same benefit in different disguises, as if it were sev-

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eral different benefits. Jobs and income are both counted as benefits, even though the jobs are actually the work that must be done to earn the incomes. Similarly, crime or pollution reduction and the resulting increased property values are both counted, even though the higher values are simply capitalizing those benefits, resulting in double counting. (Of course, when government actions increase uncertainty, crime rates, and pollution, and therefore lower property values without compensation, we hear about neither the problem nor the lower property values.) The truth is that advocates of government spending sometimes misuse both logic and statistics to make government spending appear beneficial.

Half-Truth Number Four

We have heard claims that government spending creates external benefits for society, justifying the "need" for more spending. Public education is routinely justified on this basis. However, the external benefits argument for government provision of education, as in many other areas (e.g., health care), cannot withstand either logical or empirical scrutiny. Wood shop comes to mind, as do the "skate" classes that can be found at every school. So do law, medical, and dental schools, given that the benefits of such professional training are captured by their graduates as higher incomes. Further, any such external benefits would require that schools successfully teach the truth and students retain what they are taught past graduation, a condition clearly open to challenge on both counts.

We have heard many other misleading justifications for government programs as well. These include plausible sounding claims of benefits (1) whose magnitudes are empirically insignificant (e. g., local or state pollution initiatives will reduce global warming or food stamps will help the nutrition of the poor); or (2) which are not benefits at all, but have effects opposite those claimed (e. g., higher minimum wages or mandated benefits help the poor, public housing results in better shelter for the poor, or foreign aid helps other countries' citizens, even when it goes to regimes that use it to repress their citizens more efficiently); or (3) which rest on false premises (e.g., a dollar spent in a government program must be worth a dollar to citizens).

At least as important to justifying indefensible government programs as overstating benefits is substantially understating the costs of government spending by treating each dollar spent as costing society only a dollar, when in fact it costs far more. A substantial part of both expenditures (sometimes over 10 percent) and the taxes that finance them is consumed by administrative costs. Large compliance costs are also imposed on both taxpayers and program beneficiaries (e.g., the average American taxpayer spends about three full workdays on income tax forms). Further, these ever-changing programs introduce substantial added risks of future alterations in the laws, which can turn good decisions into bad at the whim of a legislator, judge, or bureaucrat. The substantial costs of the distorting effect of the tax wedge (often involving multiple taxes compounded on the same income or transaction) between buyer and seller, which thwarts many mutually beneficial transactions, must also be included. If the cumulative marginal tax rate is 60 percent, a common result, the last dollar not spent in the marketplace because of taxes would have provided $1.60 in benefits to the purchaser, and those forgone benefits are the real costs of the government spending involved.

Since the true social cost of even a hypothetical "well spent" government dollar thus substantially exceeds a dollar, not even counting the less obvious costs of reduced liberty, government "solutions" can be economically justified only if they can be demonstrated to be less costly than the "market failure" they allegedly address. This does not generate a long list of legitimate government programs.

A Proper Defense

In defense against these half-truths, free market advocates must be ready to force advocates of government policies (including regulations, which are disguised tax and expenditure packages) to justify them on their actual merits, rather than on the basis of a misleading "shopping list" of alleged benefits. If every proposal could be made to bear the burden of proving (not just asserting) that it actually advances the general welfare, we would have come a long way toward restraining government. Perhaps we should adopt a variant of the ancient Greek practice and require legislators who propose new programs to do so with a noose around their necks, ready to be hanged if those programs do not advance the general welfare. ☐

Where Has All the Saving Gone?

by Anthony M. Carilli

Social commentators from both ends of the political spectrum have long bemoaned the low rate of saving in the United States. They fear that the lowest rate of saving in the industrialized world portends economic disaster. The level of saving is one factor that determines the level of interest rates: the lower the rate of saving, the higher the interest rate. The interest rate is the price of obtaining funds for investment. So, high interest rates yield lower levels of investment. Thus a relatively low rate of saving yields a relatively low rate of investment. The low level of investment makes it difficult for American enterprise to compete in the world market, because it will be unable to afford the adoption of new technologies.

Some blame the low rate of saving on American materialism. Some say that Americans do not have a moral commitment to saving. Still others blame the shortsighted selfishness of the market economy for the paucity of saving. The solution, the social commentators argue, is to change the psychology of the American consumers.

These criticisms and their requisite solutions miss entirely the true reason for the low rate of saving in the United States. Americans are rational decision makers. They weigh costs against benefits to decide upon how much to consume and how much to save. The decision to save is an economic decision. Most consumers place a higher value on near-term consumption than on consumption in the distant future. To get people to give up the bird in the hand for the two in the bush, interest must be paid. The higher the interest rate the more likely an individual is to put consumption off; that is, the higher the interest rate the more likely it is that the individual will save. Although consumers save for a variety of reasons—to provide for retirement, to leave legacies for their children, to provide for random emergencies—the decision to save is based on economic incentives.

In a free market, consumers purchase various bundles of goods according to the relative prices of those goods. The saving choice is one of choosing relative amounts of present and future consumption. The price of present consumption in terms of future consumption is the interest rate. Thus, consumers substitute future for present consumption as the interest rate rises (i.e., as the price of present consumption rises, *ceteris paribus*). So increases in interest rates will tend to bring about increases in saving.

Punishing Thrift

Given that consumers are rational, why is the U.S. saving rate consistently as low as it is? U.S. economic policy toward saving is the answer. Policies over the last 50 years not only have not encouraged but have actually discouraged saving. The question is then: why discourage saving? The answer lies in the economic policies based upon the economic theories of John Maynard Keynes.

A legacy of the Keynesian revolution is that the venerable Benjamin Franklin's aphorism "A penny saved is a penny earned" now reads "A penny saved is a penny *destroyed.*" Saving, to Keynes,

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except at full employment, is not only unwise but invidious: "[W]henever you save five shillings, you put a man out of work for a day."[1] Parsimony is bad and prodigality is good according to Keynes. It does not matter how income is spent so long as income is *not* saved.

> For example, why not pull down the whole of South London from Westminster to Greenwich, and make a job of it—housing on that convenient area near to their work a much greater population than at present, in far better buildings with all the conveniences of modern life, yet at the same time providing hundreds of acres of squares and avenues, parks and public spaces, having, when it was finished, something magnificent to the eye, yet useful and convenient to human life as a monument to our age? Would that employ men? Why of course it would![2]

To Keynes, destruction is production. Using this logic, it would make sense to bomb some part of every major city every year to "create" jobs.

Spending is preferred to saving even when the spending is done "[t]o dig holes in the ground."[3] This hole digging "will increase, not only employment, but the real dividend of useful goods and services."[4] The prodigal son is the economic hero while the parsimonious son is the economic villain.

The Paradox of Thrift

This inversion of Christian values manifests itself in the paradox of thrift. Children are taught to save for a rainy day; to exercise discipline from the earliest possible age. According to the paradox of thrift, this discipline is strangely a vice if it is practiced by all "children" simultaneously. The aphorism "save for a rainy day" is merely a euphemism for "be prepared for those times when income is tight or nonexistent." The paradox of thrift teaches that the best way to be prepared for this unenviable situation is not to prepare for it at all. To the contrary, the best preparation is not that of accumulating income to mitigate the possible hardships, but to consume as much as possible. "For what we need now is not to button up our waistcoats tight, but . . . to buy things."[5] The rational act of preparing for the exigencies consistent with an economic slump will actually hasten the arrival of the downturn. Insurance against disaster will ultimately destroy the wealth of the family. The accumulation of wealth is the destruction of wealth according to the paradox of thrift.

The message is clear: saving is to be avoided despite the fact that saving is almost an instinctive act of man. In this regard, man behaves like many animals. Just as the squirrel stores nuts for the winter, man places part of his current supply of food (income) aside for future meals (spending). Man differs from the squirrel in one respect, however. Man can invest. Man can create larger future harvests by investing part of the seed corn to grow more corn for next year. Without this investment, man does not increase the size of his meal (i.e., his standard of living). If man and the squirrel do not provide for the future, they do not survive the future. So saving *is* important for man as well as animals. In this regard the paradox of thrift is unnatural. It teaches that not only shouldn't families save, but that they should run down their existing savings (should they be so villainous as to have any) even if it is spent to dig holes in the ground.

Keynes' War on Saving

Keynes worried that some may not be convinced of the efficacy of these arguments. Keynes also understood the relationship between interest rates and saving, so to reduce the incentive to save further, he advocated policies be undertaken to drive the interest rate to zero. In fact, "[i]f the rate of interest were zero, there would be an optimum interval for any given article between the average date of input and the date of consumption for which labour cost would be a minimum."[6] A zero rate of interest will have "beneficial" effects upon the community as well. "Change and progress would result only from changes in techniques, taste, population and institutions . . . [f]or a little reflection will show what enormous social changes would result from a gradual disappearance of a rate of return on accumulated wealth."[7] This optimum state could be brought about in a "*properly run* [italics mine] community . . . within a single generation."[8] Thus, Keynes was not only concerned with eradicating man's instinct to save, but also he was concerned with bringing about a centrally planned economy.

Further, Keynes argued that saving needs also to be discouraged because "[a]n act of individual saving means so-to-speak a decision not to have

"The low rate of saving is the direct result of economic policy over the past 50 years."

dinner to-day. But it does not necessitate a decision to consume anything at any specified date."[9] Keynes did not view saving as a decision to substitute future consumption for present consumption. There is nothing else that saving can be used for except future consumption. So, never mind that most saving is done in anticipation of future consumption. "In the long run, we are all dead."

The U.S. economy may now be in Keynes' fabled long run. Economic policy makers took Keynes' aversion to saving to heart. Anti-saving policies have proliferated to the point where no motive for saving goes unpunished. Social Security encourages individuals not to save for their retirements. Saving for medical emergencies is discouraged through programs such as Medicare and Medicaid. There is sentiment on the national level for national health care and catastrophic health care. This will not only discourage saving for such unforeseen expenses; it will reduce disposable income available for saving. Government must first take (tax) before it can spend. Further, if Congress is successful in its attempt to have businesses pick up the tab for national health insurance, wages will fall (or at least the rate of growth of wages will fall). Unemployment "insurance" makes fatuous the reason for saving to withstand any short term job loss. Finally, the return on saving (interest income) is taxed at progressive marginal rates. Government policy toward saving is one of discouragement, *per se.*

The taxation of interest income may well be the most effective instrument for discouraging saving. Suppose that there were no tax on income or goods and that an individual's hourly wage were $10. If his future earnings were to remain the same and he would want to consume $10 more annually, he would need to work an additional ten hours, if the interest rate were 10 percent. Now suppose there is a 50 percent tax on income; he would have to earn $400 to be able to consume $10 more annually. That is, the income tax quadrupled the price of saving. (He earns $400 and pays a tax of $200 leaving him with $200 to save. The $200 earns $20 interest, leaving him with $10 after taxes.) The effective interest rate is only one quarter of the nominal interest rate. At this price very few people will save.

Thus, as the United States begins its journey through the last decade of the 20th century, various commentators are bemused by the paucity of saving by the American people. Given the hidden and largely malevolent attitude harbored by policy makers toward saving, is there really any question as to why this (the low rate of saving) is true? It is as if policies toward saving have been the cruel joke of some "[p]ractical men . . . [m]admen in authority, who hear voices in the air . . . distilling their frenzy from some academic scribbler of a few years back."[10] Thus, one sees that "it is ideas . . . which are dangerous for . . . evil."[11] The reasons for the low rate of saving are not necessarily psychological, moral, or inherent in the market economy. Quite the contrary: The low rate of saving is the direct result of economic policy over the past 50 years. If we truly want to increase the rate of saving, the solution is to stop enticing people not to save and to stop penalizing them when they do. □

1. John Maynard Keynes, *Essays in Persuasion* (New York: W. W. Norton & Company, 1963), p. 152.
2. *Ibid.*, pp. 153-154.
3. John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt Brace Jovanovich, 1964), p. 220.
4. *Ibid.*
5. Keynes, *Essays in Persuasion,* pp. 152-153.
6. Keynes, *The General Theory of Employment, Interest and Money* p. 216.
7. *Ibid.*, pp. 220-21.
8. *Ibid.*, p. 220.
9. *Ibid.*, p. 210.
10. *Ibid.*, p. 383.
11. *Ibid.*, p. 384.

Memoirs of a Simple Honorable Man

by Charles H. Hamilton

I don't know if John Chamberlain ever reviewed Conrad Richter's *A Simple Honorable Man*, but he should have. No one who has ever met John can doubt that he embodies these rare qualities. Any era has only a few such souls. They remind us that, above all else, the characteristic of simple common decency makes for a better, and freer, world.

Readers of *The Freeman* know John's monthly book review column, "A Reviewer's Notebook." It has been a staple since FEE began publishing *The Freeman* in 1954. He missed the first issue in July of that year but continues his column today—though not on the same rigorous monthly schedule he maintained for nearly 35 years! Thus, it would be an easy mistake to take John for granted, or to think of him only in his important role as "our" *Freeman* reviewer.

The reviews in this new collection are from an earlier *Freeman*, the immediate predecessor of FEE's publication. It was published between October 2, 1950, and June 28, 1954, though John wrote for it during only the first half of its short life. The 54 reviews in this book come from those 61 issues. There is also one new piece on "The Basic John Dos Passos." They afford us the opportunity to remind ourselves of John Chamberlain's outstanding reaffirmation of the voluntarist spirit.

John Chamberlain has read a remarkable number of books in 89 years; one suspects he was born reading a book (on October 28, 1903). By one count he has published over 20,000 essays and

The Turnabout Years: America's Cultural Life, 1900-1950
by John Chamberlain
Foreword by Priscilla Buckley
Jameson Books, Inc., P.O. Box 738, Ottawa, Illinois 61350 • 1992 • 272 pages
$12.95 paperback.

reviews. Looking back from today, we see that in addition to *The Freeman*, John had a widely featured three-times-a week syndicated column from 1960 until 1990. Prior to that he had been an editorial page writer for *The Wall Street Journal* from 1950 to 1960. He had a long association with *Life*, first in Washington from 1941 to 1945, then as an editor from 1945 to 1950, and later as their chief editorial writer in the late 1950s. He had earlier been an editor at *Fortune*, writing editorials, feature articles, and business studies from 1936 until 1941.

These steady jobs were peppered with additional, often overlapping, stints. For instance, he was a senior editor and lead reviewer for *National Review* at its beginning in 1955. He worked for *Barron's* as an associate editor before that. He was a book review editor for *Harper's* from 1939 to 1947, a book review editor at *Scribner's* from 1936 to 1938, and briefly associate editor of *Saturday Review* in 1932.

John's career began when journalism was a more intellectual profession. He started at *The New York Times* in 1926 and became assistant editor of *The New York Times Book Review* in 1928. He became the first daily book reviewer for the *Times* in 1932 and continued for over four

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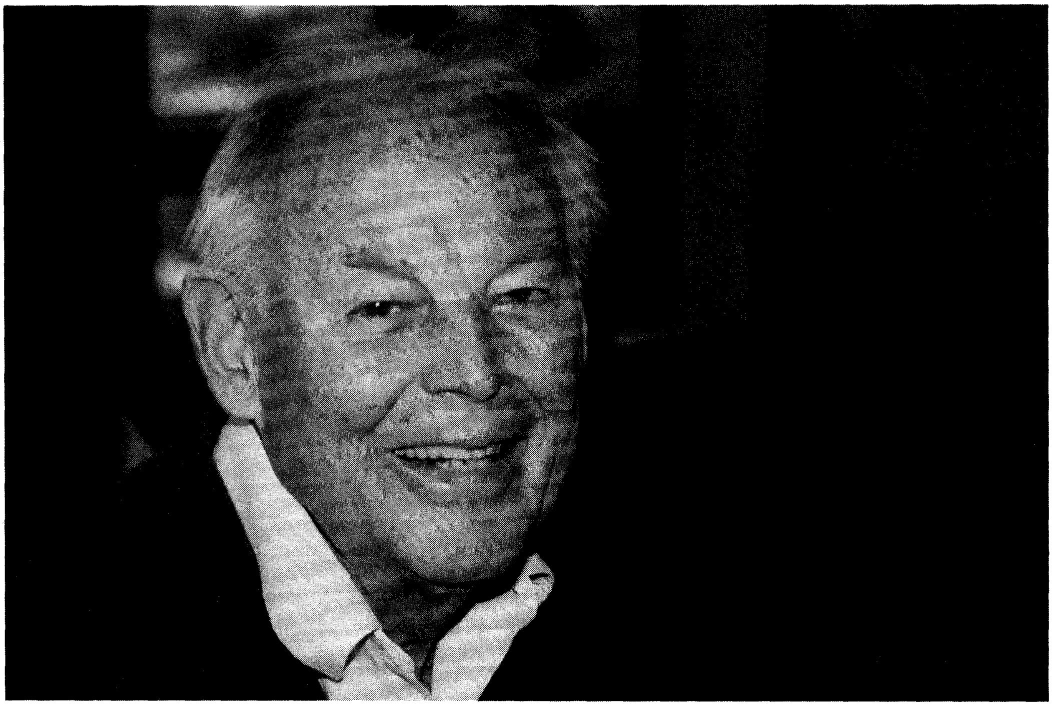

John Chamberlain

years. He later contributed to the daily column intermittently through the mid-1940s. He quickly developed an eager following and a reputation as one of the country's best younger critics.

As if this weren't enough for one man, John taught at various times at Columbia University's School of Journalism and was Dean of the School of Journalism at Troy State University (Alabama) from 1972 to 1977. He has written eight books, many of which are still in print: his very important *Farewell to Reform* (1932); *The Roots of Capitalism* (1959), on the theory and practice of the free enterprise system; *The Enterprising Americans* (1963), a business history of the U. S.; and *A Life with the Printed Word*, his charming 1982 autobiography. He has contributed to many books and written introductions to books as various as the first U. S. edition of F.A. Hayek's *The Road to Serfdom*, editions of James T. Farrell's *Studs Lonigan*, William F. Buckley's *God and Man at Yale*, and Adam Smith's *The Wealth of Nations*.

An Individualist's Journey

This backward glance does not do justice to many of John Chamberlain's accomplishments, but it does put us where we need to begin. John's odyssey in the world of ideas is an interesting one that starts in the fascinating and misunderstood 1920s. It is most assuredly a particular individualist's journey. It is also a story of America's attempt to come to terms with the modern era.

After the terrible rending of institutions and traditional American values caused by the First World War and wartime collectivism, the 1920s strangely reflected a reawakening of nascent individualism within a largely socialist ideology. So it should not strike readers as strange that a number of reviews in this collection from the early 1950s discuss writers from the 1920s, such as Dos Passos and Mencken ("undoubtedly the chief liberator of my own college generation in the early twenties"). It is in the twenties that John begins his own intellectual and peripatetic fondness for the written word and for liberty. First, as a Yale student in the 1920s, he was greatly influenced by the work of William Graham Sumner, having taken courses with A. G. Keller, Sumner's editor and follower. We find some of John's comments on Sumner in several reviews in this book.

The cultural and literary criticism of the "lost generation" of the 1920s was the fertile ground of John's own efforts. Van Wyck Brooks and Edmund Wilson were among his favorite critics.

Even the title of his later column, "A Reviewer's Notebook," is taken from Brooks' distinguished review column in the 1920s *Freeman*, edited by Albert Jay Nock. John was to become "the finest critic of his generation," as his former professor Billy Phelps later described him.

John's own writing about the 1920s has given a different interpretation of that often maligned period. In a review about F. Scott Fitzgerald reprinted in this volume, he describes the "man of the twenties": "Americans, in the twenties, believed that man could be a creative agent by his own free decision. . . . He did not have to wait upon permission from a government, an institution, or a set of social conventions. The man of the twenties believed in freedom at the source, working outward from the dedicated individual." Again, in a review about Edna St. Vincent Millay, he recalls the essentially anti-political feeling of the time that was so refreshing: "politics is the least satisfying, the least rewarding, of human preoccupations. The more we intensify our political activities, the less time we have to spend on personal development, or the arts, or creativity in general."

He started on the left, though terms like left and right meant little in the earlier period. His first book, *Farewell to Reform*, was a remarkable critique of American liberalism and progressivism. The reforms of the progressive era and Wilson's New Freedom were merely rigidifying the whole system. Like John T. Flynn after him, John warned of an impending American fascism. While he was short on positive remedies, there was an almost pro-forma salute to political solutions along socialist lines.

John was one of the first of the American radicals of the 1920s to be disillusioned with interventionist cant. The events around him were just too striking. He rather quickly became an anti-Communist, though he retained certain liberal and leftist shibboleths a bit longer. Henry Luce asked him to do a number of articles on American business for *Fortune*, and this exposure to thoughtful men and women and an intimate look at the free market system further refined his views. By 1940, John would describe himself as "a free-lance radical who refuses to be bound." During the previous ten years he had come to recognize the weaknesses of human nature and the even greater dangers and limitations of political "solutions." He returned to Sumner, to the basic individualism of the 1920s—indeed to the radical Jeffersonian tradition that had also nourished Albert Jay Nock.

What had happened? It would be a mistake to suggest that John's perspective changed radically. Rather, events showed him that his strongly held values and individualism were relevant in a real world of statism. In a 1952 review of a disappointing book on American conservatism, he revealed that "something has happened to me in the past two decades. . . . [I]n all sincerity I do not think that mere visceral shock accounts for my shift in orientation. I have simply lived to see at least four major brands of statism tried out. I have seen Leninist and Stalinist statism murder its millions in Soviet Russia. I have watched Hitlerian statism kill Jews by the hundreds of thousands in central Europe. I have been a witness (sometimes on the spot) to the destruction of vitality and initiative forced by socialist statism in Britain. And I have lived through eighteen years of New Deal and Fair Deal governments. . . ."

During his journey from the 1920s through the 1950s to today, John described himself as a libertarian or a conservative, but the term "voluntarist" has always been more to his liking. His career cannot be captured in a single review nor in a single collection of essays: he once described it as a never-ending movement "to rescue us from domination by the state-worshiping 'intellectuals' and restore decentralized rule by the intelligent man."

The Freeman

From the mid-1940s, John became part of the small remnant of journalists and writers who marked a turning point in American intellectual history by championing what has been called the Old American Right: a re-dedication to liberty, free markets, limited government, individualism, and moral responsibility. This embattled group had, as he notes in his autobiography, "the feeling that there should be a more fundamental assault on the regnant liberalism if our intellectuals were ever to be reached."

The Freeman of the 1950s was a major catalyst. With Henry Hazlitt, Isaac Don Levine, and Suzanne La Follette, John founded *The Freeman* in 1950 from which these reviews are taken. The name was consciously chosen to remind one of *The Freeman* of the 1920s and thereby to re-

> Capitalism presupposes an open society in which the ends are determined by individuals, or by voluntary associations of individuals. It is fundamentally incompatible with the idea of an all-encompassing State purpose, or a single official Manifest Destiny—though it is thoroughly compatible with a church whose own purposes are extra-governmental, either "not of this world," or, if of this world, devoted to leadership, mediation, and charity in the realms which do not belong to Caesar.
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> Theoretically, of course, it is quite conceivable that capitalism could flourish without a legal framework, either under pure anarchism, or under a beneficent landlordism, or with the blessings of a "let alone" monarch. But, as we shall see, it was James Madison, the scholar among the Founding Fathers, who put his finger unerringly on the need for a device which will put automatic checks on government if any freedoms are to flourish. Purely as a practical matter the institutions of an open society demand the safeguards of a limited government.
>
> —JOHN CHAMBERLAIN, *The Roots of Capitalism*

emphasize the importance of social power over political power. For some time the masthead described it as "A Fortnightly for Individualists." John was responsible for the "back of the book" and the lead book review. His contributions appeared in the first issue of October 16, 1950, and ended with the January 26, 1953, issue. When an internal controversy over whether to support Taft or Eisenhower threatened to destroy the magazine, he resigned.

The literary and more general reviews in the collection are wonderful, but not primarily because of what they say about a particular book. John's reviews are neither academic discourses nor point-by-point synopses of a work. Rather, the humanity of his comments and the largeness of context he imparts on the written page give a genuine cultural ethos to works often forgotten. These books are read for what they might illuminate about life *and* about ideas on liberty. There is, however, no suggestion that there is only one way to read a book. It is all a genuine cultural feast of American reviewing in the voluntarist tradition.

Even when the book reviewed is ephemeral and you have no desire to find a dusty copy in a library, you come away with an enhanced sense of how to read books of *your* choice. You are reminded of the greatness of Mencken, Sumner, Fitzgerald, Arthur Koestler, C.P. Snow's novel, *The Masters*, Frank Chodorov, Herbert Hoover, Leonard E. Read, and many others. And unlike many reviewers, John would review books on any subject. He was not primarily a narrow political reviewer, but rather a broad cultural critic. In this book, there are several moving reviews on John's friend Whittaker Chambers and a section on "the China Story."

That John Chamberlain loves books is reason enough to sing his praises. His career hasn't permitted him to pursue the depth of criticism he often wanted. What he does bring to his reviews is a singular contribution to the renaissance of the American voluntarist spirit. He has been an influential and steady presence in American literary life in general and in the intellectual growth of the American right in particular. When the rule seems to favor glitz, shallowness, and hubris, John Chamberlain restores faith and feeds the mind. We can only echo James Joyce's comment, "I have enormous belief in the power of a simple honorable soul."

The Turnabout Years is a small sampling of what one such soul has accomplished, and it affords us the opportunity to say, "Thanks, John." □

BOOKS

UNBOUNDING THE FUTURE: THE NANOTECHNOLOGY REVOLUTION

by K. Eric Drexler and Chris Peterson with Gayle Pergamit

William Morrow & Co., 1350 Avenue of the Americas, New York, NY 10019 • 304 pages • $23.00

Reviewed by Lawrence Person

With the publication of *Engines of Creation* in 1986, K. Eric Drexler first introduced the concept of nanotechnology to the general public. Using microscopic machines that would construct things at the molecular level one atom at a time, Drexler wrote, it would be possible not only to build goods more efficiently than any existing manufacturing process, but also to solve many of the world's current ills. Nanomachines in the bloodstream could track down and kill diseases from cancer to AIDS. Carbon fibers could be built as strong as diamonds and cost less than plastic. Computers several thousand times more powerful than today's fastest supercomputers could be built in a space smaller than a sugar cube. And all this could be accomplished with a technology that was cleaner, cheaper, and easier to handle than those currently in use.

It was a bold vision, and stirred much debate within the scientific community. Now, with *Unbounding the Future,* Drexler and his coauthors return to the topic to see how much closer we are to achieving nanotechnology, and what its implications are for the future. Though there are still many barriers to be overcome before science is able to create even the crudest molecular assemblers, for many the outlook has already changed from *if* to *when.*

The reason for this shift is the strides contemporary science has made toward constructing the first molecular assemblers. Additional research with the scanning-tunneling microscope has led to the ability to move single atoms with great precision, a fact most dramatically demonstrated in April of 1990 when two researchers from IBM spelled out the company's initials on the atomic scale using 35 Xenon atoms. With these and other developments, it is a very real possibility that we could soon find ourselves in the midst of a second industrial revolution (with effects as far reaching as the first) within the decade.

The exact timescale for such a revolution is hard to predict because there are multiple paths by which the first nanomachines might be built. Developments in such diverse fields as the computer industry, genetic engineering, microminiaturization, physics, and chemistry have all been leading toward work at the atomic scale. It is still unclear exactly how the first molecular assemblers will be constructed, and a host of technological difficulties remain. But nothing about the project seems impossible, and the problems involved are probably no more daunting than the ones for sending a man to the moon were in 1959.

However, one huge advantage nanotechnology has over the moon race is that most of the diverse forces propelling its development are coming from the private sector, and several major companies and institutions are already taking nanotechnology quite seriously. The Japanese Ministry of International Trade and Industry (MITI) has started a Nanotechnology Center in Tokyo, and Stanford University is already offering a course in the subject. Besides IBM, other Fortune 500 companies like Du Pont and AT&T are already investigating molecular assembly precursor technologies, and Autodesk, one of the nation's leading software firms, is already working on programs to do computer-aided design at the molecular level.

Much of *Unbounding the Future* examines the various possibilities molecular assembly presents by means of quasi-fictionalized "scenarios," all of which examine the question, "what will the nanotechnology revolution mean for the life of an average person living in the 21st century?" If even a fraction of what Drexler and company envision comes true, the short answer is "amazing things."

For starters, industry gets a production tool faster, cheaper, cleaner, more efficient, and less labor intensive than anything now in existence. In one scenario, the authors envision a "mom and pop" nanotech factory where a wide variety of items can be produced on short notice from vats of prefabricated micro-materials using programmable assemblers. The authors see nanotechnology replacing not only conventional factories, but also the fossil fuels they run on, noting that "nanotechnology can make solar cells efficient, as cheap as newspaper, and as tough as asphalt—tough enough to use for resurfacing roads."

Nanotechnology is also seen as the primary means to carry the evolution of computing power to its logical conclusion. With existing electronic methods rapidly approaching the limits of miniaturization, Autodesk founder John Walker notes that nanotechnology "can build devices one thousand times faster, more efficient, and cheaper than those we are currently using."

With cheap nanocomputers, it would be easy and inexpensive to make many commonplace materials and objects "smart." One of the scenarios the authors outline is that of "smart paint." An average homeowner would be able to mark off a patch of wall with a special chemical pencil, then shovel intelligent nanomachines inside the lines. The nanomachines would then scurry along, covering the area until they encountered the marked boundaries, at which point they would communicate with each other to lie down and bond to the surface.

One of the authors' biggest concerns is the environment, and there are comments on the ability of nanotechnology to clean up environmental damage throughout the book. While these concerns lead them to make some unwarranted assumptions (such as taking the much-hyped and as yet unproven "greenhouse effect" at face value), they are correct at pointing out that nanotechnology could clean up the environment *without* sacrificing economic growth. They call this concept "green wealth," and it provides a marked and welcome contrast to the strong neo-Luddite strain of the mainstream environmental movement. Also, unlike many of their green fellow travelers, Drexler and company understand the power and necessity of the free market.

Of all the possible applications Drexler and company discuss, perhaps none fuels the imagination quite as much as the role nanotechnology could play in medicine. Noting that the body already uses such "natural molecular machines" as digestive enzymes and hemoglobin, the authors foresee nanomachines augmenting the body's natural immunosystem, destroying harmful viruses and bacteria even more efficiently than the body's own white blood cells. Other nanomachines could repair cellular damage, clean out blocked arteries, and even regrow new organs and limbs. At the far end of the technology's limits, even a slowing or complete halt of the natural aging process seems possible. Even acne, that eternal teenage scourge, could be eliminated through a nanomachine "cream" that cleaned out individual pores.

Some of what Drexler and company envisage seems pretty far-fetched. It seems highly unlikely that custom, nanomachine-built underground railways will ever become common, much less replace the automobile. And other possibilities lie so far in the future that their mention here treads the border between speculation and fiction. And as with almost any work championing a previously unknown concept, *Unbounding the Future* is far better at outlining the vast possibilities of nanotechnology than at examining some of its equally daunting problems. While there are two chapters devoted to addressing these issues, both fall somewhat short.

In the first, "Limits and Downsides," the authors make a good case for the long-term benefits of nanotechnology for almost everyone in the world. However, in doing so they gloss over many of the mid-term dislocations it will create. For example, what happens to developing nations when the West not only leaps ahead in industrial productivity, but no longer needs either the raw materials or the labor the Third World previously provided?

In "Safety, Accidents, and Abuse," the authors ably demolish most of the doomsday scenarios associated with nanotechnology, but are less successful with addressing the possibilities of abuse. For example, the issue of privacy is only briefly touched on (imagine the surveillance potential of nano-bugs and cameras in the hands of a KGB). Although they do note that strict controls on research would only succeed in driving nanotechnology underground or to less regulated nations, they still place entirely too much confidence in the ability of international regulators to slow the spread of nanotechnological weapons. If Saddam Hussein's sprawling nuclear weapons program could go largely undetected by the world community, the idea of preventing the spread of weapons that can be built in something far smaller than a high school science lab seems hopelessly naive.

Still, all these are minor flaws in a book that tries to map territories others have not even begun to explore. As the authors point out, nanotechnology offers us the possibility to trade old problems for new. If even a fraction of what Drexler and company envisage comes to pass, the nanotechnology revolution will change the lives of our children as radically as the computer revolution has changed our own, and as the industrial revolution changed our ancestors' almost 200 years ago. □

Mr. Person is former editor of Citizens' Agenda. *His work has appeared in* National Review, Reason, *and other magazines.*

IMPOSTORS IN THE TEMPLE

by Martin Anderson

Simon & Schuster, 1230 Avenue of the Americas, New York, NY 10019 • 256 pages • $ 22.00.

Reviewed by David M. Brown

A few decades ago, when Martin Anderson was but a grad student, he engaged (just once) in the kind of academic game he has now written a book to decry.

Anderson submitted a paper on trade relations for a course on international economics. It was a straightforward, descriptive treatment—no "theory," no mathematics. The paper earned a B rather than an A, because, as his professor scribbled next to the grade, it was "empirical." His paper sadly "didn't have it."

What was "it"? Anderson took a wild guess, and his next paper, also slim on theory, rippled with intimidating mathematical equations. "I handed that paper in with a certain foreboding. The theory was so simple, so trivial, that, if clearly understood, it could be laughed at. But, on the other hand, I was confident that [Professor] Kindleberger would not understand the mathematical equations I had used in the exposition of my 'original theory.' A few days later I got my grade: an A, with the written comment, 'I like it' . . . . That was the last mathematical, 'original theory' article I ever wrote."

But others play the same game—Anderson calls it "the glass bead game"—without allowing any passing twinges of self-reproach to stop them. These are the professors who fill the academic journals with calculus-crammed elucidations of the trivial or incomprehensible for the sake of stuffing resumes, impressing indexers, and securing a firmer grip on the next rung of the ladder of academic success. These are the professors who shirk teaching, ruthlessly exploit their grad students, and squelch academic freedom in the name of political correctitude. Yes, there are still many individuals of integrity in our universities, men and women who produce worthy scholarship and are effective and dedicated teachers; but by Anderson's reckoning they are an endangered breed. The institutional pressures for conformity are overwhelming.

Most of Anderson's major contentions about the rot in higher education have already been aired in works like *The Closing of the American Mind, Profscam,* and *Illiberal Education*; there has been some debate about what these books have to say, but not yet enough to actually change things. Like all lumbering, entrenched bureaucracies, our colleges and universities are slow to reform. Hence, the more polemical kicks in the pants critical observers can give them, the better. And *Impostors in the Temple* does have quite a number of useful insights and observations to offer.

Anderson begins his investigation by distinguishing between two major types of intellectuals in our culture: the "academic" and the "professional" (or what George H. Smith would call the "market intellectual"). While there is some overlapping between the two groups, they are generally somewhat standoffish toward one another. The academic intellectual is tenured, insulated, simultaneously protected from the discipline of the marketplace and at the mercy of his institutional culture. If he plays by the rules, he need not worry about satisfying the customers. The "professional intellectual," on the other hand, though he may be as arrogant as any denizen of the *lumpenprofessoriat*, must offer *some* ostensible value to his audience; he cannot afford merely to rack up glass beads in some unread journal, or mumble a disjointed lecture and go home. And however wrongheaded the professional intellectual may be, he tends at a minimum to be intelligible.

But how did the academic intellectual get to be so, well, *academic* (in the pejorative sense of the term)? A major impetus to the decline in standards has been the mushrooming of university enrollment since the 1960s. This engendered a corresponding increase in the demand for professors to teach all the new students. Only a certain small percentage of the general population, however, has both the intellectual capacity for scholarly studies and the patient temperament essential for teaching young and untutored minds. So, with the sudden increase in demand for professors, standards were trimmed. Then they were trimmed a little bit more. Finally, anyone willing to comply with all the academic rigmarole was accepted into the club. The influence of public funding, much expanded over the years, should also be mentioned, for it made it increasingly feasible for the university culture to ignore once venerable obligations to students and to scholarship.

Anderson also explicitly points the finger at "intellectual pace-setters." In the end, though, he gives too little attention to the influence of philosophical currents, which certainly have been flowing for much longer than a few decades, and which ultimately do shape institutional trends. For this philosophical background, one has to go to books like Allan Bloom's *The Closing of the American Mind* or Leonard Peikoff's *Ominous Parallels*. Without that background the games academicians play are incomprehensible. Why, for example, is mathematics so widely insisted upon as crucial to argumentation in the *social* sciences? There's more involved here than a tacit conspiracy among academic hacks; there is also the legacy of the scientistic urge to apply the methods of the physical sciences, which investigate regular phenomena, to the study of the much less predictable activities of persons. Perhaps, though, expediency and philosophical error are comrades-in-arms, each abetting the other. Inscrutable jargon helps protect the perpetrators not only from the public, but from one another; nobody wants to be the first to admit a failure to understand.

Anderson has written a good book, if not a ground-breaking one. His personal experience is invaluable in fleshing out our picture of the modern-day university, showing us just how pervasive and ingrained the corruption has become—to the point where even the most outrageous deeds are met with indifference or hasty rank-closing. To combat this situation, he offers a constructive laundry list of reforms: "change the Ph.D. process," "stop athletic corruption," "end faculty tenure" ("the corrupting influence of a guaranteed job for life far outweighs any arguments in support of the idea"). The problem is not coming up with the right reforms, however, but getting them implemented.

How can tenure be ended, for example? Anderson is willing to let those who already have it, keep it, in a kind of grandfather clause. But then we would have a two-tiered academy, with untenured newcomers constituting a sort of second class, and perhaps a rather bitter one. Yet Anderson seems right to argue that it is hardly workable to strip tenure from those who have had it and counted on it for many years, at least not in the present context. This implies the need for a larger reform: getting government out of higher education and forcing our universities to be more competitive.

Whatever the best answers are, there's a long haul ahead. By asking many of the right questions, *Impostors in the Temple* helps us draw a road map to a saner future. □

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ECOCIDE IN THE USSR
by Murray Feshbach and Alfred Friendly, Jr.
Basic Books, Harper Collins, 10 East 53rd Street, New York, NY 10022 • 1992 • 376 pages • $24.00

Reviewed by Matthew Hoffman

That Communism in Russia failed is an undisputed fact, but for the most part knowledge of its demise has come to us in vague and fragmentary images. We are familiar with the notion that the system collapsed under the weight of its "internal contradictions" (i.e., the impossibility of profit and loss calculation, first pointed out by Ludwig von Mises), and we know that central economic planning impoverished the Soviet people. But the reality that lies behind the political upheavals in the Eastern Bloc has been hidden for years behind false government statistics and propaganda. In recent years, however, the media have gained access to more reliable information. The ruins of the Soviet empire have been opened to reporters, and more accurate statistics are being kept. In *Ecocide in the USSR*, two journalists bring the new statistical data to life with on-the-scene reporting.

Despite its title, *Ecocide* is much more than an environmental horror tale; it is a panoramic look at man-made human misery. The authors are not concerned so much with "the environment" as an end in itself, but with the human environment. Hence, they focus on the tragic health conditions in the former Soviet Union.

A piecemeal statistical profile is slowly taking form. Seventy-five percent of the former Soviet Union's surface water is polluted, and 25 percent is completely untreated. Over one-third of the former subjects of the Soviet empire live in cities with air containing five or more times the legal limit of pollutants. Eighty percent of rural hospitals have no running water, and half have no sewer connections. Three-quarters are overcrowded.

The health consequences are staggering. Average life expectancy, always low, has actually dropped since the mid-sixties—from 66.1 years to 63.8 years in 1989. Infant mortality runs at 33 deaths per 1000, comparable to that of Malaysia. In 1990, only half of those eligible for the draft were healthy enough to serve.

Much of the problem lies in the corruption that pervaded the Soviets' politicized society. The Soviets boasted of an abundance of licensed physicians, but many of them bribed their way through medical school. As a result, 40 percent of medical school graduates cannot read an electrocardiogram, and half of working pediatricians are "completely ignorant about the properties of 16 widely used drugs." In one region of Turkmenistan, 70 percent of obstetrician-gynecologists lack surgical skills, and half of their patients died in operations as a direct result.

The authors tell of one woman who paid 300 rubles in bribe money to receive a modicum of care at a maternity hospital when she gave birth in 1987. She received no additional attention, and no gynecological examination afterward. Other mothers learned to circumvent the system of "free" medicine through the black market, bribing medical personnel for syringes, sterilizing equipment, and medicines they could administer themselves.

Ecocide also examines the problems facing Soviet agriculture and heavy industry, painting a bleak picture of the laborer's existence in what once was touted as a "worker's paradise." Pesticide use on the Soviets' collective farms was so mismanaged that many workers succumbed to pesticide poisoning while in the fields. Industrial workers fared much worse; in some steel-smelting plants the fumes from the primitive open-hearth furnaces were so thick that employees couldn't see one another and had to grope around. Ironically, Soviet Communism actually created the very conditions its advocates had imputed to 19th-century capitalism. While life spans and health conditions advanced rapidly in market economies, Soviet living standards stagnated and workers toiled in what the authors, echoing William Blake, call "dark, satanic mills." Dickens and Sinclair together could not have painted a bleaker picture.

Rampant alcoholism, a major detriment to human health in the USSR, grew out of the spiritual malaise of Soviet life. Soviets turned to the bottle as their principal form of escape in many communities. In one village an average adult consumed 60 bottles of vodka a year. Some estimate that 30 million Soviets were chronic drunks in 1989, and on-the-job intoxication was a major social problem.

Ecocide is valuable not only as an indictment of Communism, but of environmentalism, which blames economic growth for human health problems and prescribes central planning as a cure for environmental ills. The authors note that the Soviets needed something far beyond the healing arts: a healthy standard of living. In the midst of the accelerating economic failures of the 1990s, the basic indices of Soviet daily life—income, food, and housing—all pointed down, not up. Poor nutrition alone eroded overall public health and jeopardized the survival chances of many newborn children.

The authors properly attribute the problems of the Soviet economy to Communism's inability to perform cost calculations. Although they refuse to dismiss the possibility of central planning, they note that "without a market mechanism to determine the value of credit, goods, and services, [the planners] assigned arbitrary costs and prices to capital, labor, raw material, and equipment."

Ecocide is a valuable addition to the growing literature on Communism's demise. Freedom affords us not only economic prosperity and dignity as individuals; it also brings a cleaner, healthier society. □

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