THE FREEMAN

IDEAS ON LIBERTY

Learning Not to Love Revolution

Albania: Europe's Last Marxist Holdout

Do Wars Cure Ailing Economies?

The Roots of the Liability Crisis

APRIL 1991

April 1991

Carl Helstrom
George Friedman
FEE Admin
Mark Ahlseen
Donald Smith
James L. Payne
Hannah Lapp
Dianne Durante
Salvatore Durante
William H. Peterson
Ludwig von Mises
Mark Thornton
Tibor R. Machan
Sylvester Petro
John Chamberlain
and
Peter Boettke

FEE's mission is to inspire, educate, and connect future leaders with the economic, ethical, and legal principles of a free society.

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Contact us directly at: 1-800-960-4FEE (4333)

Foundation for Economic Education
1718 Peachtree St. NW, Suite 1048
Atlanta, GA 30309

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Perspective: The Hard Line

APRIL 01, 1991 by Carl Helstrom

Leonard Read was a hard-liner. He believed that a person should practice what he preaches. Perhaps he had this in mind when he established FEE to promote a *moral* foundation for economic education, advocating a solid ethical basis for the free society.

In 1961 he wrote in *The Freeman:* "The crown of virtue should rest uneasily on any man until he has given evil a setback . . . . Ever so many persons think of themselves as virtuous simply because they have done nothing they conceive to be wrong. . . . Political virtue, however, is a false claim until our affinity to right principles has been tested and found unbreakable . . . . The measure of character is recorded in how each of us responds to the question, 'Do I yield or triumph over what I believe to be wrong?'"

Leonard Read's approach requires that men develop respect for human life and private property. They must use common sense in the understanding of economic principles. And they must erect a limited government, designed to protect them, their civil rights, and their property, to act with force against wrongdoers and to settle disputes. These basic guidelines lead to a society of peace and prosperity.

The hard-liner must be an extraordinary person to maintain a constant philosophical position. He must be willing to give up material gains for moral rectitude• He must be prepared to choose right over wrong at the risk of great personal sacrifice. The choice to hold fast on moral terms demands complete adherence to the fundamentals of the free society—peace, tolerance, and respect. Capitalism promises hope for the future to those willing to stand on the hard line for liberty, those who try to do good and refuse to do evil.

The concept of the moral hard line flows from the basic idea of liberty. The positive side of liberty is the potential reward for prudent action. The negative side is the potential punishment for imprudent behavior. One side

leads toward mankind's advancement to higher levels of civilized conduct. The other side keeps us from sliding back into barbarism. The essence of the idea of liberty is that a person must decide to take one side or the other. He must choose good or evil.

Leonard Read started FEE for hard-liners. He believed that every human being must take a moral stand. He knew that the only method for achieving peace on earth, and the only intellectual basis for a tolerant and prosperous society, is to draw a definite ethical line between good ideas and bad ideas that men cannot cross. He became a hard-liner himself and a living example for the free society. He practiced what he preached, and that is what FEE is all about.

—Carl Helstrom

Real Money

Gertrude Stein once told a story about her young nephew who, while out walking, saw some horses and came running in to tell his father that he had seen "a million horses." "A million?" the father asked.

"Well, three anyway," the boy replied.

There is, of course, a difference between three and a million. Three we can understand. We can picture three horses in a field, with maybe a few trees and a fence around them. But a million is too many. We can't grasp such numbers.

Politicians face this problem every day. They spend millions, and billions, and even trillions of dollars. But what does it all mean? You can't picture that kind of money. Mind games don't help much either. It takes, for example, about 10,000 dollar bills stretched end to end to cover a mile. Can anyone really visualize a billion dollars ($1{30 bills stretched out for 1,000 miles)?

Maybe that is one reason why politicians, except perhaps at the very local level, seem so out of touch with their constituents. When they sit in a budget committee somewhere, they don't seem to be functioning in the real world. They appropriate and allocate and budget for this or that, but the numbers are so big that the money has an ethereal aspect to it. It just doesn't seem real anymore.

But the money is real. Every dollar spent by the government has to be paid by someone somewhere in one way or another. So let's try to put it into perspective.

Federal, state, and local government spending will amount to about $2 trillion this year. In terms of dollar bills stretched end to end, that's 200 million miles. But in the real world, where Americans try to make ends meet, it comes to $8,000 for every man, woman, and child, or $32,000 for a family of four.

Now $8,000 or $32,000 we can understand. We know what it takes to earn that kind of money, and what it means to our budgets. We have a pretty good idea of how to allocate such sums to meet our family needs. We know that when our money runs short we will have to turn down the thermostat, put off a vacation, try to keep the old car running, and hope that no one loses a filling. To us, as individuals, $8,000 per family member is real money.

Of course, most politicians have spent real money at one time or another. They have some idea of what it takes to write out a mortgage check, pay for heat, or go through a checkout line. The troubles begin when they sit around those budget tables, where the numbers become astronomical and the real problems of Americans seem so distant.

—Brian Summers

Play Money

Because they typically lobby for restraints on resources and property that do not belong to them, environmentalists bear few of the costs of their actions. When they secure legislation that prohibits off and gas drilling, for example, or development of a mall on a specific tract of land, the costs are borne to a disproportionate degree by the owners of the land or by the users of the goods and services that would have been produced.

It is not unlike playing Monopoly. With board game money, you can be reckless, make wild purchases, and otherwise be extravagant in ways you would never consider in real life. When playing with real dollars, however, people have to balance other considerations like the need to secure food and shelter.

—Jo Kwong Echard

Protecting the Environment: Old

Rhetoric, New Imperatives

Learning Not to Love Revolution

APRIL 01, 1991 by George Friedman

George Friedman, a professor of political science at Dickinson College, is the author of The Political Philosophy of the Frankfurt School *(Cornell University Press, 1981), The* Coming War With Japan *(St. Martin's Press, 1991), as well as numerous articles on Marxist thought. This essay was reprinted with the permission of the Institute for Philosophy and Public Policy, University of Maryland.*

For the past two centuries every revolution has wanted to serve as the model for all future revolutions. Since 1917, two regimes have laid claim to be the rightful heir of the revolutionary tradition. For most of that time, it appeared to reasonable observers that it was the Soviet Union that would serve as exemplar to the world. In a stunning reversal of fortunes, the Soviet model has fallen into disrepute, and most of the rebellious world appears to be taking its bearings from the American regime. It is the Statue of Liberty that moved the crowds in Peking and Prague rather than "L'Internationale."

While this is a very satisfying view of things, it should not be accepted too quickly. This is not because the American model is not superior to other models but, rather, because the world, and particularly those rising up against Communist tyrannies, have not yet learned one of the fundamental teachings of the American Revolution: Don't enjoy revolutions too much. They have not learned to expect only the bare necessities from politics and to seek the more sublime joys of life elsewhere.

Eastern Europeans still expect great things from revolution. Coming together in rebellion is seen as a great moment. They see their revolution as paving the way to a generally and radically improved human condition. Such expectations place them at odds with the modesty of the American Revolution. In their great hopes for more than a mere "more perfect union," the crowds of Berlin and Prague still share much with their oppressors and less than they should with us. They understand revolution very differently

from our founders; it follows that the sorts of regimes they will found will be very different from our own and, I think, terribly inferior.

When Revolutions Are Young

There is a certain ineffable sweetness about revolutions when they are very young. In the beginning, when they strike out against tyranny, they are poems to decency and community, promises of radical simplification. They are odes to joy more than exercises in political theory or action. Consider the words of Schiller immortal ized by Beethoven:

Joy, bright spark of divinity,
Daughter of Elysium,
Drunk with fire we walk in
Thy celestial holiness.
Thy spell reunites
What custom has divided,
All men become brothers
Under Thy lingering, gentle wings.

This poem and Beethoven's symphony are not incidental to politics. Beethoven wrote the Ninth Symphony with the French Revolution very much in mind. Perhaps more immediately relevant, the "Ode to Joy" movement of Beethoven's Ninth is the anthem of the European Community, the Community that the Eastern Bloc now very badly wants to join.

Elysium was, in Greek mythology, the field on which the gods and those humans the gods favored came together in peace and harmony. Schiller in his poem combines three themes. First, there is the promise of a pastoral redemption. Second, the means are those of a fiery intoxication. Third, there is the secular vision of human brotherhood, the Elysian Fields brought to earth. In this fusion of pagan and Christian symbols, and of divine and secular principles, Schiller celebrates the central theme of the Enlightenment: that men will become like gods in their power and perfection. And nowhere is this fire-drunken surge to perfection more practically visible than on the barricades of a revolution.

Young revolutions are festivals, celebrations of youth, bravery, and innocence. Men and women, boys and girls gather together with the simplest and noblest dream, that the wickedness of the past will end. Young revolutions are a universe in which good will would appear to be a sufficient basis for political life. In a way, revolution is a time when a new species of man already appears to have been born, possessing a new

relationship to everything old and commonplace. Even in the most brutal of revolutions, this poetry of redemption permeates. Consider, in John Reed's *Ten Days That Shook the World,* his description of an old man, telling the young soldiers, "Mine, all mine now! My Petrograd."

At that moment, it was his Petrograd. He had lived in it when it had belonged to others, when he was the city's demeaned and exploited guest. He had joined with others against the manifest wickedness of his dispossession, and now the city was his. But, as with the sentiments of lovers, thoughts that seem absolutely true at the instant of expression may become false or banal, even a mockery.

The simple truthfulness of the old man's sentiment at the moment of the triumph of Bolshevism inexorably turns false. The sweetness of his sentiment becomes a mocking indictment of the revolution, as the words "my Petrograd" become a cruel joke. The moment at which the Russian Rev-olution became a lie was when the sentiment "my Petrograd" had to be turned from an aesthetic celebration into a principle of political operation. What did it mean for a citizen to lay claim-to his city? Such a question required sober reflection, and such sobriety is the antithesis of the revolution's joy. Revolutions do not fail because wicked men seize hold. They fail because the very practicality of governing is a betrayal of the revolutionary sensibility. Revolution is about the sublime and the sacred. Governing is about the prosaic and the profane.

In Paris in 1789, in Petrograd in 1917, and in Berlin or Prague or Bucharest or Peking in 1989, the men and the women in the streets did not see themselves as merely overthrowing the old. The act of coming together in the streets had created a new species of society, the community of the cele-bratory crowd. As Germans danced on top of the Wall, it appeared that all things were suddenly possible for Germans and humanity alike. Both on the highest and most ordinary levels, revolutions make the revolutionaries feel that the mundane profanity of everyday life has already given way to something new and unprecedented. As with all revolutionaries, those of 1989 want their glowing moment to suffuse everything that comes after.

America's Modest Revolution

An Eastern European intellectual was asked by a reporter about the sort of society he hoped to create. His answer, consistent with those of others, was apparently modest: he wished to borrow the best ideas from socialism

and capitalism and combine them into something new, something suitable to his country. On the surface this was a reasonable answer.

Two things were striking about the answer. The first was that the question and answer always involved society rather than the regime. Society encompasses all human relationships while the regime confines itself to political ones. True to the more radical revolutionary tradition, the Eastern Europeans remain committed to social restructuring, to creating a new society, instead of seeking to free people to live their private lives without demanding that they measure those lives against standards of social significance.

This raises the second striking point about the answer, that one was given at all. Another answer to the question might have been: “I haven’t given it a thought. I personally plan to open a hardware store.” But the intellectual had an answer. He intended to create a new and better world for others to live in. Unlike Marx or Lenin, the intellectual had no complex system of thought to guide him. But quite like them, the revolutionary of Prague or Berlin in 1989 was convinced that the power to reshape society was now his.

If the city belongs to the revolutionary, then he is morally obligated to do something with the city to improve it. He cannot just go home to make a living. A revolution feels itself morally bound to improve the human condition as a whole, rather than just the condition of a single private citizen. To have replied: “I want to go home and make money” would have been a betrayal of the deepest moral principle of revolution.

Almost all modern revolutions have suffered from being both too beautiful and too ambitious. The one exception to this was the American Revolution. Its very sobriety and modesty caused many to argue that it was not a genuine revolution at all. Its desire to found a regime rather than create a new species of man has caused many to dismiss the American example as an anti-colonial war that left the social order intact. It fell short ofthe spirited beauty expected of revolutions.

Our founders wished neither to construct a new society nor to perfect the old. They sought merely to found a regime that would protect society from its own ambitions, leaving men free to find their own way in the world. Our founders sought to create a world in which men of modest vision could pursue their private ends in peace, entering public life only as necessary, and reluctantly. There is a vast difference between the right to

“life, liberty and the pursuit of happiness,” and “liberty, equality, fraternity.” The former is a promise to individual men concerning their private lives. The latter is a promise of a new species of man with a new understanding of what it means to be human.

Learning to Value Hardware Salesmen

In 1917 and 1789 all eyes were on the capital city, first on the streets and then on the public buildings. The public’s eyes never left those buildings, except in despair or terror, when citizens sought refuge in private lives far more distant from public affairs than anything envisioned by our bourgeois founders.

Our founders were not eager to go to the capital to begin reforming the world. They were eager to go home to their plantations, law practices, and businesses. What went on in our public buildings never came close to telling the tale of what went on in America. The capital was never the center of our society. We never really had a center, and therefore, we could never have a great, unifying moral project.

George Washington was not so interesting a man as Robespierre or Lenin, but then his heirs were not Napoleon and Stalin. It is in the banality of Washington that we can best understand the virtue of our regime. Although he was accomplished in many ways, Washington does not appear to have had great imagination in public matters. In his public life, he did what he had to do, reserving his imagination and zest for his private pursuits.

The energy of the American Revolution went into business, church, and school, rather than into politics. When it did involve public life, it was more likely to concern one’s village than national matters. Nothing great was expected from the central government. Going home to open a hardware store would not be seen as a betrayal of the American Revolution, in large part because the American Revolution did not draw its energy from the dangerously seductive power of the revolutionary moment. The American Revolution, between the cerebral brackets of the Declaration of Independence and the Constitutional Convention, was a long and dreary war—long on pain and drudgery, short on glory and beauty. The main wish of the American revolutionaries was that the war should end so that they might go home in peace. One could long for Red October or 1789. Who could pine for Valley Forge or the cool deliberations in Philadelphia?

This is a lesson that a man like President Vaclav Havel ought to ponder. Right now, all eyes are onPrague. During its peaceful revolution, great beauty and righteousness resided in Prague. Both the aesthetics of revolution and the realities of power have converged on one place, the government buildings of Prague. If it goes on this way, the aesthetic sense will dissipate, and all that will remain will be the profane reality of centralized power. It will be centralized in two senses: in that power will be in the capital rather than in all of the small towns and cities, and more important, in that political life will be the central organizing sphere of society, rather than one limited sphere among many.

Havel is an artist. He surely saw the beauty of the Prague rising. It is not clear whether he sees beauty's danger. If Havel succumbs to the danger of picking and choosing as if he were an engineer, while seeing the state as society's engine, little will have been won. If Havel the artist faces the threat that his own revolution poses, and repudiates its beauty, if he learns from the American Revolution to value the banality of the hardware salesmen, then he might escape the eternal return of European tyranny.

Eastern Europe must learn to love private life more than public. After the orgiastic pleasures of the revolution, this will be a hard lesson to learn. Victorious revolutionaries are rarely modest men. It is not easy for the victorious to be modest. To go home to make a living for one's family, after having danced on the Berlin Wall with a million other brothers and sisters, may be more than anyone's soul can bear.

This is the most important lesson that Eastern Europe can learn from the United States. The revolution is over. It is time to go home, fall in love, raise children, make money, and see the sacred in the banality of everyday life. Unfortunately, the lure of the public buildings in "my Petrograd" might prove to be irresistible, after the revolution. []

"It is substantially true that virtue or morality is a necessary spring of popular government. The rule indeed extends with more or less force to every species of free government. Who that is a sincere friend to it can look with indifference upon attempts to shake the foundation of the fabric?"

—George Washington
Farewell Address
September 17, 1796

Albania: Europes Last Marxist Holdout

APRIL 01, 1991 by FEE Admin

The author, a journalist with an American news agency, remains anonymous to protect sources in Albania.

"We hate Communism; we love capitalism," the young Albanian told me, with his eyes blazing. On a trip to Albania last October, I was befriended by a 20-year-old who led me down rubble-strewn alleyways in the nation's capital, Tirana, to a squalid house where I talked politics for five hours with him and two other young men. Out of view of the security police, they were strident in voicing their hatred of the government. They asked me when America and Britain would send troops to liberate them.

At the time of my visit, Albania was the last state in Europe where unreformed Communism ruled, but then it has always been something of an oddity. The Communists came to power in 1944, led by Enver Hoxha (pronounced Ho-ja). At first they allied with the Soviet bloc, but Hoxha (1908-1985) cut off all links with Moscow in 1960 because of what he saw as Khrushchev's revisionism. Relations with China replaced the Soviet connection from 1968 to 1978, but after that the country was kept in isolation.

To the Western visitor, Albania has the appearance of a living museum, with the only signs of the 20th century provided by a scattering of imported goods. Very few people have been allowed in or out, although, since my visit, several thousand Albanians have illegally crossed into Greece. Tourists are stared at by curious locals,

Some of Hoxha's policies were as much bizarre as repressive: religion was banned, beards were made illegal, and until 1989 listening to Western pop music was an offense. In 1965 a government decree banned individuals from having "inappropriate names and offensive surnames from a political, ideological, or moral standpoint." Trying to escape was a capital crime. On the day before my trip, the newspapers reported that two men had been shot

while attempting to flee, and their bodies put on show as a gruesome warning.

Other policies clearly demonstrated Hoxha's paranoia. Driving through the country, one sees the landscape littered with concrete pillboxes, built in the 1960s to defend against imperialist attack. Radio Tirana, whose transmissions could be heard in Britain, offered vehement denunciations of both superpowers as well as of many other nations.

No Sign of Wealth

The country is breathtaking in its lack of development. All the roads are narrow and pitted, and it was no pleasant motoring experience touring the country in an old bone-shaker Czechoslovakian bus. Private cars are illegal too, so the few rusting Ladas seen on the roads are driven by the police. The only other vehicles seen are prewar Chinese trucks, which seem to form the backbone of the transport system. Farm animals wander over the roads at will. To get around, ordinary people ride donkeys or bicycles.

No hint of affluence lightens the picture of poverty. There are no smart shops or houses. Buildings look cheaply made, with irregular bricks and uneven concrete. The countryside is beautiful but somewhat bleak, craggy, and sun-hardened, with little foliage. The striking thing is the lack of evidence of human industry. There are odd pieces of rusting farm machinery, but the overwhelming picture is of a peasant society, with rows of workers toiling in the fields. There are small towns every few miles, but none take up more than a few hun-tired meters of roadway.

The other bizarre sight in Albania is the Marxist iconography. In Berat, in the south of the country, "ENVER" is carved in huge letters into a distant mountainside. In Gjirokaster the same letters decorate the hillside, but this time on stilts, Hollywood-style. Statues of Lenin (and until recently, Stalin) still adorn town centers. In the center of Tirana stands the Enver Hoxha Museum, a huge glass and steel pyramid, dedicated to glorifying the life and works of the Albanian dictator.

My young friends resented these symbols as much as they resented the system. "*Stalin, Lenin*, Hitler, Hoxha, all the same," said one as he ticked off the names on his fingers. Another of their friends, they told me with glee, had attacked a statue of Stalin during the uprisings in June 1990.

With Communist governments overthrown in all the other Eastern European countries, the Albanian dictatorship has stood alone and vulnerable. Last June, thousands of young people in

Tirana scaled the walls of foreign embassies to escape to the West. Five thousand were allowed out to Italy. At the same time, demonstrations erupted in Shkoder and Kavaje.

The regime denounced the escapees as “criminals,” and fired on them with live ammunition. My young friends told me that 100 people were shot dead in Tirana, and then hurriedly buried in a mass grave. In Kavaje, a 22-year-old man was shot dead by troops after making a victory sign with his fingers.

Since then, walls around the embassies have been fortified, and armed soldiers posted outside. I tried to walk past the Turkish Embassy, but was ushered out into the road by a scowling guard.

Riots and demonstrations have erupted several times since early December. Some demonstrators have been given 15- and 20-year prison sentences.

The Albanian Communists are worried that their fate might be the same as that of Nicolae Ceansescu and his officials in neighboring Romania. Chairman Ramiz Alia, who took over when Hoxha died in 1985, is trying to improve the regime’s image. Locals are now allowed to talk with tourists, and more visitors are admitted. Alia hopes to have Albania admitted to the International Monetary Fund and the Conference on Security and Co-operation in Europe (CSCE), and to establish diplomatic links with Britain and the United States. Some private markets have been legalized, where half the profits go to the state and half to stall-holders.

But, my young friends pointed out, the changes were limited, cosmetic, and grudging, and the country remained essentially an unreformed Marxist dictatorship. They were nervous about the secret police *(sigurimi)*, and constantly checked that we were not followed. According to their count, one-third of the pedestrians in Tirana were either police or *sigurimi*.

Their caution became even more understandable when they told me that they knew of someone who had been given a 25-year sentence at the prison camp in Berul for expressing anti-Marxist political opinions. At Berul, they explained, prisoners are forced to dig coal, and are often buried alive in poorly supported mine shafts.

According to the International Society for Human Rights, there may be up to 50,000 political prisoners in Albania. The difficulties in confirming any such estimate are that there is so little access to the country, and that

people who escape are rarely willing to endanger their relatives by going public with what they know.

Even so, some details are known. Human rights groups report routine torture, imprisonment without fair trial, and execution for anti-state activities. The Albanian government is one of only three ever to be publicly sanctioned by the United Nations for its record on human rights.

I was quite sickened to learn that at Sarande, a resort town where I strolled along the waterfront in the sunshine, there is a jail for political dissidents. Outside my hotel in Sarande was the smartest Albanian car I saw, a well-polished Mercedes-Benz. It was undoubtedly the property of a senior official, holidaying next door to a prison camp of his government's making.

As with Ceausescu's Romania, there are plenty of socialists in the West prepared to see no evil in their praise for Albanian socialism. Written while Hoxha still ruled, *Albania Defiant* by Jan Myrdal and Gun Kessle is an adulatory account of a workers' paradise fighting to retain independence from the alien and corrupting influences of the outside world. Christopher Brown, writing in the supposedly moderate British socialist newspaper *Tribune* (June 9, 1990), eulogizes the simple life enjoyed by Albanians, freed from the pressures of materialism. This article, incredibly, makes a virtue out of things that most reasonable people would consider appalling limitations of freedom: the banning of private cars, the illegality of religion, and most contemptibly the refusal to' allow people to leave. One can only hope that when all the outrages perpetrated by the Albanian dictatorship have finally been revealed, these apologists will be called to account.

Simmering Discontent

There are good reasons to think there will be a revolution in Albania. According to our tour guides there is no unemployment, but this claim became patently ridiculous as in every town we saw large groups of working-age men milling around at all times of the day.

Of the three young men I talked with, two were unemployed, and in their estimation the proportion was one in five. They were numbingly bored, and passed the time listening to poor quality cassettes of rock music and considering their situation. Unemployment leads to discontent and provides the time to plan insurrection.

Ironically, the Albanian government may have hastened its own demise by allowing in tourists. Albanian people can now compare their own

situation with that of people from free Europe, and can learn more about the world outside.

My 20-year-old acquaintance told me bitterly, “When I see a tourist I see a free man. He can leave.” The obvious passion of his wish for liberty was moving. He declared that he would rather sweep the streets in America or Britain than stay in Albania.

Much of the conversation with my hosts consisted of comparisons of what could be earned and what could be bought in Albania and the West. They told me that the bottle of hard liquor I shared with them cost the equivalent of a whole day’s pay. A sweater costs two weeks’ money, and to buy a bicycle requires five years of saving.

“My father earns four packs of cigarettes in one day—how much are you paid?” one of them asked. I grappled with the problem of converting my daily earnings into cigarettes, guessing at 100 packets, which made him gasp in disbelief.

Officially, all Albanians are paid 500-1,000 lek a month, which at their exchange rate converts to about $25-$50, but since locals were reluctant to take the currency there is good reason to think that the rate is an artificial one. When tips were in order, no one would take lek, but would take small items like chewing gum. The official rate was recently devalued to give 20 lek to the dollar, but on the black market a dollar exchanges for about 100 lek.

There is also very little to be bought with lek. There are few goods, and those on sale are shoddy. Many Albanian men look identical because they wear the same state-issue brown trousers and jackets. There appear to be only three or four different styles of men’s shoes.

The house I visited was cramped, kept as homey as it could be, but obviously lacking in material comforts. The only modern item, and what seemed to be the most prized possession, was a cassette player sent by the brother of one man who had escaped to Italy through the embassy.

Albanians have television that broadcasts from 6 to 10 P.M., but my friends preferred their rock music to what they denounced as “Red propaganda.” I offered to send a rock music magazine, but they told me it would be stolen by the bureaucrats who open the mail.

Education and health care are ostensibly free, but in reality bribes ensure that some are more equal than others. When I asked my friends why they didn’t study at the university—as they were clearly bright enough—

they smiled and indicated empty pockets. In the Peoples Socialist Republic of Albania, the only affluent people are the Communist officials who, my Mends told me, “live like Americans.”

For all the squalor and repression, I found it heartening that the young Albanians I met had not been crushed or molded. They were lively, intelligent, and held no illusions about the government. They seemed to believe more passionately in individual liberty than most people in the West could appreciate. I told them I would visit again when Albania is a free country, and they smiled at the thought.

Do Wars Cure Ailing Economies?

APRIL 01, 1991 by Mark Ahlseen

Professor Ahlseen teaches economics at Cedarville College, Cedarville, Ohio.

The military action in the Persian Gulf has rekindled the belief that war can stimulate the American economy. No one, to be sure, is claiming that this is an acceptable trade-off—American lives for American prosperity—but it is argued that this positive effect cannot be ignored. After all, didn't World War II pull the United States out of the Great Depression?

The World War II mobilization did, to be sure, put people back to work—some into the armed forces, some into war production industries. Unemployment, which stood at 14.6 percent in 1940, was reduced to 1.9 percent by 1943. However, the idea that war improves the economic welfare of a people is a dangerous error.

Advocates of the "war-is-good-for-the-economy" doctrine surely must limit this to foreign conflicts. If a war is fought on domestic soil, the destruction of production facilities can only worsen the economic welfare of the citizenry.

But can foreign wars help a domestic economy? Many people argue that increased government spending will put Americans to work and reduce, if not prevent, the effects of a recession. This, however, is nothing but Keynesian economic thought dressed in patriotic garb. It is the notion that increased government spending, on national defense in this case, will stimulate aggregate demand and prevent an economic downturn.

If reduced unemployment is the key, it is less costly, in terms of lives and resources, for the government to hire one group of unemployed workers to dig holes and another to fill them. Few would argue that this would benefit the U.S. economy. It is not employment but productive employment that is beneficial. In fact, the true indicators of economic well-being are the lifestyles enjoyed by Americans, not their employment status. Included in

these are the goods and services consumed by Americans as well as the leisure time they enjoy.

The crux of the matter is whether war production can stimulate domestic production so as to improve the welfare Of the general public. Ignoring the possible benefits from an increased sense of security, war production creates no good or service for the civilian population to enjoy. In fact, real per capita Gross National Product (GNP), excluding defense spending, grew at a relatively slow rate in World War II—from $1,774 in 1940 to $1,866 in 1944 (these numbers are adjusted for inflation, using 1967 as the base year). By way of comparison, real per capita GNP, again excluding defense spending, was $1,124 in 1932, $1,538 in 1936, and $2,307 in 1948. World War II was no bonanza for the domestic economy.

It is not my intention to debate the validity of American involvement in the Persian Gulf—that will be left to foreign policy experts. However, to suggest that a war can pull the United States out of a recession must be vigorously opposed.

Pigeons and Property Rights

APRIL 01, 1991 by Donald Smith

Mr. Smith is a writer living in Santa Maria, California He is a frequent contributor to The Wall Street Journal.

I like pigeons. They are independent creatures who would survive whether I fed them or not, which is probably the reason that I feed them. This is why I was in the park on that bright autumn day. I was visiting some of my old haunts in Los Angeles, and I never let a trip to my old hometown pass without a few minutes on my personal park bench with a bag of bread crumbs, surrounded by some of the most noble creatures on the planet.

I was in the process of convincing myself that a fat charcoal-colored bird remembered me, when I was alerted to some activity at the other end of the park. I wandered down the path to see what was happening. It wasn't long until I discovered that it was a rally, and a rally in a public park usually means that a group of people who despise the idea of free enterprise have gathered to vent their anger. Run-of-the-mill establishment people aren't big for rallies and are not inclined toward marching either.

I don't remember the name of the organization that was rallying that day, but they were a scruffy-looking bunch, and they seemed to be in unanimous agreement that anyone who had more than five dollars on his person was in league with the devil.

A particularly shrill female was addressing the group as I approached. I immediately sensed what was coming, having heard such oratory before. I knew that within three minutes I would hear the stirring words: "Property rights must give way to human rights." There would be, of course, an excess of *n's* in the word *human*. As it turned out, the speaker didn't disappoint me, and the elongated word *human-n-n-n-n* soon echoed through the park with the audibility of a thousand iron bells.

I heard the rest of the speaker's message, which could be encapsulated into the thought that all successful people should be executed without benefit of trial, and then returned to the bench and completed my

rendezvous with the pigeons. When the bread-crumb supply was depleted, I said another farewell to Los Angeles and began the pleasant three-hour drive to my home in Santa Maria, where people in a less harried environment seem to have no problem with the concept of property rights.

The simple truth is one that the Far Left seems to miss with predictable regularity, this being that without property rights there can be no human rights. So let's look at these rights.

We talk, for example, of freedom of the press, but this is a political concept and has no meaning whatever without economic freedom. If an individual cannot own a printing press and a building in which to house that press, there just isn't going to be any free dissemination of information. If the same individual cannot employ the people who operate that press, who write the words that go onto it, and who deliver those words to the consumer, then there is no free press, regardless of governmental statements to the contrary. A government-owned printing press in a government-owned building managed by government employees is nothing more than a very large house organ. It is a somewhat sophisticated version of the king's messenger tacking up the newest regulations in the town square.

Or let's look at the concept of religious freedom when the government owns all the church buildings. It is not truly a house of worship when Big Brother is taking attendance, when indeed he holds the only key to the budding.

Can there be freedom Of speech when no citizen is allowed to criticize his rulers when standing on government property, and all property belongs to the government? Can there be freedom of assembly if people have no place to assemble?

Political Freedom Is Dependent on Economic Freedom

Property rights are the cornerstone of all human rights because political freedom is totally dependent upon economic freedom. A totalitarian government can issue a constitution, as many have done, but human rights are only paper and ink when they are not supported by the right to own property. The Soviet Constitution, for example, even in those dread, dark days of Joseph Stalin, guaranteed many of the rights found in the United States Constitution, with the rather notable exception that a citizen couldn't exercise these rights while on government property.

Political rights are much like paper money, which has lasting value only when backed with silver or gold. If not, it is just paper. Political rights

must be backed by economic rights. When this doesn’t happen, we have nothing more than a personal guarantee from a man in a checkered suit who sells snake oil from the back of a wagon.

The strident lady in the park didn’t understand this and neither did the motley band of admirers who egged her on, but it is one of the immutable facts of life that all the rhetoric of the world isn’t going to change. Some things just aren’t open for debate. Wednesday follows Tuesday, dogs chase cats, days are shorter in winter, and people who are forbidden to own property have no rights at all.

The Roots of the Liability Crisis

APRIL 01, 1991 by James L. Payne

James L. Payne has taught political science at Wesleyan, Yale, Johns Hopkins and Texas A&M. He is a Research Fellow at the Independent Institute in Oakland, California.

Swapping stories about the outrages going on in American courts these days is like playing “Can you top this?” There seems to be no limit to either the size of the awards or the frivolity of the lawsuits. This system of sue, sue, sue costs us billions in lawyers’ fees and insurance premiums. This cost is, in effect, a tax on virtually all public and private activities, from running Boy Scout summer camps to delivering babies.

The liability system has gotten so far out of hand that it’s starting to gobble up our civil liberties too. Consider the case of Larry Fine. Fine is a piano technician who wrote an excellent volume entitled *The Piano Book*, in which he gave a frank assessment of the virtues and defects of each brand of piano. The first edition of the book appeared in 1987. In preparing a second edition for 1990, he sent all manufacturers a copy of his proposed evaluation of their pianos, asking for comments and corrections. Most manufacturers, he reports, were “gracious in accepting criticism.” Some, however, reacted negatively, even using their attorneys to suggest possible lawsuits. As a result of this pressure, says Fine in the preface of the second edition, “some reviews have been ‘softened’ a little to keep the peace and avoid expensive litigation.”

One company, a famous American piano maker, I’m sorry to say, was especially threatening. Fine reports it “sent a letter saying that if I published the reviews the company might file a lawsuit against me.” Fine pondered this threat and realized that “even lawsuits that have no merit can be prohibitively expensive and time-consuming to defend oneself against.” He decided to delete the reviews of the company’s pianos from the second edition.

So there it is: censorship. Violation of freedom of the press courtesy of the great American liability system. Fine could not say what he wanted to say, and his readers could not learn what they wanted to learn because of the threat of a lawsuit. If we keep going down this road, will we have any freedom of expression left? Will a movie critic pan a film, or an auto magazine rate a car?

What can we do about this problem of rampaging "sue-itis"? The starting point is to take a clear view of what a legal system really is. The courts with their judges, lawyers, and laws are, at bottom, simply a complicated arrangement for applying physical force. This is the system that directs policemen, jailers, and SWAT teams. If someone is being violent, then this system of deploying force is necessary to restrain him. That is the mundane task of a proper judicial system. It is socially necessary, but not an activity that reflects man's higher nature.

In the modern era, this view has been obscured. The courts seem an attractive institution, and we see litigation as a noble, patriotic way of accomplishing our goals. We fail to realize that in suing or threatening to sue we are actually reaching for the use of force against others. It is true that the "legal" use of force is generally a little less destructive than using force directly ourselves. If you are so angry at someone that you feel you must use force, then it's better to use force through the courts than on your own. But you shouldn't be very proud of what you are doing. You shouldn't have this anger and this urge to use force against your neighbor in the first place.

It's easy to overlook this moral perspective, given the example of government, which has gotten itself so deeply into the coercive regulation of practically everything. With thousands of special interests descending on Washington to use the force of the state to get what they want, we say, "Why shouldn't I use a little of the force of the state to get what I want?"

But if we think about it honestly, we know it's true: nice people don't sue. The ancient Christian teachings are explicit on this point. Paul, in his first letter to the Corinthians, criticized his followers for using the courts. "When one of you has a grievance against a brother, does he dare go to law before the unrighteous instead of the saints?" he asked. "Can it be that there is no man among you wise enough to decide between members of the brotherhood . . . ? To have lawsuits at all with one another is defeat for you."

The politicians may be able to patch over some of the worst problems of the liability system. But real reform awaits a change in the attitudes that are at the root of the problem. It awaits an awareness that the use of aggressive force, be it private force or governmental force, is an unsound approach to our problems.

Home Schooling: A Personal Experience

APRIL 01, 1991 by Hannah Lapp

Hannah Lapp is a dairy farmer and writer in Cassadaga, New York.

"Where did you get your education?" or "Which college do you attend?" are questions I find harder to answer than most people do. Education has meant much more to me than mere academic study.

My own formal education, and that of most of my 11 brothers and sisters, consisted of eight years of schooling at home. Our teacher was Mother, or our big sister Lydia. Going to school meant going to an upstairs hall or other suitable room in one of the sundry and fascinating dwellings we called home in those days. Our curriculum contained the basics for each grade in English, arithmetic, geography, and so on. Lydia selected our books from companies such as Scott, Foresman and Company, Laidlaw Brothers, and other publishers; some of the texts were as old as the McGuffey Readers.

As students, we were aware that education is serious business, and we worked our brains to the fullest. School was a thrilling opportunity. It opened the doors of knowledge and was a path into the mysteries of grown-up life.

Inborn in a healthy child is a thirst for the liberating powers of knowledge. Our teacher utilized these instincts of her students in introducing us not only to hard academic facts, but to an infinite learning process whose boundaries only our own self-discipline could shape. School learning meant learning how to expend mental energy to get information we wanted. Thus our minds were exercised not only in academic questions, but also in such difficult social concepts as freedom through meeting obligations, and the price of privileges.

"How can eight years be enough?" is a justifiable challenge offered against an educational background such as my own. Certainly the potential of young minds is much too valuable to justify halting education at age 14.

It does not occur to me to separate the education I received after the age of 14 from my eight years of formal schooling. For I regard the disciplined acquisition of knowledge too highly to draw its boundaries at the doors of an academic institution. I also respect it too much to assume that it is best taken care of by a government bureaucracy or any other monopolizing agency. For where, but within individual minds and circumstances, can it be determined what type of knowledge is the most needful and how it is best obtained?

The most suitable continued education for me and most of my siblings involved such things as skills training on our farm and self-help through reading, using libraries, taking short courses in specific subjects, and so on. Those of us who later decided to pursue specialized professions had no problem passing a high school equivalency test and taking off from there.

Even during my years of going to school at home, those hours of book-learning that qualified as a legal education were only a small part of my total education. More than we could fully comprehend at the time, we youngsters were receiving daily moral, emotional, and intellectual exercises that were just as important in preparing us for adult life as the mandatory hours spent in school. For just as becoming literate was essential to a self-sufficient and productive future, so also was learning responsibility and proper human coexistence. These concepts were instilled in us through necessity in our large, close family with many children to feed.

My family's search for a suitable private school, and finally the search for a region having laws compatible with home schooling, was a major factor in our many migrations when I was small. It was also a factor in our often tight finances. We children learned thriftiness from infancy, and enjoyed few niceties. But it was enough for us to be healthy and happy.

The same circumstances that appeared at times unfortunate endowed us with learning experiences which could well be envied by the less needy.

For example, my older brothers and sisters were compelled to search out employment from a young age in order to help support the family. During one school term, two of my sisters took turns babysitting for a neighbor lady who was consequently able to stay off public assistance by holding a job. in the absence of welfare, two low-income families were drawn together to trade resources, thus benefiting all parties involved. My sisters were able to maintain their grades in school by taking their books to work, and their job in itself provided excellent hands-on education. Lydia,

one of the two, would go on to instruct her younger siblings and, afterward, many other students during her teaching career.

Our quest for jobs where we could work together to support ourselves while being home schooled led us to a number of different states. Among other ventures, we traveled about in our family station wagon, following fruit harvests in their season. Where our employers permitted it, family members six years old and up helped to earn. It was through their children's ambitious participation that my parents were able to save up a considerable sum of money so that by 1972 they purchased the farmstead that would come to embody our long-time aspirations.

Dad picked Chautauqua County in western New York for the site of our farm because of reasonable land prices and job opportunities on the abundant fruit and vegetable operations lining the nearby shores of Lake Erie. He also questioned our real estate agent about New York's tolerance toward home schooling.

"Try it and see," was the agent's response.

My parents proceeded to do so.

School officials first confronted us five months after we arrived in Brocton, New York. At the time, we knew of no other families who attempted to home school in New York, and we had no idea what to expect. However, my parents determined to stand on their beliefs, come what may.

Lydia was teaching six of us younger ones at home when school officials came to question Mom. We heard them speak from where we were studying in an upstairs room, and teacher and students fell silent, trying to catch their words. "We have to see to it that these children attend school legally," a woman's voice was stating. Many scenes raced through our minds, including those frequent wearying travels we'd undertaken in our determination to home school. And we pictured a drama of recent years when school officials chased Amish children through an Iowa cornfield, trying to forcibly enroll them in public school.

Challenging the State

Our right to home schooling was challenged even more severely after we moved to a farm in Cassadaga, which was to become our permanent home. The Cassadaga school administrator was greatly annoyed by the presence of this family from out of state attempting to defy his previously

unchallenged authority. “Child neglect” was the charge he tried against my parents in family court.

The danger of forcible removal from our parents was the only thing we children could not acceptably face. So we banded together and arranged a secret hideout, unknown even to our parents, to which we would flee if the officials ever came for us. We never had to use it. Acquaintances and employers of ours were vocal in our defense, and the case was thrown out of court, thus demonstrating the power of concerned citizens in reining in oppressive government. Also somewhat influential in our case was a brand-new Supreme Court ruling in favor of Amish families who had objected to public schooling and education beyond the eighth grade for their children.

We cooperated with Cassadaga school officials as far as possible throughout our years of home schooling. Initially we underwent inspections, exams, and interviews. The Cassadaga school principal came to observe our school and concluded of the teacher, “She may not be certified, but she’s certainly qualified.”

Later on we simply maintained free and friendly communications with school officials. Local teachers offered us their out-of-date books. On several occasions Lydia was even asked by area parents to tutor their children whose public school education was proving insufficient.

After teaching at a mission school in Belize, Central America, for five years, Lydia returned home to teach her own daughter along with several nieces and nephews. Present regulations require her to submit quarterly progress reports on each student to the Cassadaga school. The paperwork aside, she still teaches as she sees best, and with her superior results, no one wants to interfere.

The success of schools such as Lydia’s and other private schools is drawing more attention with every new statistic on the disappointing results of public education. I have heard various suggestions advanced by citizens concerned with bringing American education back to par: teach teachers better, return to the three R’s, require more hours in school, and so forth. The difference between private and public education, however, involves issues more fundamental than these arguments. It involves the entire teacher-student relationship. Private, competing schools are bound to the individual choices of those whom they serve. Schools bound to mandatory regimens rather than client interests are inherently incapable of providing what I call true education—i.e., knowledge garnered through the inner

instincts to inform yourself to your own benefit. There's a difference between this type of knowledge and the kind that is methodically dumped upon you by the state.

Since knowledge that benefits one person may not benefit another, true education is infinitely diverse, varying from methods as ancient and basic as apprenticeship, to the most sophisticated academic instruction.

We as a family are now far from alone as home schoolers in our county and state. Lydia meets and exchanges ideas with a number of other parents who teach their own children. She also subscribes to *The Teaching Home* magazine, where one can gather or share helpful information as well as insights into national home schooling developments. *The Teaching Home* (P.O. Box 20219, Portland, Oregon 97220-0219) informs us that there are 4,000 children on record as being home schooled in New York State. We know that there are more who are not on the record, perhaps fortunate enough never to be discovered by the educational bureaucracy. All told, there are an estimated 300,000 to 500,000 children being taught at home in the United States (*The New York Times,* November 22,1990).

The Advantages of Home Schooling

It is from my own experience that I call these children fortunate. If their education bears any resemblance to my own, it will possess several advantages.

First, it will contain a much richer infusion of parental interests, which are more sensitive to a child's individuality and total needs than are bureaucratic state interests.

Another rather marked contrast between public schooling and home schooling involves children's peer relationships. The home-educated child is spending more time with adults and siblings and therefore devotes more mental energy to relationships spanning age and generation gaps. Some parents may not see this as desirable. Others find it offers a healthy alternative to the intense peer pressure in most public schools. Excessive peer pressure can and does inhibit a human being's ability to think freely.

In my own growing-up experience, I spent fewer than average hours with children outside the family, and zero hours watching television. Certainly this restricted my range of interactions with others. It did not, however, restrict my intellectual exercises in the least. I turned to my own unbounded imagination. I turned to exploring everything in sight, including

books. Adult books were interesting enough to read cover to cover before I was 10 years old. For some reason, I never experienced, nor could I mentally conceive, the boredom with life displayed by many other youngsters.

Learning is exploration and discovery, whether you are observing the development of an ear of corn, working alongside Mom in the kitchen, going to school at home, or even attending a prestigious university.

Medicare: Prescription for a Fool's Paradise

APRIL 01, 1991 by Dianne Durante, Salvatore Durante

Salvatore Durante is a dentist in private practice in Brooklyn, New York. He has published several articles on the hazards of government intervention in dentistry, and recently became editor of GP – The Journal of the New York State Academy of General Dentistry. *His wife, Dianne Durante, is a freelance researcher.*

Suppose I promise you health care like you've never had before. When you visit a doctor or a hospital, all you'll have to do is show a card, and someone else will foot the bill. You'll never have to fill out another insurance form or wait for another reimbursement to come in. And, I promise, you'll get the same quality of care you get now, and won't have to pay more taxes for it.

Would you vote for me? Most people would: Would you get what I promised? No, because it's impossible to deliver. This is the promise of those who advocate "national health care" or "universal health insurance" (on either the state or national level). In either case, what is involved is extensive or complete government control of health care: control of who pays for services, who provides them, and who receives them.

We have, before our eyes, an example of a very similar system that has been operating now for 26 years: Medicare. This article aims to demonstrate, by a detailed look at Medicare, that such government interference in health care is harmful from the first to buyers and providers of health care, and in the long run is disastrous. Government medicine, on the national or the state level, is a prescription for a fool's paradise.

To understand the economic principles involved in government intervention in medicine, let us look at something less emotionally charged than medicine. Hats, for instance.

Basic Economic Lessons

Let's say we all agree that hats are worth having, or even a necessity, and that all Americans have a right to them. We pass a law stating that the

government will pay for everyone's hats, through taxpayer dollars. What happens? First of all, hat sales skyrocket. I'm not particularly fond of hats, but if I can get them for free or below cost, why not?

Lesson One: there is no limit to demand, if those who get the product or use it are not paying, directly or in some way they can see. This is unavoidable. The freeloaders will try to get all they can, and most of the rest of us will want something to show for our tax dollars.

If such a law passed, most hatmakers would be delirious with joy. Everyone wants hats! They expand their shops and produce as many hats as they can. What happens next? The average price of hats shoots through the roof. Why?

There are two reasons. First, of the hats now being sold, the more expensive ones—the ones only a few people could afford before—will now be in much greater demand, since the individual hat-buyer no longer has to pay from his own, limited resources, if the latest style is a platinum-plated beret, anyone who wants one will now get it.

The other reason for the rising prices is competition: specifically, lack of it. New products, such as the first camcorders or the first compact disc players, are usually expensive. Prices drop because more people want to make money from a product: they try to come up with cheaper and more efficient ways of producing it, so they can sell the product more cheaply and grab some of the market. Our unlimited government funding of hats has completely cut out the need for competition. Any hatmaker can stay in the business, no matter how high his prices.

Lesson Two: prices will skyrocket if there's no limit to how much people can spend on a product. If anyone who wants the product can buy it, price no object, there is absolutely no reason for the manufacturer to try to cut his prices, and no reason for the buyer to control how much he spends.

The government, and *only* the government, can give people virtually unlimited amounts to spend on a product. In short, it is not the greed of the manufacturer or the consumer, but the mere fact of the government funding of hats that is making hat prices exorbitant.

Next step: the government, and hence the taxpayers, are faced with enormous hat bills. Mrs. Smith may have confined herself to one hat, but Mr. Jones wanted five, and Mrs. Imelda wanted 52 Paris originals. The government knows it can't continually raise taxes to pay for hats. Assuming it wants to keep the hat program intact, it has two choices: restrict the

number of hats any one person can buy, or restrict the price of hats. In political jargon, that means rationing or price controls.

From a politician's point of view, setting limits on the price of hats is the obvious way to go. There are fewer hatmakers who vote than there are hat wearers, and it's easy enough to paint the hatmak-ers as greedy exploiters of the hatless. So a new law is passed: no hats may be sold for more than $15, even if the buyer is willing to use his own money. The immediate result will be that the best quality, most expensive hats become unavailable. No more Paris originals.

Lesson Three: you can't make a silk purse out of a sow's ear. Good materials and good workmanship cost money. Yes, competition among manufacturers in a free market will cut prices in the long run. However, legislating a lower price for a product is not a shortcut to cheapness. It merely makes those who were selling more expensive goods go bankrupt, before anyone has time to work on price reduction.

We could try some complicated and devious maneuvers to lessen the effect of price controls. For instance, we could slap a $5 tax on shoes and use the money for the hat program. Then we could have a maximum hat price of $15, but still pay the hatmakers $20 per hat. That would mean, of course, that some poorer people wouldn't be able to afford shoes, and the government would end up subsidizing shoes, too. Even so, price controls on hats will have to be instituted in some form, because demand is so high. Remember that it is government spending for hats that made the demand and the prices so high in the first place: nothing except removal of the government's money will get the situation back under control. But let's keep trying.

We've now legislated a maximum price for hats. Nevertheless, Mrs. Imelda has bought another 35 hats, and the rest of us are still trying to get our taxes' worth of hats. Not surprisingly, the amount that taxpayers are shelling out for hats hasn't significantly decreased, despite our price controls. The next step? Well, of course, restrict the number of hats each person can buy: ration them.

Now what happens? A lot of hatmakers go out of business. They can't sell hats for more than the maximum price, and they can't make up for the loss in income through selling more hats. Bureaucrats demand forms in triplicate and slap fines on them at every turn. The best hatmakers soon

leave the field in disgust. We are now facing a decreasing supply of hats, if not an actual shortage, because there are far fewer manufacturers.

But hats are a necessity, aren't they? So we will have to pass a law forcing hatmakers to remain in business, whether they can make a profit or not. However, even a government order can't make a business run for long at a deficit, whether it's a hat-maker or a child's lemonade stand or a bank. The hatmakers will go out of business, one by one.

The government will have to step in and make hats. Given the quality of most government products, you can imagine what kind of hats we'll get. And given the efficiency of most government manufacturing operations, we won't be surprised if we're told we can each have one hat, in our choice of four styles, every other year.

What began as a seemingly praiseworthy law—to provide all Americans with hats—has ended up driving the hatmakers we know and trust out of business, and given us government-produced hats of considerably inferior quality and very limited numbers. This result is absolute, inevitable, and non-negotiable: none of the economic rules above can be avoided, and they can only be temporarily circumvented by allowing the government to interfere in yet more private business.

Lesson Four: what the government pays for, the government has to control. Government funding of hats led to government control of hat prices, hatmakers, and finally everyone who is even remotely connected to hats. The only cure would be to end government funding of hats.

Back to Health Care

Comparing hats to medicine may seem even less appropriate than comparing apples to oranges, but the same economic principles apply, and precisely the same developments can be seen in the 26-year history of Medicare.

In 1965 the government passed Medicare legislation, providing basic medical services to the nation's retirees. Physicians and hospital administrators were delighted. They built new hospitals and enlarged old ones. They began providing the medical equivalent of the best Parisian hats to all comers. Why not? The government encouraged physicians by asking them just to send the bill to the American taxpayer. Patients, as well as physi cians, no longer had to consider costs. Everyone simply demanded "the best"—price no object. Medical expenditures in the United States were 4.3 percent of GNP in 1952; by 1982 they exceeded 10 percent, and were

still rising. In the same period the government's share of these expenses nearly doubled, from 22 percent to over 40 percent. Here is Lesson One in action: with the government footing the bill for a substantial number of those receiving medical care, there was suddenly an enormous demand for medical services.

At the same time, prices for medical care soared. The legislation deliberately removed any incentive to keep prices low: in fact, removing concern about costs was the point of the program. Many of us can remember that prior to 1965 a few days in the hospital did not threaten to bankrupt the average middle class family. Today, many find the cost of a hospital stay prohibitive, because the rise in medical costs has far outpaced the general inflation rate.

Why? Because of Lesson Two. Prices skyrocketed precisely because the government was providing unlimited funds for medical care. Consumers demanded the most expensive treatment, and medical facilities didn't have to keep prices low to maintain a competitive edge.

By 1983, Medicare threatened to bankrupt the entire Social Security system. It was clear that something drastic had to be done to control runaway costs. Taxes were raised, of course, but this was not enough. Like the manufacturers in the hat illustration, health-care professionals were (and continue to be) denounced as the greedy culprits who had to be controlled; price controls were slapped on hospitals and doctors. Under this system, called Diagnosis Related Groups, all hospital admissions of Medicare patients are classed in one of 486 categories, and the hospital receives a set fee for the patient, regardless of his length of stay or the amount of care provided. When it was pointed out that this might lead to inadequate treatment and early discharges ("quicker and sick-er" releases), the government responded by imposing further complicated regulations.

The federal government has also set a limit on what doctors can charge patients over the age of 65, and some states now refuse to license doctors who don't accept the Medicare fee as full payment. Just to receive the government-approved payment, doctors must comply with a bewildering, and sometimes contradictory, array of regulations from several different agencies. The process a doctor is required to go through to obtain payment from Medicare makes filing your tax return look like simple arithmetic, and your doctor does it many times per day, not once a year. Also, a simple error in filing that would result in no monetary gain for him, such as using an

incorrect code for a diagnosis, can mean no payment at all on the claim, plus a fine of thousands of dollars.

Not surprisingly, doctors are leaving the profession and the number and quality of medical school applicants are falling. In 1974 there were nearly three applicants for every opening in medical school; by 1986 there were fewer than two. What bright young college graduate would want to get involved with such a mess?

Lesson Three comes into play: you can't make a silk purse out of a sow's ear. In this case, you can't get top-notch, dedicated individuals to enter and remain in the medical profession while controlling their activities and their earnings, and calling them greedy exploiters to boot.

And guess what? Costs are still rising uncontrollably, despite stringent controls on medical expenditures. (Given the fact that it was government funding that made prices skyrocket, and that the government is still funding medical care, the continually rising prices should come as no surprise.) The government is now considering more drastic measures, such as rationing and "universal insurance." Massachusetts has already adopted such a plan, which led to the exodus of doctors from that state and contributed to its recent financial collapse and tax increase. Similar plans are under consideration in many other states, and even more appalling "solutions" have been proposed. The director of the Hastings Center, a bioethical think tank in Briarcliff Manor, New York, recently recommended that, by law, no one past age 80 or 85 be given access to aggressive life-saving equipment and medication. A medical economist from Tufts University has suggested legally banning all new technology: since not everyone can afford it, no one should have it.

Here, as expected, is Lesson Four: what the government pays for, the government must control. In the very near future, if a physician tells you that your life could be improved with bypass surgery or a hip replacement, you will have to petition the government and take a number. Perhaps your petition will be approved, once all the appropriate government bureaucrats have debated its merits. Perhaps it won't.

Likewise, every aspect of a physician's practice will have to be dictated and controlled: most of them are already. He'll be told whom he can treat, and how, and what payment he'll receive. His livelihood and his freedom will be in the hands of the same bureaucrats who hold your life and health.

What About Rights?

The final step in the process outlined above brings us to the most important reason that the Medicare and Medicaid programs should not be expanded or imitated, but must be scrapped. In the United States, we recognize certain basic rights: life, liberty, the pursuit of happiness. When those words were written, it was understood that those • were the fights to your own life, your own liberty, and the pursuit of your own happiness.

The "right" to hats or to medical care is fundamentally different from these basic rights. Such a "right" depends on the efforts of others, those who make the hats or study medicine. If we declare that citizens have a right to hats or to medical care, we are declaring that the hatmakers or the doctors are obliged to provide it, no matter what the cost, somehow, and that if they don't do so willingly, the government will force them to do it.

Although your own life is of enormous value, you can't use that fact to justify taking someone else's life, unless he threatens to kill you first. "But the Medicare laws don't kill doctors," you say. "They just tell doctors what to do and take away some of what they earn."

If you locked up a dachshund, forced it to obey contradictory commands, and fed it at unpredictable times and in continually decreasing amounts, you'd have a mob of government officials and animal rights activists at your door. Killing the dog quickly, they'd say, would be kinder than this long-drawn-out torture. The same treatment has been applied to doctors for many years now, and few voices have been raised in their defense.

When you take away a man's right to think, to act for himself, and to keep what he earns from that action, you make him at best a slave dependent on your goodwill, and at worst a corpse. Thinking for oneself, acting on those thoughts, and keeping the fruits of one's effort are what allow one to live, whether one is a physician, a teacher, a garage mechanic, or a stockbroker.

One hundred twenty-six years ago we finished fighting a bloody civil war to make slavery illegal throughout the United States. Twenty-six years ago, with the passage of Medicare legislation, we sanctioned it again—not on the basis of race, but on the basis of the dedication and skill and intelligence it takes to become a medical professional.

It is still slavery. It is still immoral. And that is why the Medicare system and all such government programs that interfere with the free market in medicine must be dismantled: not merely because they do not

work, but because they require that the men and women who literally save our lives be made into slaves.

The same is true of any government-funded program of medicine, whether based on the Canadian or British or Swedish or Soviet model. Government funding of medicine ultimately results in the enslavement of doctors, and is therefore immoral.

Perhaps you are thinking that violating your doctor's rights is acceptable, in return for assuring that you and the rest of his patients are able to afford medical care. Think again. What you'll be getting if you violate his rights is not care from the type of doctor you know and trust. The traditional kind of doctor, who went into medicine for the challenge of using his mind and working independently, will find it impossible to work under such a system, and will gradually disappear.

When the government controls health care, it will attract a new breed of doctor: the kind who is content to work 9 to 5 for a fixed salary, following all the rules in a government code, and is more than happy to let bureaucrats instead of his patients tell him what he~ doing right and wrong. If I must undergo surgery, I want it to be at the hands of someone who can observe the facts of my case and is not afraid to make his own judgment and take action on it—and who will answer to me if he makes an error, not cite his compliance with section 1052, paragraph 13 in some government manual.

Government control of medicine means, in short, that the bureaucrats will be telling *you* what services you are allowed to have, and when. If what you want is the best care for the most people, any government-funded medical program is impractical as well as immoral.

The Market Holds the Solution

The only way to assure the highest quality of medical care is to return to the free market. You can have choice only if you are willing to take the responsibility of paying for it. For most of your working life, you have probably been covered by a private insurance company. It worked. In fact, it worked incomparably well until the government's intervention in the health-care market caused prices to shoot through the roof. If health-care providers have to compete for our business again, the prices will go down, precisely as they do for new electronic gadgets.

Today no private insurance company will cover anyone over 65, except as a wrap-around policy for Medicare. Let the private insurance companies get back into the business. Let families and individuals save for their own

medical care, if they wish, by reducing the burden of taxation. Let each of us take back into his own hands how much he spends on medical care, when he spends it, and what he gets for it.

What about those who cannot afford even minimal health insurance? There are many, many physicians and hospitals who provide medical care for free. They don't brag about it, and they are usually ignored when the surveyors collect statistics on the uninsured. Yes, it does mean that the poor would have to ask for charity, rather than receiving care as a matter of "right." Yes, that would be embarrassing: asking for something in return for nothing usually is. But enslaving doctors and putting the health care of all citizens under the control of government bureaucrats is simply too high a price to pay for avoiding embarrassment.

Today's most serious health problem is government intervention in the health-care system. Because the government's spending has driven prices up, we are forced to make do with less care. Because of the controls the government has imposed, we are losing the best minds in the field. The only cure is to return to the system that made American health care the envy of the world: a free market, completely exempt from government intervention.

Boulwarism: Ideas Have Consequences

APRIL 01, 1991 by William H. Peterson

Dr Peterson, Heritage Foundation adjunct scholar, holds the Lundy Chair of Business Philosophy at Campbell University, Buies Creek, North Carolina.

"What's in a name?" asked Shakespeare's star-crossed Juliet. "That which we call a rose/By any other name would smell as sweet."

Boulwarism. An idea. Sweet or sour? Description or invective? The death of Lemuel R. Boulware (1895-1990) in Florida last November recalls the controversy over his name as embodied in a General Electric employee strategy that prevailed for some 15 years after World War II. The controversy is seen in a 1969 U.S. Second Circuit Court of Appeals decision upholding a National Labor Relations Board (NLRB) ruling that GE had committed an "unfair labor practice" via Boulwarism. Asserted the Court in passing: "We do not think that [National Labor Relations] Board Member Fanning's use of the term 'Boulwarism' was indicative of bias; the term is more description than invective."

Certainly America's unions sought to make Boulwarism into invective, to undo Lemuel Boulware's lifelong idea of avoiding force, public or private, by "trying to do right voluntarily." He held that labor and capital, employees and managers, wages and profits, are allies and not enemies in production. His ideas help explain GE's innovative employee policy following a rough seven-week strike in 1946 that saw acts of sabotage at various plants.

The strike shocked the company, which had long voluntarily installed such forward-looking employee programs as a suggestion system (1906), pensions (1912), and insurance (1920). Employee disapproval and distrust of the company, fanned by union hype, were widespread. GE charged Lemuel Boulware to correct the situation.

So began "Boulwarism," the GE program that can be reviewed in his book, *The Truth About Boulwarism* (Bureau of National Affairs, 1969),

written eight years after he retired from GE. Boulware tackled his charge first through job research, applying merchandising techniques that had been successful with GE's consumer products. He interviewed employees, for example, to find out what they knew about economics including the origin of jobs and wages. His finding: Not much. His solution: employee economic education on a massive scale.

For starters, he borrowed Du Pont's flannel-board economic study course entitled "How Our Business System Operates," and gained full participation of every GE employee (then 190,000 of them) "from top management to the last non-supervisory worker." The course involved three 90-minute sessions on company time. He also distributed thousands of copies of New York University economist Lewis H. Haney's book, *How You Really Earn Your Living*, to supervisors and other sponsors of study and discussion groups in GE plants, offices, and plant communities.

In addition, in sustained employee communications Boulware hammered on the theme that market competitiveness was decisive, that the GE customer was the ultimate employer and paymaster, that quality and cost control were crucial to GE jobs. As GE's vice president for employee and public relations, he explained that at bottom industrial harmony springs from employee attitudes and perceptions.

Later on he hired a Hollywood actor named Ronald Reagan to heighten the popularity of GE's TV show. To bring about that goal, Reagan toured GE plants where he found that "we didn't chain the workers to the machines." The GE assignment apparently helped sell free enterprise to the future President.

Breaking Pattern Wage Settlements

The immediate point of Boulwarism, however, was the break with pattern wage settlements that especially had rippled out from auto and steel negotiations. To Boulware that pattern had elements of theatrics in the postwar era when employers felt they had to go through the motions of first offering essentially nothing when the real plan all along was, say, an increase of five cents an hour. As he put the rest of the scenario in his book: "Then, under public strike-threat pressure, about half would be offered. Then, after all the union representatives had been called in from the plants and the resulting vote for a strike had been well aired in a receptive press, management would 'capitulate' by upping the offer to the full five cents per hour."

Argued Boulware: Pattern settlements played into the hands of union officials who portrayed an employee need to “triumph over greedy and vicious management,” and who accordingly had to drag an unwilling company into doing the right thing by its employees. Boulware believed that such tactics discredited both capitalism and the company in the eyes of employees. He further believed that those tactics nurtured employee resentment and hurt productivity by appearing to give credit to the unions for wringing from the company what it had been willing to give at the very outset of negotiations.

Accordingly Boulware abandoned the pattern idea. Instead he painstakingly researched each opening GE offer. Soon after that he presented an up-front fleshed-out competitive “product” that he termed “fair but firm”—an offer he felt would be at once attractive to the employees and within the limited means of the company and its customers.

Union officials bristled at this new management approach and argued that the offer was but a rigid “take-it-or-leave-it” stand, that for all its talk of “balanced best interests” GE was “playing God,” that the company was simply not bargaining “in good faith,” that it could have offered GE employees lots more out of its “swollen” profits without having to raise prices.

As Boulware rebutted this soon-standard union rhetoric in his book: “The trouble with our country’s so-called ‘free collective bargaining’ in those days was that it too often turned out to be not free, not collective, and, in fact, too one-sided to be real bargaining at all.” So what often passed for bargaining, he went on, was but the imposition of a settlement that some union officials had already unilaterally decided, even though for public consumption they might later cut their initially too high demands by as much as half in order to look reasonable.

Too, Boulware maintained that he was not inflexible, that only one of his opening proposals wound up without amendment in the GE union contract, that he was always receptive to the idea of letting the unions provide “any old or new information proving changes would be in the balanced best interests of all.” The ongoing Boulware-union officials battle of ideas became public knowledge, and the media had a field day, with politicians, commentators, and editorialists taking sides.

But GE’s 1960 negotiations with the International Union of Electrical, Radio, and Machine Workers, AFL-CIO, misfired, leading to a three-week

strike and the NLRB ruling that through Boulwarism General Electric had committed an “unfair labor practice.” For, according to that 1969 U.S. Second Court of Appeals decision sustaining the ruling, GE had allegedly used “sham discussions” instead of “genuine arguments”; too, GE supposedly conducted a communications program that emphasized “both powerlessness and useless-hess of union to its members” and that “pictured employer as true defender of interest of employees, further denigratmg union, and sharply curbing employer’s ability to change its own position.”

Boulware retired from GE in 1961, and Boulwarism as an idea and policy p~ into history. Yet so too did the heyday of adversarial unionism and the tide of union membership, with both the nation’s and GE’s labor force becoming sharply de-unionized in the new age of information and global competitiveness.

Ideas have consequences. Lemuel R. Boulware’s prescient long-run employee economic education program, anticipating today’s quality circles, T-groups, and closer employer-employee rapport, may have triumphed in the end.

“We have simply got to learn, and preach, and practice what’s the good alternative to socialism. And we have to interpret this to a majority of adults in a way that is understandable and credible and attractive.”

—Lemuel R. Boulware
1949 Commencement Address
to Harvard Business School Alumni

The Objectives of Economic Education

APRIL 01, 1991 by Ludwig von Mises

Editors' note: *Ludwig von Mises (1881-1973) was a pre-eminent exponent of free market economics during his long and distinguished academic career. He was associated with The Foundation for Economic Education as a consultant and part-time staff member from shortly after FEE was founded in 1946 until his death. These extracts from a 1948 memorandum to Leonard E. Read, founder and president of FEE, appear in Economic Freedom and Interventionism, an anthology of articles and essays by Dr. Mises recently published by The Foundation for Economic Education.*

The struggle between the two systems of social organization, freedom and totalitarianism, will be decided in the democratic nations at the polls. As things are today, the outcome in the United States will determine the out come for all other peoples too. As long as this country does not go socialist, socialist victories in other parts of the world are of minor relevance.

Some people—among them very keen minds—expect either a revolutionary upheaval of the Communists, a war with Russia and its satellites, or a combination of both events.

However this may be, it is obvious that the final result depends on ideological factors. The champions of freedom can win only if they are supported by a citizenry fully and unconditionally committed to the ideals of freedom. They will be defeated if those moulding public opinion in their own camp are infected with sympathies for the totalitarian program. Men fight unto death for their convictions. But nobody is ready to dedicate himself seriously to a cause which in his eyes is only 50 percent right. Those who say: "I am not a Communist, but . . ." cannot be counted upon to fight rigorously for freedom and against Communism.

In Russia, in 1917, the Bolsheviks numbered only a few thousand men. From the arithmetical point of view their forces were negligible. Yet, they were able to seize power and beat into submission the whole nation because they did not encounter any ideological opposition. In the vast empire of the

Tsars there was no group or party advocating economic freedom. There was no author or teacher, no book, magazine, or newspaper that would have declared that freedom from bureaucratic regimentation is the only method to make the Russian people as prosperous as possible.

All people agree that in France and in Italy [1948] the Communist danger is very great. Yet, it is a fact that the majorities in both countries are hostile to Communism. However, the resistance of these majorities is weak, as they have espoused essential parts of socialism and of the Marxian criticism of capitalism. Thanks to this ideological penetration of Communist adversaries in France and Italy, the chances of the Communists are much better than the numbers of Communist Party members warrant.

Those engaged in the conduct of business, the professions, politics, and the editing and writing of newspapers and magazines are so fully absorbed by the sundry problems they have to face that they neglect to pay attention to the great ideological conflicts of our age. The urgent tasks of the daily routine impose on them an enormous quantity of pressing work, and no time is left for a thoroughgoing examination of the principles and doctrines implied. Perplexed by the vast amount of detail and trivia, the practical man looks only at the short-run consequences of the alternatives between which he has to choose at the moment and does not bother about long-run consequences. He falls prey to the illusion that this attitude alone is worthy of an active citizen successfully contributing to progress and welfare; preoccupation with fundamental questions is just a pastime for authors and readers of useless highbrow books and magazines. In democratic America the men most distinguished in business, the professions, and politics have today the same attitude toward “theories” and “abstractions” that Napoleon Bonaparte displayed in ridiculing and abusing the “ideologues.”

The disdain of theories and philosophies is mainly mused by the mistaken belief that the facts of experience speak for themselves, that facts by themselves can explode erroneous interpretations. The idea prevails that no serious harm can be done by a fallacious philosophy, an “ism,” however vitriolic and insidious; reality is stronger than fables and myths; truth automatically dispels lies; there is no reason to worry about the propaganda of the apostles of untruth.

There is no need to enter into an investigation of the epistemological issues implied in this widely held opinion. It may be enough to quote a few lines of John Stuart Mill. “Man,” says Mill, “. . . is capable of rectifying his

mistakes, by discussion and experience. Not by experience alone. There must be discussion, to show how experience is to be interpreted. Wrong opinions and practices gradually yield to fact and argument; but facts and arguments, to produce any effect on the mind, must be brought before it. Very few facts are able to tell their own story, without comments to bring out their meaning."

Marxian Polylogism

Those people who believe that the mere record of the American achievements of economic individualism makes the youth of the United States safe from indoctrination with the ideas of Karl Marx, Thorstein Veblen, John Dewey, Bertrand Russell, and Harold Laski are badly mistaken. They fail to discern the role that Marxian polylo-gism plays in the living philosophy of our age.

According to the doctrine of Marxian polylogism, a man's ideas necessarily reflect his class position; they are nothing but a disguise for the selfish interest Of his class and are irreconcilably opposed to the interests of all other social classes. The "material productive forces" that determine the course of human history have chosen the working "class," the proletariat, to abolish all class antagonisms and to bring lasting salvation to the whole of mankind. The interests of the proletarians, who are already the immense majority today, will finally coincide with the interests of all. Thus from the point of view of the inevitable destiny of man, the Marxians say, the proletarians are right and the bourgeois are wrong. There is no need, therefore, to refute an author who disagrees with the "progressive" teachings of Marx, Engels, and Lenin; all that is needed is to unmask his bourgeois background and show that he is wrong because he is either a bourgeois or a "sycophant" of the bourgeoisie.

In its consistent and radical form polylogism is accepted only by the Russian Bolsheviks. They distinguish between "bourgeois" and "proletarian" doctrines even in mathematics, physics, biology, and medicine. But the more moderate brand of polylogism, which applies the "bourgeois" or "proletarian" yardstick only to the social and historical branches of knowledge, is endorsed by and large even by many of those schools and authors who emphatically call themselves anti-Marxian. Even at universities, which radical Marxians vilify as strongholds of bourgeois mentality, general history as well as the history of philosophy, literature, and art are often taught from the point of Marxian materialistic philosophy.

The tenets of people committed to Marxian polylogism cannot be shaken by any argument advanced by an author, politician, or other citizen suspected of bourgeois affiliation. As long as a considerable part of the nation is imbued—many of them unwittingly—with the polylogistic doctrine, it is useless to argue with them about special theories of various branches of science or about the interpretation of concrete facts. These men are immune to thought, ideas, and factual information that stem from the sordid source of the bourgeois mind. Hence it is obvious that the attempts to free the people, especially the intellectual youth, from the fetters of "unorthodox" indoctrination must begin on the philosophical and epistemological level.

The disinclination to deal with "theory" is tantamount to yielding submissively to Marx's dialec-tical materialism. The intellectual conflict between freedom and totalitarianism will not be decided in discussions about the meaning of concrete statistical figures and historical events, but in a thorough examination of the fundamental issues of epistemology and the theory of knowledge.

It is true that the masses have only a very crude and simplified cognition of dialectical materialism and its offshoot, the so-called sociology of knowledge. But all knowledge of the many is crude and simplified. What matters is not to change the ideology of the masses, but to change first the ideology of the intellectual strata, the "highbrows," whose mentality determines the content of the simplifications which are held by the "lowbrows."

Marxism and "Progressivism"

The social and economic teachings of the self-styled "un-orthodox Progressives" are a garbled mixture of divers particles of heterogeneous doctrines incompatible with one another. The main components of this body of opinion were taken from Marxism, British Fabianism, and the Prussian Historical School. Essential elements were also borrowed from the teachings of those monetary reformers, inflationists who were long known only as "monetary cranks." And the legacy of Mercantilism is important too.

All Progressives loathe the 19th century, its ideas and its policies. However, the principal ingredients of Progressivism (except for Mercantilism which stems from the 17th century), were formed in that much-defamed 19th century. But, of course, Progressivism is different from

every one of these doctrines, parts of each of which were synthesized to make Progressivism what it is . . . . Among those who call themselves Progressives there are certainly a number of consistent Marxians . . . . The great majority of the Progressives, however, are moderate and eclectic in their appraisal of Marx. Although sympathizing by and large with the material objectives of the Bolsheviks, they criticize certain attending phenomena of the revolutionary movement, for instance, the Soviet regime's dictatorial methods, its anti-Christianism, and its "Iron Curtain." . . .

Many outstanding champions of Progressivism openly declare that they aim ultimately at a substi-tution of socialism for free enterprise. But other Progressives announce again and again that by the suggested reforms they want to *save* capitalism, which would be doomed if not reformed and improved. They advocate interventionism as a permanent system of society's economic organization, not as do the moderate Marxian groups, as a method for the gradual realization of socialism. There is no need to enter here into an analysis of interventionism. It has been shown in an irrefutable way that all measures of intervention-ism bring about consequences which —from the point of view of the governments and parties resorting to them —are less satisfactory than the previous state of affairs which they were devised to alter. If the government and the politicians do not learn the lesson which these failures teach and do not want to abstain from all meddling with commodity prices, wages, and interest rates, they must add more and more regimentation to their first measures until the whole system of market economy has been replaced by all-round planning and socialism.

However, my purpose here is not to deal with the policies recommended by the champions of interventionism. These practical policies differ from group to group. It is merely a slight exaggeration to say that not only does each pressure group have its own brand of interventionism but so does every professor. Each is keenly intent upon exploding the shortcomings of all rival brands. But the doctrine which is at the bottom of interventionist ventures, the assumption that contradictions and evils are allegedly inherent in capitalism, is by and large uniform with all varieties of Progressivism and generally accepted with hardly any opposition. Theories which are at variance are virtually outlawed. Anti-progressive ideas are represented in caricature in university lectures, books, pamphlets, articles, and newspapers. The rising generation does not hear anything about them

except that they are the doctrines of the economic Bourbons, the ruthless exploiters and “robber barons” whose supremacy is gone forever.

The Main Thesis of Progressivism

The doctrines which are taught today under the appellation “Progressive economics” can he condensed in the following ten points.

1. The fundamental economic thesis common to all socialist groups is that there is a potential plenty, thanks to the technological achievements of the last 200 years. The insufficient supply of useful things is due merely, as Marx and Engels repeated again and again, to the inherent contradictions and shortcomings of the capitalist mode of production. Once socialism is adopted, once socialism has reached its “higher stage,” and after the last vestiges of capitalism have been eradicated, there will be abundance. To work then will no longer cause pain, but pleasure. Society will be in a position to give “to each according to his needs.” Marx and Engels never noticed that there is an inexorable scarcity of the material factors of production.

The academic Progressives are more cautious in the choice of terms, but virtually all of them adopt the socialist thesis.

2. The inflationist wing of Progressivism agrees with the most bigoted Marxians in ignoring the fact of the scarcity of the material factors of production. It draws from this error the conclusion that the rate of interest and entrepreneurial profit can be eliminated by credit expansion. As they see it, only the selfish class interests of bankers and usurers are opposed to credit expansion.

The overwhelming success of the inflationist party manifests itself in the monetary and credit policies of all countries. The doctrinal and semantic changes that preceded this victory, which made this victory possible, and which now prevent the adoption of sound monetary policies are the following:

a. Until a few years ago, the term *inflation* meant a substantial increase in the quantity of money and money-substitutes. Such an increase necessarily tends to bring about a general rise in commodity prices. But today the term inflation is used to signify the inevitable *consequences* of what was previously called inflation. It is implied that an increase in the quantity of money and money-substitutes does not affect prices and that the general rise in prices which we have witnessed in these last years was not

caused by the government's monetary policy, but by the insatiable greed of business.

b. It is assumed that the rise of foreign exchange rates in those countries, where the magnitude of the inflationary increment to the quantity of money and money-substitutes in circulation exceeded that of other countries, is not a consequence of this monetary excess but a product of other agents, such as: the unfavorable balance of payments, the sinister machinations of speculators, the "scarcity" of foreign exchange, and the trade barriers erected by foreign governments, not by one's own.

c. It is assumed that a government, which is not on the gold standard and which has control of a central bank system, has the power to manipulate the rate of interest downward *ad libitum* without bringing about any undesired effects. It is vehemently denied that such an "easy money" policy inevitably leads to an economic crisis. The theory, which explains the recurrence of periods of economic depression as the necessary outcome of the repeated attempts to reduce interest rates artificially and expand credit, is either intentionally passed over in silence or distorted in order to ridicule it and to abuse its authors.

3. Thus the way is free to describe the recurrence of periods of economic depression as an evil inherent in capitalism. The capitalist society, it is asserted, lacks the power to control its own destiny.

4. The most disastrous consequence of the economic crisis is mass unemployment prolonged year after year. People are starving it is claimed, because free enterprise is unable to provide enough jobs. Under capitalism technological improvement which could be a blessing for all is a scourge for the most numerous class.

5. The improvement in the material conditions of labor, the rise in real wage rates, the shortening of the hours of work, the abolition of child labor, and all other "social gains" are achievements of government pro-labor legislation and labor unions. But for the interference of the government and the unions, the conditions of the laboring class would be as bad as they were in the early period of the "industrial revolution."

6. In spite of all the endeavors of popular governments and labor unions, it is argued, the lot of the wage earners is desperate. Marx was quite right in predicting the inevitable progressive panperization of the proletariat. The fact that accidental factors have temporarily secured a slight improvement in the standard of living of the American wage earner is of no

avail; this improvement concerns merely a country whose population is not more than 7 percent of the world's population and moreover, so the argument runs, it is only a passing phenomenon. The rich are still getting richer, the poor are still getting poorer, the middle classes are still disappearing. The greater part of wealth is concentrated in the hands of a few families. Lackeys of these families hold the most important public offices and manage them for the sole benefit of "Wall Street." What the bourgeois call democracy means in reality "pluto-democracy," a cunning disguise for the class rule of the exploiters.

7. In the absence of government price control, commodity prices are manipulated *ad libitum* by the businessmen. In the absence of minimum wage rates and collective bargaining, the employers would manipulate wages in the same way too. The result is that profits are absorbing more and more of the national income. There would prevail a tendency for real wage rates to drop if efficient unions were not intent upon checking the machinations of the employers.

8. The description of capitalism as a system of competitive business may have been correct for its early stages. Today it is manifestly inadequate. Mammoth-size cartels and monopolistic combines dominate the national markets. Their endeavors to attain exclusive monopoly of the world market result in imperialistic wars in which the poor bleed in order to make the rich richer.

9. As production under capitalism is for profit and not for use, those things manufactured are not those which could most effectively supply the real wants of the consumers, but those the sale of which is most profitable. The "merchants of death" produce destructive weapons. Other business groups poison the body and soul of the mass-es by habit-creating drugs, intoxicating beverages, tobacco, lascivious books and magazines, silly moving pictures, and idiotic comic strips.

10. The share of the national income that goes to the propertied classes is so enormous that, for all practical purposes, it can be considered inexhaustible. For a popular government, not afraid to tax the rich according to their ability to pay, there is no reason to abstain from any expenditure beneficial to the voters. On the other hand profits can be freely tapped to raise wage rates and lower prices of consumers' goods.

These are the main dogmas of the "un-orthodoxy" of our age, the fallacies of which economic education must unmask. Success or failure of

endeavors to substitute sound ideas for unsound will depend ultimately on the abilities and the personalities of the men who seek to achieve this task. If the right men are lacking in the hour of decision, the fate of our civilization is sealed. Even if such pioneers are available, however, their efforts will be futile if they meet with indifference and apathy on the part of their fellow citizens. The survival of civilization can be jeopardized by the misdeeds of individual dictators, Fuhrers, or Duces. Its preservation, reconstruction, and continuation, however, require the joint efforts of all men of good will.

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1. Mill, *On Liberty,* Third Edition, London 1864, pp. 38-39.

The Re-legalization of Drugs

APRIL 01, 1991 by Mark Thornton, Tibor R. Machan

Americans are growing increasingly skeptical of the government's claims about winning the war against drugs. Should this war be supported because a smaller percentage of teenagers use marijuana, or should it be opposed because a larger percentage of teenagers and young adults use cocaine and crack? Should people be optimistic when multi-billion dollar shipments of cocaine are confiscated, or pessimistic that seizures continue to increase yet have such little impact on price and consumption? We argue that drug prohibition was doomed to failure and that the best alternative is an immediate return to complete legalization of such drugs.

One of the dearest lessons from history is that suppression of voluntary trade only drives the market underground and adds a criminal element. We claim that the trade and use of drugs should not be prohibited and must be dealt with by means of education, character building, willpower, and social institutions, without benefit of force of arms. Unfortunately this proposition is no longer obvious in our "free" society—perhaps due to the widespread conviction that individual responsibility is merely a relic of ancient philosophy and religion.

The war on drugs received several major increases in funding during the 1980s, and the U.S. military is now heavily involved in drug-law enforcement. Despite these increased resources we are no closer to success with drug prohibition than socialism is at creating a "new economic man." The fact that a full array of illegal drugs is available for sale throughout the Federal prison system, the Pentagon, and in front of the Drug Enforcement Administration building in Washington, D.C., demonstrates that little has been accomplished.

One lofty goal of drug prohibition was to prevent crime by removing access to mind-altering drugs. The great American tragedy is that prohibition has created a vast new area of criminal activity—crimes such as robbery, burglary, and prostitution committed in order to pay for the high

prices of illegal drugs. It is well documented that drug users commit crimes to pay the high prices brought on by prohibition and that wealthy addicts do not.

The rate of crimes with victims increased during the alcohol prohibition of the 1920s only to decline rapidly in 1933, the year Prohibition was repealed. Crime continued to decline until the mid-1960s and has been increasing ever since. The prison population increased by 35 percent between 1984 and 1988. During that period the "criminals on parole" population increased by over 50 percent! More innocent bystanders are being killed, more school systems are infected, and more neighborhoods are destroyed by the growing problems of prohibition.

The 1990 arraignment of Mayor Marion Barry was a spectacular media event, but drug prohibition has been corrupting the political process for a very long time. This corruption is not confined to the United States. A look around the globe shows that countries that produce, process, and sell illegal drugs are also afflicted with corrupt political systems—consider Southeast Asia, Lebanon, Mexico, South America.

The government recently reported with great pride that a smaller percentage of teenagers are regular marijuana smokers. What was left out of that press release is that consumption of virtually every other type of drug has increased and that the number of reported deaths associated with illegal drug use continues to skyrocket. New types of drugs such as smokable cocaine and synthetic opiates are being introduced onto the streets at an alarming rate. The switch from marijuana to the more potent and dangerous drugs is directly attributable to the enforcement of drug laws.

Prohibition forces black market suppliers to take precautions against detection. This ever present profit-making incentive takes on several forms such as:

1. Producing only the most potent form of a drug.

2. Switching from low potency drugs, such as marijuana, to high potency drugs, such as cocaine and heroin.

3. Inventing and producing more potent drugs, such as "designer drugs," which are synthetic opiates thousands of times more potent than opium.

These results have been labeled accurately in the popular press the "Iron Law of Prohibition."

The history of drug prohibitions reveals that black markets produce low quality, high potency, and extremely dangerous products. The most powerful weapon of these black marketeers is not the gun, but the ability to stay at least one step ahead of law enforcement.

The population of the United States is growing older and more affluent. Normally these demographic changes would reduce drug use and addiction. Even habitual heroin users stabilize their habits and mature out of addiction if they survive the war on drugs. However, these beneficial trends have been far outweighed by the increased severity of the effects of prohibition. In fact, we would be surprised if prohibition actually did work. Any law or program that undermines individual responsibility and liberty has little chance of enhancing a democratic and free market society.

Most Americans agree that prohibition is not working—the dispute is over what to do about it. Many argue that we don't have the right people in charge, but we have been changing the guard (and the law) now for over 150 years. Others argue that we just haven't done enough, but things have only become worse as we devote more of our resources and surrender our liberties to this cause. The support for prohibition rests on the fact that people cannot contemplate the obvious alternative—legalization.

The Benefits of Legalization

Legalization has many obvious benefits. Lower prices would mean that drug users would no longer have to resort to crime to pay for their habits. With the tremendous profits gone, corruption of public officials would be reduced, and because Americans constitute a bulk of world consumption, political corruption worldwide would be reduced.

Government budgets at the Federal, state, and local levels could be cut as entire programs are dismantled. However, one thing legalization would *not* do is balance government budgets. There is no way that tax rates on drugs could be raised high enough to offset the more than $300 billion Federal deficit. Furthermore, high tax rates would encourage the black market to continue, people would still commit crimes to pay the high prices, and politicians would still be involved in corruption.

Legalization will create jobs in the private sector. People will be employed making heroin, cocaine, and marijuana for "recreational" and "legitimate" users. All of these products have legitimate uses and may have as-yet-undiscovered uses. Marijuana (hemp) will be a valuable (and environmentally safe) source of products such as paper, fiber, fuel, budding

materials, clothing, animal and bird food, medicine and medicinal preparations, and a protein source for humans. It can be grown in a variety of climates and sod types and grows well without chemical fertilizers or pesticides.

The repeal of drug prohibitions will allow police, courts, and prisons to concentrate on real criminals while at the same time greatly reducing the number of crimes committed to pay for drugs. No longer will judges be forced to open prison doors because of overcrowding. The courts and police will be better able to serve and protect—crime will pay a lot less! Street gangs will deteriorate without their income from illegal drug sales.

The people involved and methods of producing and selling drugs will change dramatically. The current dealers of drugs will not survive in a competitive marketplace. Large companies will produce and distribute these drugs on a national scale. In such an environment the drugs will be less potent and less dangerous. Consumers will be safer and better informed—changes in the product will be consumer-driven. The producers will face many legal constraints such as negligence and product liability laws. The threat of wrongful death suits and class action lawsuits will also constrain their behavior.

It is not surprising that these products were much safer before drug prohibition. The makers of Bayer Aspirin sold heroin pills that were safe enough to prescribe to babies, and the Coca-Cola company used cocaine in its product. These products were generally non-poisonous, non-toxic, and non-lethal. The three major free market drugs—alcohol, caffeine, and nicotine—are substantially safer today than they were 10 or 30 years ago. The average potency of all three continues to decrease over time.

Constructive debate can overcome political and ideological maneuvering only if people clearly understand the differences between prohibition and legalization. Prohibition is simply a piece of legislation enforced by use of law officers, guns, and prisons. Prohibition is *not* drug education, drug treatment centers, rehabilitation centers, serf-help programs such as Alcoholics Anonymous, religion, family, friends, doctors, help hot lines, and civic organizations. “Just Say No” does not have to leave because we say goodbye to prohibition.

“Private Prohibitions”

In discussing the problems of drug abuse many people feel that legalization would only reduce the prices of drugs and therefore only

increase the amount and severity of drug abuse. People would be smoking marijuana in McDonald's, the school bus driver would be shooting up heroin, and airplane pilots would be snorting cocaine before takeoff. This confusion results from a failure to distinguish between prohibition and private contractual regulations.

Restaurants could prevent people from smoking marijuana just as they have the right to prevent people from smoking cigarettes or from entering without shoes. Airlines, railroads, and nuclear power plants have the right and incentive to contract with their workers, for example, not to drink alcohol on the job. These "private prohibitions" are generally aimed at the most significant problems of drug use such as safety. Not only are they specifically targeted, they are better enforced—co-workers, customers, unions, insurance companies, and management also benefit from such restrictions and therefore contribute to enforcement. The use of private restrictions and drug testing will be enhanced after the repeal of prohibition.

While we haven't examined all aspects of prohibition and legalization, enough of the issues have been discussed to refute many of the myths of legalization and to make the question of quantity consumed a non-issue. Re-legalization is the admission of government's failure in pursuit of a lofty goal, not a ringing endorsement of drug abuse.

Legalization has been labeled immoral by prohibitionists, but nothing could be further from the truth. Reliance on individual initiative and responsibility is no sin. It is not only the key to success in the battle against drug abuse, it is also a reaffirmation of traditional American values. How can someone make a moral choice when one is in fact forced into a particular course of action? How is the fabric of society strengthened when we rely on guns and prisons to enforce behavior rather than letting behavior be determined by individual responsibility and family upbringing?

The sooner we move toward re-legalization, the sooner we can begin the process of healing the scars of prohibition, solving the problems of drug abuse, and curing this nation's addiction to drug laws.

Knowledge-Processing, Spontaneous Order, and the Free Market

APRIL 01, 1991 by Sylvester Petro

Dr. Petro is Director of The Institute for Law and Policy Analysis, Winston-Salem, North Carolina, and Trustee Emeritus of FEE.

I hope with this to spoil the fun they are having in the groves of academe with the ideas about , knowledge and "spontaneous order" that Friedrich Hayek has emphasized so much over the years. Even while agreeing that the ideas are interesting, I think they have become distracting. Knowledge is generally admired; academic freedom is rampant except where restrained by the dominantly leftist professoriate; and San Francisco, Paris, London, Berlin, Florence, and all points between are flooded with "spontaneity," while lacking in decent order. Knowledge, information-flow, and "spontaneous order" are in no danger.

Your truly endangered species today is economic freedom. Intoxicated with joy over the breakdown of the Iron Curtain countries, we are paying too little attention to the restraints on economic activity burgeoning in the West. Yes, of course, free enterprise will continue to feed the people even as governments are killing it bit by bit. But killing is killing, and no human institution is indestructible. If discovery and spontaneity are in no danger, while economic freedom is threatened, common sense tells us to concentrate our resources where they are most needed.

Make no mistake about it. Free enterprise has never been in more danger in the West. Both here and abroad swollen bureaucracies are approaching critical bloat, absorbing enormous shares of national product while pushing for more authority to direct the rest. Legislatures, flouting constitutional restraints, devote themselves exclusively to confiscation and redistribution; they take wealth and freedom from the savers and producers and give them to the bureaucrats, the looters—the Greens, the reds, the blues—the ecology lobby, the big spenders, the regulators, the ever-active

interventionists. Thus statism burgeons in the West while it disintegrates in the East. And even as we are drowning in debt our governments keep spending like drunken sailors, piling up ever-increasing deficits, and taxes, and funny money. It will be a miracle if we don't run into big trouble.

It doesn't seem right to be fiddling with knowledge-processing and spontaneous order while the free enterprise system is going up in smoke.

Certainly the more we know the better off we are, as a rule; and the more liberty we have to acquire and to disseminate knowledge, the more productive our society will be. No one except the Marxists has ever doubted this. But until lately center stage for Austrian libertarians has been occupied by *total* freedom, the freedom to *act*, freedom of which knowledge-processing is but a part, and which is better described as rational than as "spontaneous."

Let us quit confusing the parts with the whole. A person is free when he owns himself and the fruits of his labor. For slavery is understood to be the condition in which one person and his labor are owned by another, involuntarily. Further, owning means the power of disposition. The free person is at liberty to consume what he owns, to exchange it with anyone willing to participate in the exchange, to preserve it if he can, to discard it if he wishes, to destroy it if he can do so without hurting anyone else, and to invest it. These incidents of the right of private property are what create a free society, the only setting in which a market economy is possible.

The Essence of the Market

So why all the preoccupation with the role of knowledge in the economy? It is but one feature of the market economy, and by no means "of the essence." The essential feature of the market economy is not knowledge, its generation, or its • dissemination. If the market economy generates and distributes knowledge more efficiently than other systems do, and makes better use of it, that is because the market economy is the best way to organize human society, to get the most and the best out of human beings. Human beings flourish in freedom, and desiccate and deteriorate in slavery. For human beings, freedom is the optimizing institution. It fits us fine.

The heart of the matter is freedom, the freedom to act and to interact: to produce, to consume, to invest, to exchange, to work, to think, to communicate or to remain silent. With this unitary freedom we have a

market economy; without it we don't. It's *human action* that counts. Knowledge is just a piece of the action.

How far would we get if there were only the freedom to think? How far if there were only the freedom to write? To speak? Imagine a society in which you could think, or speak, as you wished, but where you could not work at any job you could find, and your possessions were insecure, and you had no privilege of investment at will. What if you could say whatever you wanted, but you had to work where you were told to work, and you would be hanged if you offered what you owned for sale? Let us have an end of this exaggerated empha-sis upon the role of knowledge in the market. It is a fad, an academic fashion show. It is overkill. And a free society has no more to do with "spontaneous order," either. More thought, and infinitely better thought, has gone into the development of the free society than has gone into all the other, failed, systems. Painful thought, hard work, excruciating rationality—these are our heritage, the heritage of the laborious West and of its current Oriental epigoni.

Of course every Austrian libertarian thrives on spontaneity, when it is disciplined by reason and moral restraint. But real, unplanned, genuine spontaneity is likely to do the market order in if we aren't careful. This country, with all its faults, remains the closest thing to a market order that the world has ever known. It is seeing, though, that genuine spontaneity does not produce order; it produces chaos. We are in trouble because while we have spontaneity, we don't have order, a fact that raises questions about the term "spontaneous order."

Our educational and spiritual institutions are in shambles. Our kids are wayward, indolent, ignorant, addictive to a greater extent than I have encountered before, in life or in books. Our politicians, for the most part irresponsible, are strangling the right of private property and diminishing the competitiveness of the American economy in countless ways.

But is anyone threatening academic freedom or adolescent, or spiritual, or political spontaneity? I recommend that we direct less of our ratiocinative energies to "knowledge-processing" and to "spontaneous order," whatever that self-contradictory term is supposed to mean, and more to the way that governments, trade unions, and the more freakish members of our society are limiting the freedom to act, to save, to invest, to produce. The current emphasis on knowledge and "spontaneous order" is a cop-out, or the tail wagging the dog, or both. Away with it. []

“The market process is coherent and indivisible. It is an indissoluble intertwinement of actions and reactions, of moves and countermoves.”

—Ludwig von Mises
Human Action

A Reviewers Notebook: Stalins Apologist

APRIL 01, 1991 by John Chamberlain

Stalin's Apologist is an apt title for S. J. Taylor's absorbing story of Walter Duranty (Oxford University Press, 404 pages, $24.95 cloth), But whether Taylor's subtitle of *Walter Duranty, the New York Times's Man in Moscow* holds up in all its implications depends entirely on whom the reader chooses to question.

The Times certainly used Duranty, who had a facility for turning out readable "I was there" copy. It played up Duranty's stories in columns adjacent to those written by Jimmy James, the *Times* managing editor. But James, along with Freddie Bir-chall, a previous managing editor who worked out of Berlin, disliked Duranty and would never have accepted him as an official spokesman. Eventually James let Duranty go on a $5,000 retainer that kept him out of Moscow for nine months of the year. It was a pleasant way of being fired.

As the *Times* dally book reviewer in the Thirties, I handed my copy directly to James, who seldom questioned anything. I listened to his tirades about Duranty. I also listened to Joseph Shaplen and Simeon Strunsky, who wanted to see Duranty replaced, as he eventually was by Harold Denny.

The main count against Duranty is that he was Stalin's man no matter what. Nobody on the *Times* said so openly. I was flabbergasted when in the elevator i heard Duranty, on one of his trips to New York, say that three million people had died in the Ukraine in a man-made famine. This seemed to me tremendous news. i repeated what I heard, but Duranty, worried no doubt about a return visa, denied he had ever said it. That made me a liar, but Simeon Strunsky, who had heard Duranty too, came to my rescue.

The *Times* could have had a major beat if Duranty had been willing to tell all he knew about Stalin's decision to starve out the better farmers known as kulaks. But it remained for others—in particular, the *Manchester Guardian*—to get the beat. An exasperated William Henry Chamberlin quit

his job as Moscow man for the *Christian Science Monitor* to get the story told in the West.

Ms. Taylor lets Joseph Alsop have his bitter say in an introduction to a chapter called "The Masters of Euphemism." Says Taylor: "On the 30th of December, 1974, syndicated columnist Joseph Alsop was bowing out. His last column, intended as a warning against the dangers of 'the reporter's trade,' turned into a character assassination of Walter Duranty—a man who had succumbed, as Alsop said, to that 'fatal hankering to be fashionable. . . .' Alsop's shot at Duranty was based on the famine cover-up, and he singled Duranty out as the one who threw a blanket over the fire. 'Duranty . . . covered up the horrors and deluded an entire generation by prettifying Soviet realities. He was given a Pulitzer Prize. He lived comfortably in Moscow, too, by courtesy of the KGB.'" In discussing Duranty privately, Alsop called Duranty "a fashionable prostitute" who made lying his "stock in trade." He even lied, though facetiously, about his wooden leg.

While Duranty was busy "prettifying" Soviet realities, hardier souls were trying to evade travel restrictions to find out what had actually happened in the anti-kulak drive. William Stoneman of the *Chicago Daily News* and Ralph Barnes of the *New York Herald Tribune*, acting on a tip from Eugene Lyons, went to the North Caucasus and the Ukraine, only to be arrested and sent back to Moscow. But they had seen enough. Malcolm Muggeridge, just out from England, bought a ticket to Kiev. His article, which appeared in the *Manchester Guardian*, corroborated the findings of Stoneman and Barnes. The big follow-up of the pioneering three was provided by Gareth Jones, who reported fully on his three-week walking trip.

Duranty's reaction to the findings of Stoneman, Barnes, Muggeridge, and Jones was that the famine was "mostly bunk." He led a pack in "throwing down Jones," which had a popular run on the Left.

Oddly enough, it was Stoneman who made excuses for Duranty. Nobody, says Stoneman, seemed in a hurry to cover the famine story. As Stoneman saw it, Duranty was "simply amoral, without any deep convictions about the rights and wrongs of Communism." In sending out Joseph Alsop's "assassination" column, Stoneman would always add a note that Duranty behaved as other *New York Times* men did during the same period in Paris, Berlin, and London.

What moved Duranty was a desire to be right about the future. He had placed his bet on Stalin. Everything else followed from that. Even the purges were justified as necessities for keeping Stalin in power.

Duranty's great sin was to care more about guessing right than about the nature of right itself. He was far from being alone here.

In the end Duranty was to suffer for guessing wrong. He had never saved any money, and he was reduced to the status of beggar when editors turned him down. His women friends saved him. After Stalin's death he married one of them just before he died.

Duranty had been an opium smoker as a young man. He gave up opium because it interfered with his sex life. The Tunes did not worry about his past or his womanizing as long as the good stories flowed. In all, the *Times* was as amoral as Duranty himself.

Book Review: The Road To A Free Economy by Janos Kornai

APRIL 01, 1991 by Peter Boettke

W. W. Norton & Company, 500 Fifth Avenue, New York, NY 10110 • 1990 • 224 pages • $16.95 cloth

The heady events of 1989 in Eastern Europe have given way to the sober reality of the 1990s. The road from serfdom will not be easy. As Czechoslovak Foreign Minister Jiri Dienstbier recently said: “It was easier to make a revolution than to write 600 to 800 laws to create a market economy.” (*The Wall Street Journal*, September 18,1990)

Perhaps the biggest problem is the advice of Western “experts” who warn East Europeans of the dangers of free markets. Most Western economists are convinced that the formerly socialist economies simply pursued the *planning* principle too vigorously, thus confronting the bureaucracy with an overly complex task. In addition, they maintain, in those cases where partial marketization did occur, East European economists didn’t learn how to *manage* their economies effectively. With the right institutional framework—a central bank, a Federal Trade Commission, an Environmental Protection Agency, and so on—the economy could be managed efficiently, and the vagaries of unfettered markets could be controlled.

Moreover, Western institutions, such as the World Bank and the International Monetary Fund, continue to provide aid for the *planning and management* of economic development to some 75 governments around the world, including those in Eastern Europe. The IMF has committed $2 billion since February 1990 to Poland, Yugoslavia, and Hungary; the World Bank plans to lend between $7 and $8 billion to East European gov ernments over the next three years. A new European Bank for Reconstruction and Development has been formed, and President Bush has pledged $1.2 billion in U.S. funds.

This all flies in the face of the overwhelming failures of government economic planning and foreign aid programs. The very aid packages offered, by subsidizing existing political/economic structures, would undermine the revolutionary transformation that is needed if the formerly Communist economies are to get on their feet.

There are, fortunately, some clear thinkers on this matter..One of the best is Janos Kornai of Harvard University and the Hungarian Academy of Sciences. Professor Kornai, one of the' leading scholars of the socialist economy and a longtime reform economist in Hungary, explains the deep structural problems that Socialist economies face. He then offers an uncompromising solution to those problems.

According to Kornai, the fundamental problem confronting socialist economies is that socialist enterprises encounter only "soft" budget constraints. By this he means that state subsidies destroy any profit incentive for socialist firms to act in an economic fashion. Instead, political rationales govern the allocation of resources, and problems of bureaucratic management result.

But Kornai's argument is not that the government should somehow try: to harden the budget by tinkering with incentive schemes. He wouldn't, for example, substitute profit targets for gross-output targets or bonus schemes. Such tinkering with the industrial system doesn't work, he stresses. Effective "hard" budget constraints are possible only in a market economy with the rights of private ownership secured by the rule of law. The idea of markets without property rights is an illusion. The idea of "market socialism," Kornai concludes, has revealed itself in theory and practice to be a "fiasco."

In reaching this conclusion, Kornai correctly recognizes that this was a point emphasized by the great classical liberal economists of this century, Ludwig von Mises and F. A. Hayek. Not only does he acknowledge his intellectual predecessors, he adopts a basically classical liberal agenda as a model for the transition to free markets. As he states: "There is no need for hundreds of new regulations that fuss over significant modifications of the bureaucratic restrictions on the private sector, and vacillate over whether to yield at one point or to maintain curbs at the other. *It would be more expedient to approach the issue from the opposite direction, by giving unambiguous and emphatic statutory force to the principle that the private sector has unrestricted scope in the economy."* (emphasis added)

Kornai refers to his program as a “surgery” and argues that reform must be accomplished *in one stroke.* The program entails, on the micro-economic side, the establishment of a constitutional right to private property, freedom of entry, and unrestricted market pricing to guide exchange and production. On the macro-economic side, Kornai argues for a program that: (1) stops inflation, (2) balances the budget, and (3) eliminates price and production subsidies.

One may disagree with Kornai on specifics of his program—for example, his qualifications concerning externalities, his arguments about managing macro-demand, and his call for continued Western aid. But his overall vision of the transformation process is the closest thing to a classical liberal program for Eastern Europe yet available. Even the much lauded 500-day plan of the Soviet economist Stanislav Shatalin pales in comparison with Kornai’s vision of economic liberalization; One only hopes, for the fate of the people climbing out of the Communist rubble, that Kornai’s words get through. []

Peter Z Boettke, Assistant Professor of Economics, New York University, is the author of The Political Economy of Soviet Socialism: The Formative Years, 1918-1928 *(Kluwer Academic Publishers, 1990).*

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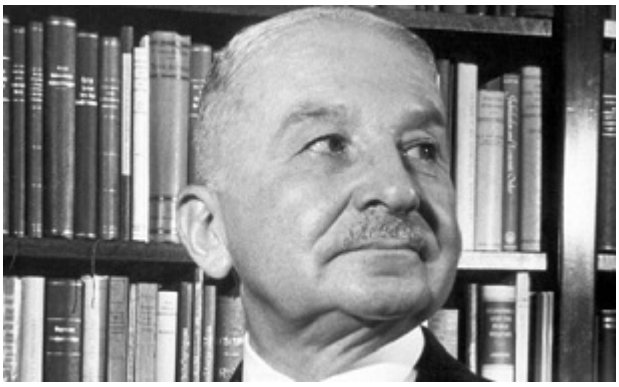

Ludwig von Mises (1881-1973) taught in Vienna and New York and served as a closes adviser to the Foundation for Economic Education. He is considered the leading theorist of the Austrian School of the 20th century.

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