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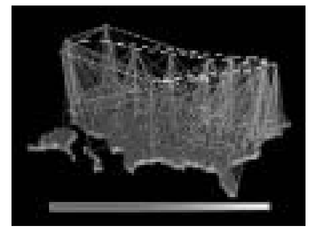

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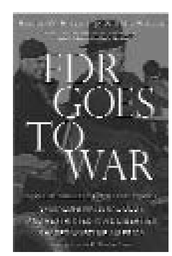

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Perspective

Forgotten Critic of Corporatism

In 1888, at the height of the Gilded Age, a rather prominent American said some startling things. First he observed, "Our cities are the abiding places of wealth and luxury; our manufactories yield fortunes never dreamed of by the fathers of the Republic; our business men are madly striving in the race for riches, and immense aggregations of capital outrun the imagination in the magnitude of their undertakings."

But this did not mean all was well with America. The speaker went on: "We view with pride and satisfaction this bright picture of our country's growth and prosperity, while only a closer scrutiny develops a somber shading. Upon more careful inspection we find the wealth and luxury of our cities mingled with poverty and wretchedness and unremunerative toil."

Has this man forgotten, as many people do, that in market-based societies the growth of wealth, while inevitably uneven, is over time steady and general? That's not relevant to what he had in mind. He wished to assign blame for the poverty he observed: "We discover that the fortunes realized by our manufacturers are *no longer solely the reward of sturdy industry* and enlightened foresight, but that they result from *the discriminating favor of the Government* and are largely built upon *undue exactions from the masses* of our people. The *gulf between employers and the employed* is constantly widening, and classes are rapidly forming, one comprising the very rich and powerful, while in another are found the toiling poor. [Emphasis added.]

"As we view the achievements of aggregated capital, we discover the existence of trusts, combinations, and monopolies, while the citizen is struggling far in the rear or is trampled to death beneath an iron heel. Corporations, which should be the carefully restrained creatures of the law and the servants of the people, are fast becoming the people's masters."

Who was this man? Progressive politician William Jennings Bryan? Socialist Party presidential candidate and union leader Eugene V. Debs? Neither. It was

Grover Cleveland, the 22nd and 24th president of the United States. The occasion: his December 1888 State of the Union address, delivered a month after losing his reelection bid in the electoral college (but not in the popular vote) to Benjamin Harrison.

The source of corporate privilege that raised Cleveland's ire was the tariff. (Back in the day it was said, "The tariff is the mother of trusts.") Big business's successful opposition to reform, he said, is the reason government is seen as the dispenser of privilege. Then, astoundingly, he added:

"Communism is a hateful thing and a menace to peace and organized government; but the *communism of combined wealth and capital*, the outgrowth of overweening cupidity and selfishness, which insidiously undermines the justice and integrity of free institutions, is not less dangerous than the communism of oppressed poverty and toil, which, exasperated by injustice and discontent, attacks with wild disorder the citadel of rule." (Emphasis added.)

Note what Cleveland said: *The impetus for communism of the masses is not envy of wealth earned in the free market, but rather honest people's frustration at being exploited through the collusion of capital and State.*

Thus Cleveland acknowledged that America in the Gilded Age was no bastion of laissez faire. Rather, it was a neomercantilist *corporate state*, where government—as only government can—empowered privileged business interests to make fortunes at the expense of regular working and consuming Americans. Cleveland, in this speech at least, echoed the individualist, pro-market, "anti-capitalist" critique of Lysander Spooner, Benjamin Tucker, and their compatriots for whom justice for worker-consumers was the very basis of their seminal libertarian movement.

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Leading economists, politicians, and pundits insist we must choose between fiscal austerity and economic growth. Cutting government spending, they say, will stifle recovery. That's Keynesian nonsense, replies James Ahiakpor.

This year marks the 50th anniversary of one of Milton Friedman's classics: *Capital and Freedom*. Dwight Lee puts the great book in context.

Should the government be able to silence a blogger because he lacks an occupational license? Bob Ewing describes the case of a North Carolina man who's found his free-speech rights threatened.

President Obama is under the impression that the government created the Internet for the benefit of business. Wrong on both counts, writes Steve Fritzinger.

Libertarians, like other people, sometimes long for a lost golden age. But Anthony Gregory advises freedom lovers to look in the other direction because the free market lies ahead.

Those ubiquitous universal product codes, which help diverse industries keep track of inventories and lower costs to consumers, are the product of private social cooperation, not government. Stephen Gross explains.

There's an important economic lesson in the entrepreneurial effort to ship ice from America to the Bahamas in the early nineteenth century. David Hebert tells the story.

C. S. Lewis is best known as a novelist and Christian philosopher. Harold Jones shows that Lewis was also a defender of individualism and freedom.

Some of the earliest critiques of state socialism were devastatingly prophetic satires. Philip Vander Elst describes two of them.

Here's what we've got in the columns department. Lawrence Reed reminds us of the importance of incentives. Stephen Davies relates the perhaps surprising origins of the London Stock Exchange. John Stossel discusses why America imprisons so many people. David Henderson unpacks the concept "survival of the fittest." And Gary Chartier, reading a pundit's claim that Americans should be more worshipful of their leaders, replies, "It Just Ain't So!'

Our book reviewers have been chewing on tomes on FDR at war, legal plunder, paternalism, and dictators behaving badly.

—*Sheldon Richman*
Srichman@fee.org

If Incentives Matter, We Might Be in Trouble

BY LAWRENCE W. REED

Known for his numerous literary and theological works, such as *The Chronicles of Narnia* and *Mere Christianity*, C. S. Lewis was also a keen observer of people and the consequences of their ideas—good or bad. He took note of the topsy-turvy world of postmodernist America with these cogent words: "In a sort of ghastly simplicity we remove the organ and demand the function. We make men without chests and expect of them virtue and enterprise. We laugh at honour and are shocked to find traitors in our midst. We castrate and bid the geldings be fruitful."

So behavior is actually influenced by the incentives and the disincentives we confront? You bet it is. This is an iron law of the human condition. The failure to understand it or apply it consistently explains many of the dystopian malfunctions that surround us.

The most ardent advocates of draconian taxes and regulations on smoking argue that such penalties will deter the smoker. Strange, isn't it, that many of those same people think they can soak the entrepreneur, the investor, the saver, the employer, and the inventor with little or no negative consequence.

The Obama administration says it wants to stimulate the economy but calls for higher taxes on those who take risks, create enterprises, hire people, and invent products. It says it wants to foster medical innovation, then it imposes a tax on medical devices. It vilifies the rich and successful while imploring us to work to become rich and successful. Examples abound. There's a glitch in the cognitive wiring somewhere, and it's often a bipartisan one.

An incentive is something that incites one to action. It is a spur, a motive, a provocation, a goad, a stimulus. Economists have long understood that the incentive *to act* is the prospect that the action will yield benefits to the actor. Because of that fact, particular incentives and incentive structures explain a very great deal of the economic world that swirls around us.

The incentive to act is the prospect that the action will yield benefits to the actor. Because of that fact, particular incentives and incentive structures explain a very great deal of the economic world that swirls around us.

People respond to incentives and to their opposite, disincentives. An individual will feel compelled to respond favorably to something that promises great personal benefit at low cost or risk. The same individual will tend to turn away from those things that deliver little or no benefit, especially if they do so only at high cost. He will positively shun those things that would set his progress back, much as a hot stove is a disincentive to bare hands. *Human choice is thus influenced by economic incentives and by changes in economic incentives.* Let's take a look at "real world" happenings to see how this might explain some things.

Incentives and the Real World

Many people complain today about the poor schooling their children receive in government classrooms. Stagnant test scores and a breakdown of discipline, even as the costs of schooling rise, bear testimony to the failure of government education. Why does it happen?

Teachers and administrators are responding to a peculiar set of incentives. What would *your* performance be like if your business could legally draft customers and compel them, under threat of penalty, to

Lawrence W. Reed (lreed@fee.org) is the president of FEE.

buy your product? Suppose you could go a step further and force even those who do not use your product in any way to pay for it—and to continue paying throughout their productive lifetimes! This is not a prescription for creativity and productivity.

Why does the post office provide a mediocre service at an ever higher price (and lose money doing it) even though it doesn't have to pay taxes or returns to shareholders and gets legal protection against competition in first-class mail delivery? Compulsory monopolies just do not light fires under anybody.

Why do industries and labor unions contribute heavily to political campaigns? It isn't always to promote better government for everybody. Such groups have an incentive to contribute if the expected returns (favors, protections, subsidies, immunities, and the like) exceed the value of their contributions. If government could not or would not pay off, the contributions would slow to a trickle.

Cattlemen of the old West were accused of overgrazing on public lands. They would allow their animals to strip the land bare, leaving it vulnerable to erosion, and then move on. This was frequently land they leased temporarily from the government with no guarantee they could renew the lease. With no incentive to maintain the capital value of the land, their actions were perfectly rational. The same men seldom exhibited such callous behavior toward property they personally owned and fenced.

Perhaps nowhere was the power of incentive and disincentive more evident than in the old Soviet Union. There, as much as 97 percent of farmland was cultivated "collectively" and the output belonged to the State. The remaining 3 percent was in private plots, whose owners were allowed to sell the produce in a relatively free market. The productivity per acre on the private plots, which accounted for as much as a third of all agricultural output in the country, was many times higher than that of the collectively farmed land. Workers on the collective farms were not physically or mentally inferior to those who owned private plots. In fact, in many instances, they were the same people! The different incentive structures of collective and private farming fully explained the remarkable disparity.

> The future world we are creating will surely be shaped by the incentives and disincentives we are putting in place today.

Incentives and Supply

Incentives and disincentives also explain why higher prices call forth greater supply and why lower prices do not; why bad behavior never goes away if it's subsidized; why students work harder in a class where excellence is rewarded and failure is penalized than in a class where everyone gets a C; why some people quit working and go on welfare; why politicians promise more spending as long as voters reelect them for it; why capitalist economies do better than socialist economies, and so on and so forth.

The future world we are creating will surely be shaped by the incentives and disincentives we are putting in place today. In that light we must hope that this warning from novelist and philosopher Ayn Rand does not also become our epitaph:

> "When you see that trading is done, not by consent, but by compulsion; when you see that in order to produce, you need to obtain permission from men who produce nothing; when you see that money is flowing to those who deal, not in goods, but in favors; when you see that men get richer by graft and by pull than by work, and your laws don't protect you against them, but protect them against you; when you see corruption being rewarded and honesty becoming a self-sacrifice—you may know that your society is doomed." FEE

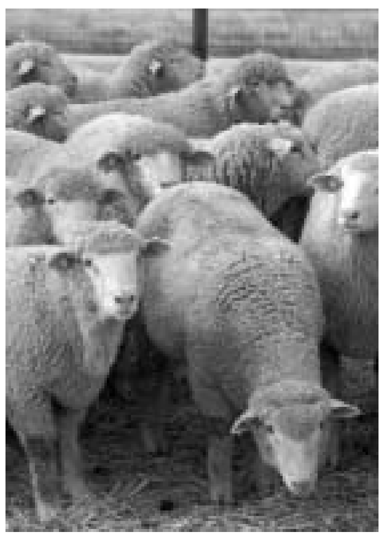
Leaders Need Better Followers? It Just Ain't So!

BY GARY CHARTIER

Do you want someone to look up to, someone to follow, someone who'll make the big decisions for you?

New York Times columnist David Brooks thinks you should ("The Follower Problem," June 11, tinyurl.com/7yahr79). For Brooks, there aren't nearly enough people willing to be followers. He looks back nostalgically on an imagined past in which Americans trusted politicians.

It's hard to know whether to laugh or cry. Politicians—Brooks prefers to talk, sanctimoniously, about "leaders"—in decades past were no more virtuous, no more trustworthy, no more deserving of power than their successors today.



David Brooks's ideal citizens, waiting for their politicians' guidance.
Wikipedia

The rough-and-tumble quality of past political debate in the United States or England (or elsewhere) makes it hard to take seriously Brooks's version of the past. Voters, journalists, and fellow politicians regularly savaged those in power. Ordinary people, frequently excluded from political participation, readily identified politicians as self-serving con artists beholden to corrupt elites.

As long as most people had little direct involvement in the political process—as long as women, along with men who didn't meet property or racial qualifications, couldn't vote or hold office—it was particularly obvious that politicians served relatively narrow interests. Increasing democratic participation didn't really empower ordinary people, but it did help to foster the illusion that politicians served their interests, and so to make Brooks's style of myth-making easier to swallow. Still, over time most people haven't, I suspect, exhibited the fawning adulation of those at the top of the political pyramid Brooks seems to favor; and when they have, it's been because the media colluded with members of the political class to encourage the dubious belief that politicians could be trusted.

Brooks's faith in politicians is entirely misplaced. There's no reason for the rest of us to emulate it.

Even with the best intentions, politicians don't have the knowledge needed to improve the world. That knowledge is widely spread out among innumerable individuals. Networks of peaceful, voluntary social cooperation can mobilize and deploy that knowledge far more effectively than can politicians seeking to manage society from the top down.

Moreover, politicians, including the few who genuinely want to do good, depend on the information they obtain and respond to the pressures to which they're subjected. That means, in practical terms, that they're likely to take on board the perspectives of those who lobby them actively and persistently. And lobbyists are much more likely to represent the interests of those who want special privileges than those of ordinary

Gary Chartier (gary.chartier@gmail.com) is a professor of law and business ethics and associate dean of the Tom and Vi Zapara School of Business at La Sierra University in Riverside, California. His book Anarchy and Legal Order: Law and Politics for a Stateless Society *will be published by Cambridge University Press.*

people. After all, interest groups with opportunities to reap concentrated benefits from the political process are much more likely to invest the time, energy, and money needed to influence politicians than are members of the general public, any one of whom may stand to lose only a small amount from any particular decision to award some special privilege.

But politicians don't, in any case, have the best intentions much of the time. People who become successful politicians aren't especially likely to be benevolent, and once in office even the well-intentioned can be expected to ignore the needs of the public.

People who succeed in obtaining elective or appointive political offices aren't randomly selected members of the population: They're characteristically driven and ambitious to a much greater degree than most of us. They probably like power and glory, or they wouldn't exert the effort needed to be elected or appointed.

Most people don't have the personality type required to play political games and do the other things required to keep positions of power. Lots of observers have pointed out that if you want to survive as a politician, it helps if you're glib, charming, superficial, and unprincipled. If you're not, you're a lot less likely to survive in office.

There's little reason to expect good things from politicians.

Many people seek positions of power out of raw ambition or greed. But ideological zealotry can also drive people to seek office. Those who believe they're entitled to do whatever it takes to achieve particular goals are much more likely to succeed in politics than those who know it's vitally important to respect others' rights and dignity even when doing so means failing to reach particular political goals. Those who make it in politics can be expected to be much more willing than the average person to ride roughshod over others, even—or perhaps especially—in the service of what they view as noble objectives.

Having the right social skills and social connections also makes a big difference. That means that people who already belong to socially and politically privileged groups are more likely to seek office, to attract the support needed to be elected or appointed, and to present themselves in ways likely to elicit positive responses from voters or fellow politicians. And members of privileged groups can be expected to share the viewpoints common among members of those groups and to favor continuing the privileges government secures for them.

In addition, because people in positions of power are able to dispense favors to their supporters, they naturally attract the attention of interest groups that expect to be able to reap tangible benefits, often in the form of special privileges, if candidates they back are appointed or elected. These groups can be expected to back candidates they believe they can influence and to seek to defeat those they believe they can't. Those who obtain support are thus going to be those most likely to award special privileges, and those elected or appointed are probably going to be those who obtain support (all other things equal), with the result that those likely to favor special interests are particularly likely to be elected or appointed.

Some people may be genuinely principled and benevolent when they begin occupying elected or appointed offices, despite all the factors that tend to make this unlikely. But once in office they will obviously be subjected to persistent, corrupting pressure. Because they will be equipped to do favors for the wealthy and well connected, members of privileged groups, including those who didn't support them before they assumed office, will focus on encouraging them to abandon their principles and participate in a variety of insider games. Their fellow officeholders will also encourage them, both directly and by example, to go along in order to get along.

There's little reason, therefore, to expect good things from politicians, and every reason to expect them to be oppressive, overreaching, venal, cruel, ignorant, and beholden to those who seek government-secured privileges.

The good news is that we don't need leaders in Brooks's sense. People in a free society are perfectly capable of managing their own lives. FEE

The False Choice between "Austerity" and Economic Growth

BY JAMES C.W. AHIAKPOR

Keynesianism, with its emphasis on aggregate demand management to promote economic prosperity, has proven to be an abject failure since 2008 in the United States and elsewhere. President George W. Bush's tax cuts in 2008 and the subsequent bailout of investment banks before President Barack Obama took office were in the Keynesian mold of promoting spending to sustain economic activity. President Obama's various forms of stimulus expenditures were similarly motivated, and they have not produced the promised results. Ignoring the evidence, adherents of Lord Keynes's view of how an economy works have changed their language from touting the virtues of economic stimulus to posing a false choice between austerity budgets and economic growth.

The "Great Recession" will persist if a majority of the voting public is lured into thinking that voting against austerity is a vote for economic growth.

Such change of language apparently was influential in the last presidential election in France, when Nicolas Sarkozy lost to socialist Francois Hollande, who touted the virtue of growth promotion over austerity, or fiscal discipline. The same false choice was touted in the June Greek elections but without a decisive victory for the socialist growth promoters. The contrast between government budgetary discipline and economic growth promotion through increased government spending is sure to become pronounced in the U.S. election campaign. That is why the meaninglessness of the alleged alternatives needs to be exposed: Austerity budgets are the logical means of restoring economic growth; austerity and growth promotion are not alternatives. The failure of governments to promote robust economic recovery since the "Great Recession" will persist if a majority of the voting public is lured into thinking that voting against austerity is a vote for economic growth.

The key to understanding the falsehood of contrasting austerity budgets with promotion of economic growth is simple enough. First, whatever a government spends, it must first take from taxpayers and buyers of its bonds. Thus unless a government borrows from nonresidents or the country's central bank, there is merely a one-to-one substitution in spending between the private sector and the government sector. Contrary to Keynesian mythology, therefore, increased government spending, whether financed by higher taxes or borrowing from domestic residents, does not change total spending, or so-called aggregate demand. By the same token, decreased government spending does not reduce total spending. Whatever the government does not take from the public to spend is retained to be spent by the taxpayers or the potential government bond purchasers.

Second, individuals are far better at managing their own funds or investments (out of savings) than government bureaucrats entrusted with spending tax dollars or funds collected from the sale of government bonds.

James Ahiakpor (james.ahiakpor@csueastbay.edu) is a professor of economics at California State University, East Bay.

Thus even though increased government spending does not change total spending when funded with tax dollars or domestically borrowed funds, it increases the share of total income or gross domestic product (GDP) entrusted to government bureaucrats and decreases the efficiency of the economy's functioning and its growth. Austerity—that is, cutting government spending—particularly when revenue collection has decreased, is thus the rational path to reducing the inefficiency drag that most government spending has on an economy.

The Multiplier

Laid-off government workers may not find alternative employment quickly in a recession; their lot may improve, however, with the economy's recovery. The same applies to laid-off workers in the private sector. Recovery will occur when private-sector economic activity picks up—with producers anticipating demand for goods and services and hiring workers to meet that anticipated demand.

But this is where Keynes's adherents place the proverbial cart before the horse. By reasoning that employers must first anticipate demand before they hire workers, they think one must also accept that government's appropriating funds to pay its workers (rather than laying them off) would promote private business activity—the Keynesian multiplier effect. But, as already pointed out, when government appropriates funds it merely displaces private-sector spending. The failure of the $787 billion stimulus from 2009, 2010's Cash for Clunkers program, mortgage subsidies, the extension of unemployment benefits, and other doling out of funds by the Obama administration to stimulate aggregate demand and increase national income by a factor of 1.5 (according to the logic of Christina Romer and her colleagues on the Council of Economic Advisers)—all of these attest to the fundamental error of Keynesian thinking.

We've come so far in this version of what Smith described as "folly and presumption," or "conceit," that politicians talk about "growing" the economy as if they were farmers planting crops.

How To Grow an Economy

In a 1755 lecture Adam Smith explained that "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things." Smith's "natural course of things" refers to the pursuit of economic activity in the private sector out of individuals' self-love, or self-interest. Such pursuit, Smith also notes in *The Wealth of Nations*, is driven by "the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go to the grave." But thanks to the arrogance (or ignorance) of Keynes and his followers, the loudest among whom in the United States these days are Paul Krugman and Robert Reich, we now have people claiming that governments can promote economic growth directly through increased spending rather than merely creating a conducive environment for private enterprise to thrive. We've come so far in this version of what Smith described as "folly and presumption," or "conceit," that politicians talk about "growing" the economy as if they were farmers planting crops.

Were government budgetary allocations the best way to promote economic prosperity, the economies of the defunct Soviet Union and Maoist China would be the models for the world.

It is time the Keynesians recognized their failures and spared humanity the prolonged agony of economic malfunctioning—anemic growth or contractions and continued high unemployment. Budgetary austerity is not an alternative to economic growth promotion but the rational path to it. FEE

Capitalism and Freedom: A 50th Anniversary Tribute to Milton Friedman

BY DWIGHT R. LEE

It is difficult for younger people (those who reached college age after 1980) to fully appreciate Milton Friedman's contributions in his 1962 book, *Capitalism and Freedom*. Friedman's proposals for relying less on government coercion and more on market incentives and freedom to address problems have not been shockingly outrageous to those who came of age at the beginning of the Reagan administration or later. Whether or not these younger people agreed with Friedman's policy recommendations, most knew they were being taken seriously by important people. The older of us can more fully appreciate Friedman's contributions today because we can recall that his ideas were either unheard of or dismissed as ridiculous when put forth in *Capitalism and Freedom*.

For example, I majored in economics in college and took my first principles course (macroeconomics) in 1960. The course emphasized the Keynesian model and how this model made it possible to moderate the business cycle with fiscal policy. The role of money was hardly mentioned since the model suggested that the real economy was unaffected by the money supply and inflation was entirely explained by excess aggregate demand. Friedman probably was not mentioned in this course. He probably came up in subsequent courses, in passing, as an example of someone who continued to believe in things like the ability of market forces to bring an economy out of recession or depression without government intervention.

Never mentioned in any of my classes were proposals found in *Capitalism and Freedom*, such as increasing reliance on market competition by eliminating occupational licensing, replacing the draft with a market for military personnel, and requiring government schools to face market competition for students by providing parents with educational vouchers. In the principles and intermediate microeconomics courses, the graphical presentations were accompanied with comments noting that the material had little relevance to public policy.

Contributing editor Dwight Lee (leed@cox.smu.edu) is the O'Neil Professor of Global Markets and Freedom in the Cox School of Business at Southern Methodist University.

In 1962 Friedman was a voice in the wilderness making the case for markets and freedom when the vast majority of academic economists believed that the best (if not the only) hope for economic progress was government spending guided by Keynesian fiscal policy. Fortunately Friedman's voice was amplified by the impressive logic and clarity of his arguments. But before 1962 his arguments were targeted exclusively toward academic economists, most of whom tried to ignore or belittle them, though the best knew they had to pay attention to Friedman whether they agreed with him or not.

Poking Holes in Keynes

In 1941, before Friedman became well known to leading economists, he considered himself a Keynesian. But at the University of Chicago, where he taught from 1946 to 1976, he started seeing problems with Keynes's model that were overlooked by the rest of the profession. In 1957 he published *A Theory of the Consumption Function* using longitudinal data to show that the marginal propensity to consume did not decrease as national income increased, as Keynes had argued, and Friedman provided a theoretical explanation for this empirical result. This book undermined the popular Keynesian argument that as a country's income increased, more government spending would be required to maintain aggregate demand and prevent underconsumption from causing persistent unemployment.

In 1962 Friedman was a voice in the wilderness making the case for markets and freedom.

In 1963 Friedman published an article and a book that created further skepticism about the validity of Keynesian economics. With David Meiselman he published "The Relative Stability of Monetary Velocity and the Investment Multiplier in the United States, 1897–1958," which estimated a Keynesian multiplier of zero—meaning that an additional dollar spent by the federal government would simply substitute government spending for the same amount of private spending, doing nothing to stimulate economic activity. That year, 1963, also saw the publication of *A Monetary History of the United States: 1867–1960* by Friedman and Anna J. Schwartz, the fruit of 15 years of data collection and careful analysis. Despite the best effort of Keynesians to discredit this book, its powerful empirical and theoretical case made it embarrassing for economists to continue dismissing the importance of money supply changes on short-run economic activity and the long-run price level.

Friedman's 1967 presidential address to the American Economic Association (published in the *American Economic Review* under the title "The Role of Monetary Policy") examined an empirical finding known as the Phillips Curve, which indicated high inflation was associated with low unemployment and low inflation with high unemployment. This seemed to support the Keynesian position that the only way to reduce unemployment is by accepting more inflation and the only way to reduce inflation is by accepting more unemployment. Friedman acknowledged that the Phillips Curve effect existed in the short run but used monetary theory to explain how both inflation and unemployment can simultaneously increase (or decrease) in the long run, something the Keynesian model cannot explain. Within a few years of this address, the American economy was suffering from both escalating inflation and unemployment, and it became increasingly apparent that Keynesian economics had been seriously damaged by Friedman's intellectual assault.

Reputation and Fame

These examples of Friedman's destruction of the Keynesian consensus are but a small sample of his contributions to our understanding of economics. But they are enough to explain the towering professional reputation Friedman had achieved by the mid-1970s, a reputation demanding that his recommended policies in *Capitalism and Freedom* be taken more seriously than they were in 1962. But they also suggest another factor in his influence on public policy.

As impressive as Friedman's professional reputation was by the mid-'70s, the stagflation (economic stagnation with increasing unemployment and inflation) that characterized the American economy in the last half of the decade extended his reputation among the general public. Friedman established a public following in the 1960s, primarily through his *Newsweek* column, which started in 1966. This was surely a factor in the increased recognition that came his way in the form of talks on campuses, talks to business groups (he was invariably critical of business's seeking political protections against competition), and a well-publicized 1973 interview in *Playboy*. But this public recognition made a quantum leap with his receipt of the Nobel Prize in economics in 1976, followed by the widespread recognition that he had explained and anticipated the stagflation that was dominating the economic news and puzzling Keynesian economists. In addition to columns and interviews in magazines, Friedman appeared on highly rated television shows such as the Phil Donahue Show. Friedman was probably the only economist in the world who could attract a large audience when there were only three TV networks, each aimed at a mass viewership.

The point is that when stagflation undermined confidence in Keynesian policies, public attention turned to Friedman and the alternative economic policies he had spent years developing and popularizing. Friedman recognized this as a critical factor in his influence when he stated in the preface to the 1982 edition of *Capitalism and Freedom*: "Only a crisis—actual or perceived—produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable."

Friedman wrote, "Only a crisis—actual or perceived—produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around."

In 1979 Paul Volker, the new Federal Reserve chairman, knew that curing economic stagflation required something other than Keynesian policies, and he followed Friedman's advice by attacking stagflation with tight monetary policy. As Friedman (and the Phillips Curve) predicted, the initial effect was to increase unemployment. But as Friedman also predicted (as opposed to the Phillips Curve), after a lag needed to erode inflationary expectations, both inflation and unemployment started falling and the rate of economic growth increased.

Keynes's Enduring Appeal

This is not to argue that Friedman won the battle against Keynesianism in the political arena. Just because Keynesian economics is in retreat among academic economists does not automatically reduce its appeal to politicians. Few politicians can resist policies that give the superficial appearance of addressing problems quickly in ways that generate political support even if they are counterproductive. Keynesian policies satisfy these conditions. Keynesians consider aggregate demand to be the primary force driving economic growth, and they believe that people can increase their demand quickly in response to government spending that increases their incomes. This spending can be targeted to concentrate immediate benefits on particular interest groups in ways that save the jobs of identifiable people who will be aware, and appreciative, of the politicians who supported the spending. It is far more difficult to trace the widespread reductions in spending by others—and the jobs lost or simply never created—to those politicians, much less to the Keynesian policies they supported. In contrast, Friedman's policy recommendations work through markets by effectively increasing the economy's productive capacity with the understanding that consumption comes before production *only* in the dictionary. But these policies work indirectly, over the long run, to provide dispersed and incremental improvements in our wealth. Thus this benefit goes largely unnoticed, and politicians cannot easily take credit for it even if it *is* noticed.

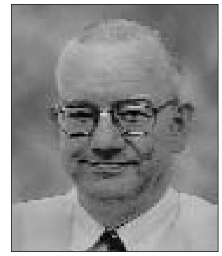
This takes us back to the importance of Friedman's observation on the importance of alternative policies being available when events make it clear that existing policies aren't working. The failure of Keynesian policies during the Great Recession first eroded public confidence in them, followed by an erosion of political support. It is doubtful that a majority of American politicians today would claim to be Keynesians—many advocate reduced federal spending despite high unemployment. How effectively this will translate into action remains to be seen, but events have clearly shifted the center of political gravity in Friedman's direction.

His proposals extend to more concerns than macroeconomics, and when they have succeeded politically it typically has been because events made them politically salient. One of the most politically successful of the policies proffered in *Capitalism and Freedom* is the all-voluntary military, a policy enacted in January 1973 and catalyzed by the unpopularity of the Vietnam war. One of the book's least politically successful attacks on public policy is against occupation licensure, even in medicine, which Friedman argued is inconsistent with the principles of a free society. Arguably this lack of success is explainable by the absence of any event that focused public concern on the problems with occupational licensure, not any deficiency in the power of Friedman's argument.

Friedman's proposals extend to more concerns than macroeconomics, and when they have succeeded politically it typically has been because events made them politically salient.

The second-longest chapter in *Capitalism and Freedom* is devoted to education and school choice. No one can deny that school choice has become an important political movement in the United States, having gone from being completely ignored by the government school lobby to being considered a serious threat. On the other hand, the movement has met with powerful political opposition and numerous setbacks. Government education (K-12) has not reached a crisis point, instead declining incrementally. Its biggest victims have been the relatively poor, whose votes can be taken for granted by political representatives who consistently cater to the special-interest demands of teachers' unions.

Space prevents me from giving additional examples to show that the political success of Friedman's proposals is determined largely by events that impact the public. This is not to deny that the power of Friedman's ideas has been critically important to their political success. But when ideas run as counter to political incentives as Friedman's do, they face enormous difficulty in getting a political hearing, no matter how brilliant they are. Yet the brilliance with which Friedman made his arguments in *Capitalism and Freedom* was essential, if not sufficient, to achieving political success. FEE



Clubs and Governments

BY STEPHEN DAVIES

Earlier this year the world lost one of its most original and insightful scholars with the death of Elinor Ostrom. Unlike some winners of the Nobel Prize for economics, Ostrom will be inspiring research and fresh thinking for many years to come. One of her central insights was that human beings have a huge capacity to create institutions that conserve scarce resources and prevent predatory behavior without relying on political power or market exchanges. This means we should move away from the simple dichotomies public versus private, State versus market, and government regulation versus market exchange.

In particular we should stop thinking we must choose between regulation (control by government) on the one hand and unregulated private action on the other. The reality is more complex. Rules and regulations govern many activities but can have all kinds of sources other than the State.

Rules and regulations govern many activities but can have all kinds of sources other than the State.

Nor do things end there. Another of Ostrom's insights is that complex human institutions and social systems frequently are governed not by explicit rules or laws but rather by generally understood norms and expectations, with accepted penalties for violation. Again, these are created not by *diktat* or legislation but spontaneously, by human interaction, yet they bind and regulate the actions of individuals as tightly as any printed code or regulation—often more so.

A classic, and highly topical, example is provided by the history of financial markets and exchanges, particularly the London Stock Exchange. Not understanding either the history or Ostrom's insight can lead to a damaging misunderstanding of both the recent past and the present. Such misunderstanding is found on both sides of the conventional argument.

The widely held view of the history of the exchange goes something like this: Up to 1986 the financial market in London was highly regulated, but then the Thatcher government freed it of regulation. For some this was the start of a golden era for the City of London, with rapid growth, the breaking of an "old boy network," and a whole series of efficiency gains, while for others it was the beginning of disastrous unregulated dog-eat-dog competition. Both accounts misunderstand both the situation before the "Big Bang" of 1986 and the nature of what came afterward. Looking at London as one of Ostrom's communities gives us a clearer picture.

The stock exchange, and the wider financial markets of the city, were indeed highly regulated before 1986. However, the regulations in question did not come from the British government. Rather they were created, articulated, and enforced in the classic way that Ostrom's work recognized—by private action within a social group. The exchange was formed in 1773 as a private club and remained one up to 1986. The first modern stock exchange appeared in Antwerp in the Netherlands in the sixteenth century. In imitation the English Crown set up a Royal Exchange in London in 1571. During the later seventeenth century, trading in stocks and shares became an increasingly important activity and there were repeated attempts by the government to regulate it by statute. This drove much of the activity away from official exchanges and into the coffeehouses and streets, notably Exchange Alley near the new Bank of England. In 1773 about 150 stockbro-

Stephen Davies (sdavies@iea.org.uk) is the academic director at the Institute of Economic Affairs in London.

kers formed a club that became the London Stock Exchange (as it remained until it became a public limited company in 1986). This involved the drawing up of formal rules to govern membership and trading, which were written down in 1812.

The rules governing the buying and selling of securities were extensive and explicit but were produced by the voluntary association of the members. It never had a statutory monopoly of such trade, so any group of investors or brokers could set up a rival. However, although regional exchanges existed in centers such as Manchester, Liverpool, and Glasgow, no challenger emerged. It also faced competition from exchanges elsewhere in Europe and North America, such as New York, Frankfurt, and Paris. The rules enforced by the London exchange stipulated among other things that commissions were fixed and that brokers could not trade on their own accounts. (They were price takers, not price makers.)

However, this was not the full story. The process that had produced the association and rules of the exchange also generated complex norms and expectations that governed the behavior of participants in the London market without being explicitly articulated. These were summarized in the saying that became the official motto of the exchange in 1923: "My word is my bond." All kinds of major business deals would be undertaken with only the most minimal paperwork and legal paraphernalia; sometimes they were built on nothing more than a handshake. To break an undertaking or to knowingly give false information so as to mislead one's counterparty to his disadvantage was simply unthinkable for most. Human nature being what it is, there were of course people who did not adhere to these norms, and scandals occurred. There were severe penalties for this, quite independent of any criminal or civil sanction. Essentially the offender would never be able to do business in the city again and would become a social outcast. This was much more effective than people today might imagine.

What happened in 1986 was not a matter of deregulation as commonly understood. Rather it saw the replacement of Ostrom-style social regulation by government regulation.

What happened in 1986 was not a matter of deregulation as commonly understood. Rather it saw the replacement of Ostrom-style social regulation by government regulation. An official government body—the Competition Commission—held that the rules of the exchange, despite their ultimately voluntary and nonmonopolistic nature, restricted competition and were economically inefficient. The subsequent statutory action swept away all the controls and regulations that voluntary club action had produced.

However, it did not stop at that. A massive body of State regulation was created, which has governed ever since and has grown in both size and complexity. Most of the norm-based controls have gradually faded away, replaced by ever-more extensive and explicit written regulation. The problem of course is that the attempt to capture and cover every eventuality in this way is not only futile but counterproductive, since it creates opportunities for the unscrupulous to benefit by gaming the system, often by flouting the spirit of the rules while staying within the letter. The informal norm-based way of doing things is flexible enough to prevent this kind of behavior.

Human beings living in complex societies need rules and regulations to govern things such as access to resources and to ensure some do not take advantage of others. One form of governance is government regulation and legislation. But there are a number of alternatives, one of which is the private association that generates rules and enforces them on its members. Provided the club is not "closed" and does not have a State monopoly (that is, it cannot use force to shut down potential competitors), this can be much more effective. Moreover, the experience of dealing with other people in this way generates rules and expectations that are widely shared and understood even if unarticulated, and these on all the evidence are a more effective and humane check on predatory behavior than the most elaborate codes of government regulations. FEE

When Free Speech Collides with Occupational Licensing

BY BOB EWING

Can the government throw you in jail for offering advice on the Internet about what food people should buy at the grocery store? That is exactly the claim made by the North Carolina Board of Dietetics/Nutrition. In response, a major free speech lawsuit was filed in federal court on May 30. It seeks to answer one of the most important unresolved questions in First Amendment law: When does the government's power to license occupations trump free speech? The case could have a profound impact on the Internet freedom of millions of Americans who share advice on blogs, Facebook, Twitter, Reddit, and elsewhere online.

It all started three years ago when an obese man from North Carolina was rushed to the hospital in a near-diabetic coma and almost died. Steve Cooksey had been sick for some time. He slowly gained weight over the years and by 2008 had developed episodic asthma, a chronic cough, and respiratory infections, and was on multiple medications. In February 2009, after being rushed to the hospital, Steve was diagnosed with Type-II diabetes. His doctors informed him he would need insulin and drugs for the rest of his life. The day after being discharged, Steve sat home alone, crying over what he had become.

He vowed to change his life.

Steve did research on health and diabetes, much of it online. He learned that diabetes is a condition of elevated blood sugar, so he started eating foods that kept his blood sugar low, and he exercised regularly. Specifically, Steve adopted the diet of our Paleolithic ancestors, eschewing sugars, processed foods, and agricultural starches in favor of fresh veggies, fish, meats, eggs, and nuts. He lost 78 pounds, freed himself of drugs and doctors, and feels healthier than ever. In January 2010 Steve started a blog, Diabetes Warrior (diabetes-warrior.net) to share his story and insights. He soon developed a large readership.

Steve would frequently receive feedback from friends and readers about the positive effect his Paleolithic diet had on people with obesity and diabetes. By December 2011, after nearly two years of blogging on the benefits of eating like a caveman, Steve was receiving so many interesting questions from his readers that he started a free "Dear Abby"-style column on his website. Yet just one month after his free advice column began, government officials told Steve he was engaging in criminal behavior. The North Carolina Board of Dietetics/Nutrition said that to give someone advice about what food to buy at the grocery store requires a dietitian license from the government. Obtaining such a license takes years and costs thousands of dollars.

Further, the state board told Steve it is a crime in North Carolina to offer dietary advice for free in private phone conversations with his readers and friends. Steve had also begun a paid life-coaching service, which the board deemed illegal as well.

The board sent Steve a 19-page print-up of his blog, highlighting in red pen numerous examples where his speech violated the law. The review declared that Steve's free and private advice to friends, his free advice column, and his paid life-coaching service were all illegal speech amounting to the criminal practice of dietetics. The board's actions had a chilling effect on Steve's speech; he was forced to stop giving much of his dietary advice and even had to remove several pages from his website.

Bob Ewing (bobewing@gmail.com) is the assistant director of communications for the Institute for Justice.

You Got a License for that Advice, Buddy?

Violating licensing law can lead to fines, court gag orders, and even jail. According to the government's logic countless websites, Internet forums, Facebook, and so much more where people share information and offer each other advice on topics such as diet, parenting, and pregnancy are illegal. Steve intends to fight this censorship not only to vindicate our free speech rights but also because he is deeply concerned with the obesity and diabetes epidemics.

One hundred million Americans are now obese. The rate is rising so fast that in less than 20 years, more than half of all Americans are projected to be obese. Eighty million Americans are pre-diabetic, and 25 million more have full-blown diabetes. According to the Department of Health and Human Services, diabetes is a leading cause of strokes and heart disease—and *the* leading cause of blindness, kidney failure, and amputation. Every seven seconds someone in the world dies from a diabetic complication. Steve believes that his Paleolithic diet is the simplest, cheapest, and most effective way to treat obesity and diabetes—but his approach runs against conventional wisdom.

According to the government's logic countless websites are illegal.

For the past several decades government officials and health experts have advised people to adopt a high-carbohydrate, low-fat diet. They argue that eating dietary fat, especially saturated fat, is unhealthy and potentially life-threatening. When government officials and health experts reduced public demand for dietary fats, food companies responded by removing fat from food and replacing it with carbohydrates, often sugar.

The experts explain that obesity results when we eat more calories than we burn. Calories are all the same, they hold, and the key to healthy weight loss is to create a caloric deficit by eating less and moving more. Predictably, when Steve Cooksey was in the ICU after being diagnosed with diabetes, he was told by a licensed dietitian to eat a high-carbohydrate, low-fat diet and limit his overall caloric intake.

However, a growing scientific minority now believe that the conventional wisdom is wrong, and subscribe to what is referred to as the Alternative Hypothesis (AH). According to this view, dietary fat has unfairly—and without proper evidence—been demonized by government officials and health experts. They believe there are good calories and bad calories, and that hormones play a central role in shaping our bodies. Specifically, the AH posits that obesity is not simply a caloric imbalance, but far more important, a *hormonal* imbalance.

Steve Cooksey is a believer in the AH. According to his view hormones *cause* us to grow, and we *respond* by creating a caloric imbalance. Indeed, few people question that hormones have a role in helping basketball players achieve their famous height, or that hormones are behind body growth in teenagers and pregnant women. We don't believe that the accelerated body growth during puberty and pregnancy is *caused* by overeating.

As Peter Attia, M.D. (tinyurl.com/btcr73o), recently wrote, "When people grow vertically (i.e., when people get taller) no one disputes that a hormone drives this action. . . . Horizontal growth is also regulated by a hormone—insulin." Insulin is the hormone that primarily regulates body fat. Sugar raises our insulin, and most carbohydrates, even whole grains, break down into sugar in our bodies. As George Cahill of the Harvard Medical School says, "Carbohydrate is driving insulin is driving [body] fat." Chronically elevated insulin is at the heart of many chronic diseases afflicting our society—notably obesity and diabetes, as well as heart disease, cancer, and Alzheimer's. (For details on the science, see Gary Taubes's *Good Calories, Bad Calories* or his updated, more accessible *Why We Get Fat*.)

Our bodies, AH advocates believe, are not designed for nor have they fully adjusted to eating sugary and starchy foods—which not only creates an insulin imbalance but often leads to inflammation throughout our bodies.

Adding Irony to Censorship

There is a powerful irony in the state board's effort to censor unlicensed dietary speech because the obesity and diabetes epidemics have been exploding in lockstep with the multi-decade "high-carb push" from government officials and health experts—beginning just as dietitians were persuading state legislatures across the country to create licensing schemes giving dietitians a monopoly on dietary advice. No evidence exists showing that dietetics licensing laws lower a state's obesity or diabetes rates. In 1983 Texas passed the first dietetics licensing law. It is now the second-most obese state. By contrast, Colorado has never licensed dietitians and is the least obese state. Mississippi and Utah passed dietetics licensure in 1986; Mississippi is the most obese state while Utah is the second-least obese state.

Nationwide since 1983 diabetes rates have more than tripled. North Carolina passed its licensing law in 1991, and the prevalence of diabetes in North Carolina has more than doubled since then. Obesity rates in North Carolina have risen even faster.

More Americans than ever now need a license to pursue the occupation of their choice.

Steve does not believe that the obesity and diabetes epidemics are occurring because a few decades ago people started focusing less on their health, or because people choose not to exercise enough or control their food consumption. Rather he contends that the root of this problem rests with the government officials and health experts who have convinced the public to eat the very foods that create an insulin imbalance that ultimately leads to obesity and diabetes.

That is why Steve is fighting back. (Of course his free speech rights do not depend on the correctness of his views.) He has teamed up with the Institute for Justice, a national public-interest law firm, to defend free speech and Internet freedom by filing a major First Amendment lawsuit against the state board in federal court. As his attorney Jeff Rowes explains: "You don't need the government's permission to give someone ordinary advice. North Carolina cannot require Steve to be a state-licensed dietitian any more than it can require the author of 'Dear Abby' to be a state-licensed psychologist."

More Americans than ever now need a license to pursue the occupation of their choice—nearly one in three workers, up from just one in 20 in the 1950s, according to noted licensure expert and University of Minnesota economist Morris Kleiner. A new report by the Institute for Justice, *License to Work* (ij.org/licensetowork), finds that in North Carolina and across the country these occupational licensing laws are not only widespread but often overly burdensome and arbitrary.

The Supreme Court has said surprisingly little about the ability of occupational licensing laws to trump free speech. Steve's case presents an ideal opportunity for the high court to finally address this unresolved issue. The statute and regulations Steve is challenging with his lawsuit give the government the authority to use occupational licensing to scrub the Internet of certain types of advice. But as my colleague, First Amendment expert Paul Sherman, says: "Advice is protected speech. Just because the government can license certain types of expert professional advice doesn't mean the government can license every type of advice."

Thankfully the First Amendment prevents the government from making us criminals for simply sharing ordinary advice, including our thoughts on what food people should buy. Yet unless the Supreme Court ultimately intervenes, protectionist occupational licensing laws could soon censor the speech of millions of Americans who use the Internet to exchange their ideas.

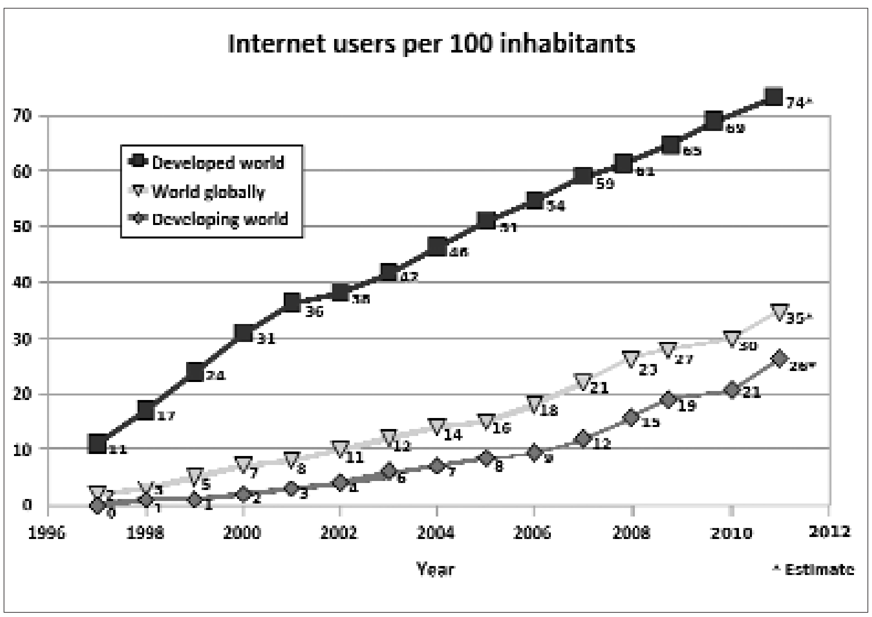
For his part Steve is willing to take his fight all the way to the Supreme Court if that's what it takes to vindicate free speech and Internet freedom for Americans everywhere. FEE

How Government Sort of Created the Internet

BY STEVE FRITZINGER

In his now-famous "You didn't build that" speech, President Obama said, "The Internet didn't get invented on its own. Government research created the Internet so that all the companies could make money off the Internet."

Obama's claim is in line with the standard history of the Internet. That story goes something like this: In the 1960s the Department of Defense was worried about being able to communicate after a nuclear attack. So it directed the Advanced Research Projects Agency (ARPA) to design a network that would operate even if part of it was destroyed by an atomic blast. ARPA's research led to the creation of the ARPANET in 1969. With federal funding and direction the ARPANET matured into today's Internet.



Jeff Ogden [Wikipedia]

Like any good creation myth, this story contains some truth. But it also conceals a story that is much more complicated and interesting. Government involvement has both promoted and retarded the Internet's development, often at the same time. And, despite Obama's claims, the government did not create the Internet "so all the companies could make money off" it.

The idea of internetworking was first proposed in the early 1960s by computer scientist J. C. R. Licklider at Bolt, Beranek and Newman (BBN). BBN was a private company that originally specialized in acoustic engineering. After achieving some success in that field—for example, designing the acoustics of the United Nations Assembly Hall—BBN branched out into general R&D consulting. Licklider, who held a Ph.D. in psychoacoustics, had become interested in computers in the 1950s. As a vice president at BBN he led the firm's growing information science practice.

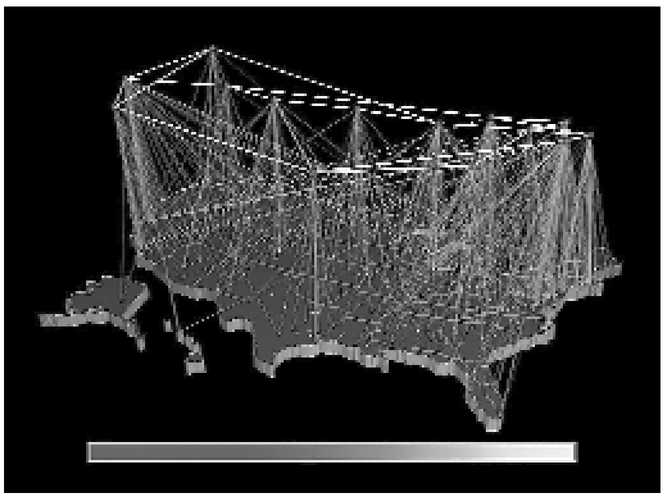
In a 1962 paper Licklider described a "network of networks," which he called the "Intergalactic Computer Network." This paper contained many of the ideas that would eventually lead to the Internet. Its most important innovation was "packet switching," a

Steve Fritzinger (steve.fritzinger@gmail.com) is a freelance writer from Fairfax, Virginia. He is the regular economics commentator on the BBC World Service program Business Daily.

technique that allows many computers to join a network without requiring expensive direct links between each pair of machines.

Licklider took the idea of internetworking with him when he joined ARPA in 1962. There he met computer science legends Ivan Sutherland and Bob Taylor. Sutherland and Taylor continued developing Licklider's ideas. Their goal was to create a network that would allow more effective use of computers scattered around university and government laboratories.

In 1968 ARPA funded the first four-node packet-switched network. This network was not part of a Department of Defense (DOD) plan for post-apocalyptic survival. It was created so Taylor wouldn't have to switch chairs so often. Taylor routinely worked on three different computers and was tired of switching between terminals. Networking would allow researchers like Taylor to access computers located around the country without having dedicated terminals for each machine.



Traffic on NSFNET before the Internet was freed.
Donna Cox & Robert Patterson, National Center for Supercomputing Applications, University of Illinois at Urbana-Champaign.

The first test of this network was in October 1969, when Charley Kline, a student at UCLA, attempted to transmit the command "login" to a machine at the Stanford Research Institute. The test was unsuccessful. The network crashed and the first message ever transmitted over what would eventually become the Internet was simply "lo."

With a bit more debugging the four-node network went live in December 1969, and the ARPANET was born. Over the next two decades the ARPANET would serve as a test bed for internetworking. It would grow, spawn other networks, and be transferred between DOD agencies. For civilian agencies and universities, NSFNET, operated by the National Science Foundation, replaced ARPANET in 1985. ARPANET was finally shut down in February 1990. NSFNET continued to operate until 1995, during which time it grew into an important backbone for the emerging Internet.

For its entire existence the ARPANET and most of its descendants were restricted to government agencies, universities, and companies that did business with those entities. Commercial use of these networks was illegal. Because of its DOD origins ARPANET was never opened to more than a handful of organizations. In authorizing funds for NSFNET, Congress specified that it was to be used only for activities that were "primarily for research and education in the sciences and engineering."

During this time the vast majority of people were banned from the budding networks. None of the services, applications, or companies that define today's Internet could exist in this environment. Facebook may have been founded by college students, but it was not "primarily for research and education in the sciences and engineering."

This restrictive environment finally began to change in the mid-1980s with the arrival of the first dial-up bulletin boards and online services providers. Companies like Compuserve, Prodigy, and AOL took advantage of the home computer to offer network services over POTS (Plain Old Telephone Service) lines. With just a PC and a modem, a subscriber could access email, news, and other services, though at the expense of tying up the house's single phone line for hours.

In the early 1990s these commercial services began to experiment with connections between themselves and systems hosted on NSFNET. Being able to access services hosted on a different network made a network more valuable, so service providers had to interoperate in order to survive.

ARPANET researchers led by Vint Cerf and Robert Kahn had already created many of the standards that the Internet service providers (ISPs) needed to interconnect. The most important standard was the Transmission Control Protocol/Internet Protocol (TCP/IP). In the 1970s computers used proprietary technologies to create local networks. TCP/IP was the "lingua franca" that allowed these networks to communicate regardless of who operated them or what types of computers were used on them. Today most of these proprietary technologies are obsolete and TCP/IP is the native tongue of networking. Because of TCP/IP's success Cerf and Kahn are known as "the fathers of the Internet."

Forced to interoperate, service providers rapidly adopted TCP/IP to share traffic between their networks and with NSFNET. The modern ISP was born. Though those links were still technically illegal, NSFNET's commercial use restrictions were increasingly ignored.

The early 1990s saw the arrival of the World Wide Web. Tim Berners-Lee, working at the European high energy physics lab CERN, created the Uniform Resource Locator (URL), Hyper-Text Transfer Protocol (HTTP), and Hyper-Text Markup Language (HTML). These three technologies made it easier to publish, locate, and consume information online. The web rapidly grew into the most popular use of the Internet.

Berners-Lee donated these technologies to the Internet community and was knighted for his work in 2004.

In 1993 Mosaic, the first widely adopted web browser, was released by the National Center for Supercomputing Applications (NCSA). Mosaic was the first Internet application to take full advantage of Berners-Lee's work and opened the Internet to a new type of user. For the first time the Internet became "so easy my mother can use it."

The NCSA played a significant role in presidential politics. It had been created by the High Performance Computing & Communications Act of 1991 (aka "The Gore Bill"). In 1999 presidential candidate Al Gore cited this act in an interview about his legislative accomplishments, saying, "I took the initiative in creating the Internet." This comment was shortened to: "I created the Internet" and quickly became a punchline for late-night comedians. This one line arguably cost Gore the presidency in 2000.

The 1992 Scientific and Advanced Technology Act, another Gore initiative, lifted some of the commercial restrictions on Internet usage. By mid-decade all the pieces for the modern Internet were in place.

In 1995, 26 years after its humble beginnings as ARPANET, the Internet was finally freed of government control. NSFNET was shut down. Operation of the Internet passed to mostly private companies, and all prohibitions on commercial use were lifted.

The Internet is governed by a loose collection of organizations that develop technologies and ensure interoperability. These organizations, like the Internet Engineering Task Force (IETF), may be the most successful anarchy ever.

Anarchy, Property, and Innovation

Today the Internet can be viewed as three layers, each with its own stakeholders, business models, and regulatory structure. There are the standards, like TCP/IP, that control how information flows between networks, the physical infrastructure that actually comprises the networks, and the devices and applications that most people see as "the Internet."

Since the Internet is really a collection of separate networks that have voluntarily joined together, there is no single central authority that owns or controls it. Instead, the Internet is governed by a loose collection of organizations that develop technologies and ensure interoperability. These organizations, like the Internet Engineering Task Force (IETF), may be the most successful anarchy ever.

Anarchy, in the classical sense, means without ruler, not without laws. The IETF demonstrates how well a true anarchy can work. The IETF has little formal structure. It is staffed by volunteers. Meetings are run by randomly chosen attendees. The closest thing there is to being an IETF member is being on the mailing list for a project and doing the work. Anyone can contribute to any project simply by attending the meetings and voicing an opinion. Something close to meritocracy controls whose ideas become part of the standards.

At the physical layer the Internet is actually a collection of servers, switches, and fiber-optic cables. At least in the United States this infrastructure is mostly privately owned and operated by for-profit companies like AT&T and Cox. The connections between these large national and international networks put the "inter" in Internet.

As for-profit companies ISPs compete for customers. They invest in faster networks, wider geographic coverage, and cooler devices to attract more monthly subscription fees. But ISPs are also heavily regulated companies. In addition to pleasing customers, they must also please regulators. This makes lobbying an important part of their business. According to the Center for Responsive Politics's OpenSecrets website, ISPs and the telecommunications industry in general spend between $55 million and $65 million per year trying to influence legislation and regulation.

When most people think of the Internet they don't think of a set of standards sitting on a shelf or equipment in a data center. They think of their smart phones and tablets and applications like Twitter and Spotify. It is here that Internet innovation has been most explosive. This is also where government has had the least influence.

For its first 20 years the Internet and its precursors were mostly text-based. The most popular applications, like email, Gopher ("Go for"), and Usenet news groups, had text interfaces. In the 20 years that commercial innovation has been allowed on the Internet, text has become almost a relic. Today, during peak hours, almost half of North American traffic comes from streaming movies and music. Other multimedia services, like video chat and photo sharing, consume much of people's Internet time.

None of this innovation could have happened if the Internet were still under government control. These services were created by entrepreneurial trial and error. While some visionaries explored the possibilities of a graphically interconnected world as early as the 1960s, no central planning board knew that old-timey-looking photographs taken on ultramodern smart phones would be an important Internet application.

After creating the core Internet technologies the government sat on them for a quarter century and denied access to all but a handful of people, locking away the Internet's great commercial potential.

I, Internet

When Obama said the government created the Internet so companies could make money off it, he was half right. The government directly funded the original research into many core networking technologies and employed key people like Licklider, Taylor, Cerf, and Kahn. But after creating the idea the government sat on it for a quarter century and denied access to all but a handful of people. Its great commercial potential was locked away.

For proponents of government-directed research policies, the Internet proves the value of their programs. But government funding might not have been needed to create the Internet. The idea for internetwork came from BBN, a private company. The rise of ISPs in the 1980s showed that other companies were willing to invest in this space. Once the home PC and dial-up services became available, people joined commercial networks by the millions. The economic incentives to connect those early networks probably would have resulted in something very much like today's Internet even if the ARPANET had never existed.

In the end the Internet rose from no single source. Like Leonard Read's humble writing instrument, the pencil, no one organization could create the Internet. It took the efforts of thousands of engineers from the government and private sectors. Those engineers followed no central plan. Instead they explored. They competed. They made mistakes. They played.

Eventually they created a system that links a third of humanity. Now entrepreneurs all over the world are looking for the most beneficial ways to use that network.

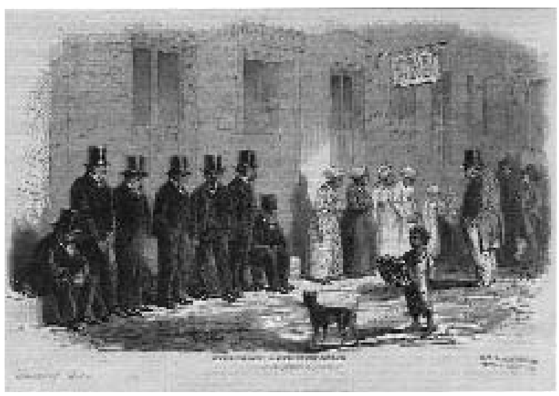
Imagine where we'd be today if that search could have started five to ten years earlier. FEE

The Golden Age of Freedom Is Still Ahead

BY ANTHONY GREGORY

Free enterprise is often associated with the past. This perception puts the market's champions, seen as hopeless reactionaries, on the defensive.

A typical narrative follows: America had an insufficiently active government under the Articles of Confederation. The Constitution expanded government to meet society's needs. In this climate, where property rights continued to trump the common good, the central government could not maintain national cohesion and ensure racial equality. During the Civil War, government grew to preserve the Union, enable commerce through expansion of infrastructure, and abolish the ancient evil of slavery. During the late nineteenth century, laissez faire reigned supreme. Unchecked, robber barons exploited their customers and workers.



A slave auction in New Orleans, 1861.
Harper's Weekly [Wikipedia]

American society, so continues the narrative, overcame its laissez-faire history and embraced active government in the Progressive Era. Commerce, banking, monopolies, food and drugs, and labor conditions finally became regulated. The market was still too free, however, causing the stock market crash and the Great Depression, which the New Deal's reforms finally addressed. Anachronistic free marketers resisted this progress.

A generation later the free market proved inadequate on race relations, education, poverty, social insurance, workers' conditions, and the environment. New regulations, taxes, and programs arose in the 1960s and 1970s to address these deficiencies. Ronald Reagan's election marked a conservative counterrevolution toward the free market, causing the savings-and-loan crisis, rising income disparities, and, ultimately, the 2008 financial collapse. After four consecutive reactionary presidents—Bill Clinton being a practitioner of neoliberal austerity—deregulation and market fundamentalism have again revealed themselves as outdated approaches to America's modern problems.

This repeated recognition that the free market no longer suits society's needs is a common theme of modern liberalism. Through experience the inadequacy of the unhampered market has forced enlightened observers to accept the need for more government.

One obvious problem with this narrative is the steadily changing definition of "free market." The free market is said to have caused problems addressed in the Progressive Era, yet once again the market economy was blamed for the Depression. The New Deal is said finally to have abolished laissez faire, yet laissez faire has been the culprit in every crisis since. Thoughtful proponents of this narrative explain that the 1980s, for example, were somehow substantially more laissez-faire than the 1970s, yet they rarely present more than a handful of superficial examples of deregulation amid an overall trend of regulatory expansion.

Anthony Gregory (anthony.gregory@gmail.com) is a Research Fellow at the Independent Institute.

A major problem market proponents have in confronting this narrative, whatever its shortcomings, arises because they themselves sometimes accept it implicitly, often complaining about the liberties lost over the years. The significant kernel of truth is that the national government has unmistakably grown well beyond anything imagined in 1789 or even the nineteenth century. And surely, for every argument statists have defending this growth, compelling historical and economic counterarguments are available.

Yet we must be careful before conceding this premise that the past was laissez-faire. By celebrating the political economy of yesteryear, we risk associating our ideals with the past's many injustices. We can and should avoid this baggage entirely.

Slavery: The Opposite of Free Enterprise

No libertarian defends the horrid institution of slavery. The problem comes in how free marketers sometimes describe slavery as a mere exception to the rule of early American freedom. In fact this exception virtually swallowed the principle whole.

Progressives love contrasting the pro-liberty, anti-tax rhetoric of the founding generation with the slavery that they tolerated or championed. Robin Einhorn's *American Taxation, American Slavery* is a sophisticated contribution to the argument that those loudly protesting taxes were often the very people who clung to human bondage. This argument indicts the rhetoric of property rights, which is foundational to free enterprise and, in a warped form, the "right" of one person to own another. Infamously, the Supreme Court found in *Dred Scott v. Sanford* (1857) that the Fifth Amendment protected a white man's right not to be deprived of his slave without due process. Given this association between America's slave-owning generations and the rhetoric of liberty, it is crucial that free marketers explain, emphatically and intelligently, how slavery was the very negation of the free-market system.

> By celebrating the political economy of yesteryear, we risk associating our ideals with the past's many injustices. We can and should avoid this baggage entirely.

The subjugation of slaves would undermine early America's status as a free country even if slaves were a tiny minority. They were not. Slaves amounted to 18 percent of the population at the time of the Constitution's ratification and 12.6 percent on the eve of the Civil War, at which point there were nearly four million.

Libertarians should study the brutality of this system. Historians estimate that hundreds of thousands of slaves were forced to migrate in antebellum America's internal slave trade. Children were frequently ripped from their families. Beatings and rape were ubiquitous, and torture as punishment was hardly unusual.

Even slaves with relatively humane masters lacked the freedoms that most of today's Americans, living under the modern leviathan, take for granted.

Peter Kolchin, in his seminal *American Slavery: 1619–1877*, sums up the reality:

> Slaves could hardly turn around without being told what to do. They lived by rules, sometimes carefully constructed and formally spelled out and sometimes haphazardly conceived and erratically imposed. Rules told them when to rise in the morning, when to go to the fields, when to break for meals, how long and how much to work, and when to go to bed; rules also dictated a broad range of activities that were forbidden without special permission, from leaving home to getting married; and rules allowed or did not allow a host of privileges, including the right to raise vegetables on garden plots, trade for small luxuries, hunt, and visit neighbors. Of course, all societies impose rules on their inhabitants in the form of laws, but the rules that bound slaves were unusually detailed, covered matters normally untouched by law, and were arbitrarily imposed and enforced, not by an abstract entity that (at least in theory) represented their interests, but by their owners. Slaves lived with their government.

I thank God I don't live with my government!

For many years the pro-market tradition saw slavery as a grave violation of its principles. Kolchin writes:

> Early political economists—including Adam Smith, whose book *The Wealth of Nations* (1776) remained for decades the most influential justification for the principles underlying capitalism—believed that slavery, by preventing the free buying and selling of labor power and by eliminating the possibility of self-improvement that was the main incentive to productive labor, violated central economic laws.

Although critics blame market exchange for the rise of slavery, this criticism is grossly unfair. The slave trade was indeed a market of sorts—unfree, unjust, and regulated—but the most fundamental relationship in slavery was not a market at all. Kolchin explains:

> Slave owners engaged in extensive commercial relations, selling cotton (and other agricultural products), buying items both for personal consumption and for use in their farming operations, borrowing money, and speculating in land and slaves, but the market was conspicuously absent in regulating relations between the masters and their slaves. In other words, relations of exchange were market-dominated, but relations of production were not.

The conflation of a slave society with free enterprise is an obscenity.

The slave power dominated political life in the South and enjoyed federal support through the Fugitive Slave Clause. Slavery was a major government program, its enforcement costs socialized through law. "The chief way that the South's slaveholding elite externalized the costs of the peculiar institution was slave patrols," writes Jeffrey Rogers Hummel in *Emancipating Slaves, Enslaving Free Men*. These slave patrols were "established in every slave state" to enforce black codes, inflict punishment, and suppress insurrections and were "compulsory for most able bodied white males." Slave patrols, necessary to slavery's maintenance, were a flagrant violation of the free economy.

The destruction of the Indians, the restrictions on women owning property, and many other antebellum policies also illustrate that the United States hardly had a free market before the Civil War. Slavery best makes the point. The conflation of a slave society with free enterprise is an obscenity.

Protectionism, Nationalism, and Corporatism

Outside of slavery nineteenth-century America often fell far short of the free-market ideal. Protectionism was a perennial problem, from the nationalist Tariff of 1816 to the sectionally biased Tariff of 1824 and the infamous Tariff of Abominations in 1828, from President Andrew Jackson's threat to invade South Carolina to enforce the Tariff of 1832 to the Morrill Tariff of 1861. In 1870 the average tariff rate hit 44.6 percent. High tariffs financed the corporatist arrangement of federal subsidies for waterways, canals, and railroads during the Civil War, a war that defied market principles dramatically through its taxation, conscription, militarization of society, massive inflation, and inauguration of new government bureaus.

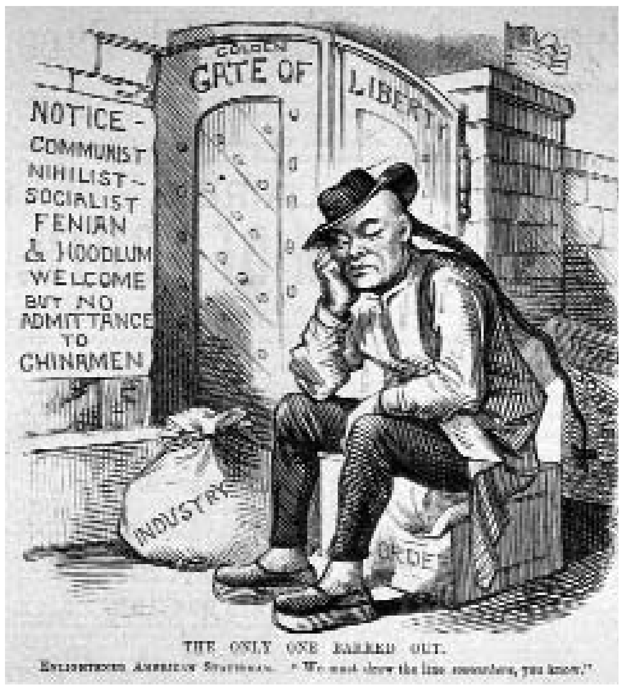
After slavery's abolition and before the twentieth century, American economic liberty in some senses achieved a peak, but not without many qualifications. Immediately after the Civil War, state-level black codes kept nominally free blacks in a form of extended slavery, indenturing them to employers and criminalizing "vagrancy." The U.S. government began enforcing Reconstruction in the conquered South through military rule. Reconstruction counteracted State-imposed rights violations but also fostered a rise in government education and infrastructure projects financed through federal subsidies and considerable hikes on state-level property taxes. Government schooling became much more prevalent in the South, and by the end of the century 75 percent of the states had compulsory attendance laws.

The banking system—fundamental to any modern economy—was regulated by the central state for most of the nineteenth century. There was a National Bank from 1791 to 1811 and again from 1816 to 1832. The

Civil War birthed a new federal banking system that quickly grew, eventually culminating in the creation of the Federal Reserve in 1913.

In the late nineteenth century Benjamin Tucker identified four State-created monopoly powers that robbed Americans of their liberty—the land monopoly, money monopoly, patent monopoly, and tariff monopoly. These mostly involved federal privileges, but the heavy hand of government was also felt locally. Nineteenth-century state governments, at times working with federal authorities, displaced and killed American Indians; regulated various professions, labor relations, consumption goods, and businesses; and implemented social programs.

All in all, the U.S. regulatory state, explains Roderick Long, was not a twentieth-century innovation, but rather was “deeply involved from the start, particularly in the banking and currency industries and in the assignment of property titles to land. (Even such land as was not stolen from the natives was seldom appropriated in accordance with any sort of Lockean homesteading principle; instead, vast tracts of unimproved land were simply declared property by barbed wire or legislative fiat.)”



The pre-New Deal era included anti-Chinese immigration policy, among other affronts to laissez faire.

[Wikipedia]

In substantial ways the economy of the late nineteenth century was freer than today, although some groups were heavily controlled, not least of all the southern blacks persecuted by Jim Crow laws, to say nothing of whites restricted by segregation from freely associating with these blacks.

Even nationally the twilight of the nineteenth century was a mixed bag. Veto-happy Grover Cleveland was probably the most laissez-faire president in half a century and ever since. Yet Cleveland’s terms had nontrivial blemishes: He used U.S. Marshals to quell the Pullman strike and enforce the Sherman Antitrust Act, supported the Dawes Act’s aggrandizement of presidential authority over Indian affairs, strengthened the Chinese Exclusion Act, begrudgingly acquiesced to an income tax to offset reduced tariff revenue, created the Interstate Commerce Commission, and despite a largely anti-imperialist record, threatened and used military force to assert dominance in Latin America against European influence and in favor of U.S. banking interests.

Shifting Definition

The market’s defenders often mimic its opponents in moving the benchmarks to describe historical periods as “laissez-faire.” This dangerous game does not stop with the nineteenth century.

American life before the New Deal was certainly freer in important respects, but we must be cautious in defending the 1920s. Putting aside the bloated bureaucracies lingering from World War I, the Fordney McCumber Tariff of 1922, the Immigration Control Act of 1924, and the calamity of alcohol prohibition, it was 1920s credit expansion that Austrian economists credibly blame for the boom and 1929 crash. We lose credibility in carelessly praising the pre–New Deal Era while blaming the Depression on policies enacted in that time.

Less ambitious free marketers idealize the 1950s—the decade of top marginal tax rates exceeding 90 percent (and, for the poorest Americans, 20 percent); the FCC’s puritanical regulation of the airwaves and maintenance of the telephone monopoly; the booming military-industrial complex; and the growing regimentation of industry, farming, and higher education. The transformative Great Society was in many ways an expansion on Eisenhower-era precedents more than a qualitative break from the past.

Even more desperate acts of nostalgia glorify the Reagan years. Although some government impositions were curtailed on the margins, Ronald Reagan oversaw growth of the New Deal–Great Society regime, as deficit spending exploded, Social Security and protectionism expanded, and foreign aid and bureaucracies ballooned.

None of this sober reflection backward should prompt us to see our history as an inexorable march toward liberty. There have been major advances in modern times—abolition of the draft, strengthened free-speech rights, and greater legal tolerance for minorities—but even in areas like racial oppression and personal freedom, many matters have worsened. Over two million Americans are behind bars. The drug war has devastated African-American communities. Last year the national government deported more immigrants than ever before. The war on terror has shredded basic rights. Washington's run-of-the-mill economic interventions—in the name of health, equality, environmentalism, and fighting poverty—have escalated. The national debt and entitlement state have seen an unprecedented boom.

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Neither today's dismal state of affairs nor past oppression should make us nihilistic. History can teach us a lot about liberty. Certain areas of American life were freer in the nineteenth century than today and others were not, and the social blessings arising from relative conditions of liberty are worth identifying and understanding. Economics shows that free markets serve the masses by elevating workers' productivity and smashing the old order of privilege and oppression. Both experience and economic science demonstrate the superiority of liberty to statism.

The golden era of freedom and free markets is not now and it's not behind us. It is still ahead of us. This is reason to rejoice. We can happily envision a much better future. FEE

Spontaneous Order in Action: The Universal Product Code

BY STEPHEN GROSS

Have you ever wondered who regulates the Universal Product Code (UPC) and barcode industry? Probably not. Because of its complexity, there must be a central authority that administers these product identification numbers and the zebra-looking line segments on almost every product sold around the world. Even products imported from tiny villages in tiny countries have these identifying codes on them. There must be an international authority that determines all of this for those producers, right?

Wrong.

But wait. Wasn't there a congressional hearing or presidential panel some years back that concluded it was in the consumer's best interest for businesses to come up with a system to manage the inventory of almost every product sold? No!

Think for a moment about all the items we see in grocery stores. There are thousands of them, all with their own identification numbers and barcodes. Somehow, when we bring our baskets up to the register and the products are swiped across the scanner, the system not only identifies our products and their prices but also provides merchants with inventory information. With some large retailers and superstores, inventory information can also be sent directly to a supplier. Barcode technology also gives sellers a reliable mechanism to reduce product and revenue loss by more closely tracking inventory. This little innovation, which we consumers now take for granted, has enabled merchants to achieve greater efficiency—that is, lower costs. That in turn benefits the public through lower prices because when producers reduce their costs, competition transfers the gain to consumers.

The spontaneous market process guided adopting of the UPC system. It certainly was more rational for each business owner to adopt a standard system that promotes coordination and spreads the total cost across all industries than to bear the entire burden and risk of designing, implementing, and managing an independent stock-keeping system. Cooperation profited each competitor—as well as its customers.

The UPC system is a great example of how markets can make sense of what seems like endless complexity. The barcode industry has arisen spontaneously due to the needs and desires of grocery wholesalers. We should not be surprised by this because this is what markets always do when government doesn't get in the way. Furthermore, many economists and philosophers, inspired by F. A. Hayek and his mentor,

Stephen Gross (steveg0485@hotmail.com) is a student at the University of Central Arkansas.

Ludwig von Mises, believe this is the only way in which overall social order *should* arise since it relies on voluntary agreement among individuals, the stuff of true liberty.

Widespread acceptance of the Universal Product Code was rooted in competing grocers' desire to design and implement inter-industry standards that would provide them with greater organization. Under competitive pressure business owners looked for ways to provide greater efficiency, speedier checkouts, and better tracking of inventory. They hardly intended to revolutionize their industry. Rather, they were individually looking for profits, and in the process, created positive unintended consequences for us all. Deliberately pursuing improvement of consumers' welfare may have produced inferior results. As Adam Smith noted in the eighteenth century, "[B]y pursuing his own interest [the business owner] frequently promotes that of society more effectually than when he intends to promote it."

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In 1932, long before the current barcode system was invented, Wallace Flint, a Harvard business student, wrote a thesis on how to automate the grocery system. Flint's system used punch cards and flow racks for inventory control and quicker movement of products from storage to the customer. Barcode technology was developed in 1949 by Norman Joseph Woodland, a graduate student and teacher at what is now Drexel University. In 1974, a ten-pack of Wrigley's chewing gum was the first product scanned and sold; it happened at a Marsh Supermarket in Troy, Ohio. Since its development barcode technology has been continuously improved. Technological innovation has allowed more data to be consolidated into smaller scanning units. We can find the UPC now on each individual banana instead of only on the storage crates.

Now, some 38 years later, UPC and scanning technology is better than ever. Do you think the founders of this system ever imagined their innovation would have grown so robust and spawned complementary technology? Today our cell phones have barcode readers built into them that are able to scan almost all the items found in almost every store in many different industries. (The next step, QR code technology, which uses those squiggly boxes, is already here.)

GS1, a global nonprofit organization of private, competitive merchants, is now leading a charge to set industry standards. GS1 has been around since the beginning (under a different name) and has grown out of consolidations between North American and European associations. In the United States alone it has 200,000 member companies. The total international membership is over one million companies in 20 different industries. It not only standardizes across industries; it also maintains numerous systems to provide different industries, including the health care, alcoholic beverage, floral, and publishing industries with the specific tools they need to flourish.

We should appreciate the implications of such an organization. What GS1 is doing through free exchange and voluntary association generates immediate benefits for its members but also generates ancillary effects, such as lower prices and consumer convenience. We can only imagine how a government agency may have run this type of system.

Markets, when left free, allow diversification and rapid adaptation to changing circumstances in a complex world (as opposed to the turtle-paced adjustments found in bureaucracy). Skeptics about free markets, who insist that order must be centrally designed, should find this story instructive. FEE

Ice and Economics

BY DAVID J. HEBERT

What can an entrepreneur's attempt to profitably ship ice from America to the Bahamas teach us about economics? We'll see, but let's begin with some fundamentals.

Prices, property rights, and profit (and loss) lead to information, incentives, and innovation. This simple statement contains nearly every lesson necessary for a free and prosperous society. But what do these words mean?

Prices, property rights, and profit (and loss) lead to information, incentives, and innovation. This simple statement contains nearly every lesson necessary for a free and prosperous society. But what do these words mean?

Prices convey information about relative scarcities and communicate to us the relative value of competing uses of a resource. They also economize on the acquisition of knowledge. When we see the price of a resource rise, market actors understand the need to use less of the resource. What they don't know, however, is whether this rise is due to a disaster that destroyed some of the stock of that resource (an inward supply shift) or if a new, more valuable use for that resource has been discovered (an outward demand shift). These facts are irrelevant for a person who is currently using the resource, but from a societal level, her using less is necessary. If there is a disaster, we would want people to use less of it so that everyone else can still use some. If there is a new, more valuable use discovered, we would want the original users to use less so that more could be allocated toward this new use.

The term *property rights* refers not only to the right to use a resource but also to the right to exclude others from its use. In this sense property rights provide the incentive to allocate the use of a resource efficiently across time, for example, to conserve it for later. With firmly established and enforced property rights, not only does the owner not have to worry about someone else taking his things, but he also doesn't have to rush out to gather the resources as quickly as he can. A situation where there are no property rights is susceptible to what is called the "tragedy of the commons," where the resource gets depleted too quickly and never has a chance to replenish.

Profit (and loss) leads to innovation. Earning a profit is akin to being rewarded for doing something good. Suffering a loss is the opposite, a penalty for doing something wrong. In this case the deed being done is the attempt to allocate scarce resources to where they will earn their highest return. People who successfully do this are rewarded with monetary gain, which we call "profit." People who fail to do this experience what we call "loss." In attempting to allocate resources efficiently economic actors learn what works and what does not. Reducing the profitability of an activity through taxes or legislation, or sheltering people from losses, therefore retards this learning process and stifles innovation.

David Hebert (dave.hebert@gmail.com) is a Ph.D. Fellow at the Mercatus Center at George Mason University.

Ice and Price

This lesson is exemplified in early nineteenth-century Boston with the rise of the American natural ice trade. In 1806 Frederic Tudor sailed a ship full of ice from Boston to the Bahamas. Two years earlier Tudor had begun experimenting with insulation with the goal of bringing ice to the Bahamas. When he was ready to set sail, he found that the ship captains refused to carry his cargo for fear of damaging their vessels. So he bought his own brig, the *Favorite*, and set sail February 10, 1806. He arrived in Martinique with a large quantity of ice still intact and began selling. The Bahamians loved the ice, which they had never seen before. Yet that first year Tudor lost a substantial sum of money, although he proved that ice could be shipped to the Bahamas. Now the objective became to do it at a profit. Convinced his idea would be wildly successful, he continued his attempts to drive down costs and increase demand.

> As the price of ice on the ponds rose, the people of Boston used less themselves and sold the ice to the Bahamians. The price system reduced consumption and increased production through competition.

Meanwhile, as the price of ice on the ponds rose, the people of Boston gained the information that it would bring a higher return in the Bahamas, thus they used less themselves and sold the ice to the Bahamians. The price system reduced consumption and increased production through competition. In 1840 the ponds in the Boston area were explicitly divided, giving each person on the lake the right to exclude everyone else from harvesting any ice that wasn't his. This allowed Tudor, for example, to invest in his ice and let it freeze longer so that it could better survive the long journey from Boston to India, which entailed crossing the equator twice and sailing around the tip of Africa. As Tudor earned profit from his venture, more people were attracted to the ice.

To continue to earn a profit, therefore, he had to find a way to outcompete everyone else. In 1825 Tudor enlisted the help of Nathaniel Wyeth, one of his suppliers. Tudor noticed that Wyeth's ice was always significantly cheaper than everyone else's and was cut in neater blocks, which packed more easily. Wyeth had converted some old farm plows into ice-cutting plows and had fastened horseshoes with spikes to allow horses to pull these modified plows across the ice. By scoring the ice in such a fashion, Wyeth could break uniform-sized blocks much quicker than his competitors, who were using hand saws that produced rough and uneven edges.

These wouldn't be the only contributions of Wyeth, as he went on to invent many other cost-saving techniques. For example, Wyeth developed a conveyor-belt system that would haul the ice from the pond into the waiting icehouse. He also invented bigger plows that could cut more blocks at once and poles that were used to guide the floating ice blocks onto the conveyor belt, and refined the above-ground icehouse, which allowed ice to be stored anywhere in the world for months on end without any external source of refrigeration.

Tudor and Wyeth also experimented with new means of insulating the ice from the heat, discovering that sawdust was not only a fantastic insulator but was also cheaply available from the sawmills around Boston. They also taught their customers new ways to use the ice, including making ice cream and storing the ice in iceboxes to preserve foods longer.

In short the three Ps lead to the three Is: Prices, property rights, and profit (and loss) lead to information, incentives, and innovation. With these firmly in place, a free and prosperous society will follow. FEE

C. S. Lewis: Free-Market Advocate

BY HAROLD B. JONES, JR.

He seems an unlikely candidate for the title "free-market advocate." He never thought of himself as an economic thinker, and the number of his readers who would consider putting him in that category is vanishingly small. He is universally understood rather as an apologist for what he called "mere Christianity," the set of beliefs to which the best of my seminary professors always referred as "the consensus of the first five centuries."

Be that as it may, C. S. Lewis had much in common with the great free-market thinkers of his time. He is discovered on careful examination to have been writing about many of the same issues as Ludwig von Mises and Friedrich Hayek and on these issues to have been in perfect agreement with them. The dates are worth considering. *Bureaucracy*, one of Mises's critiques of governmental economic intervention, came out in 1944. Hayek's *The Road to Serfdom* came out the same year. Lewis had released *The Abolition of Man* only a year before, and in the year that followed his *That Hideous Strength* made its debut. All these books were written to defend the idea of the individual human being as the locus of rational choice and moral responsibility. Mises and Hayek wrote as economists and Lewis as a lay theologian, but all three wrote to challenge the assault on human nature in the name of a false ideal.

Mises and Hayek wrote as economists and Lewis as a lay theologian, but all three wrote to challenge the assault on human nature in the name of a false ideal.

Lewis seems never to have thought specifically about the principles of the free market. He thought a great deal, though, about the importance of accurate premises and careful reasoning, and he could see that many religious leaders had no interest in either. In denigrating the powers of reason, he warned them, you are opening the way for tyranny.

That Hideous Strength had been preceded by *Out of the Silent Planet* (1938) and *Perelandra* (1943). Often referred to as "The Space Trilogy," these three books have been described by David C. Downing as symbolizing the stages of a mystical quest. They are more easily read as a protest against much of what Lewis saw going on in the world around him. This is particularly true of the last, which (whatever its religious symbolism) is clearly an account of the horrors created by forcible social planning. George Orwell reviewed it for the *Manchester Evening Post* two years before writing *Nineteen Eighty-Four* and wrote, "Plenty of people in our age do entertain the monstrous dreams of power that Lewis attributes to his characters."

One of these characters seems in some measure a fictionalization of a person with whom many of Lewis's first readers would have been familiar. Rev. James Busby, one of *That Hideous Strength*'s minor villains, is the bursar at Bracton College. A leader in the "Progressive" element, he is among those most in favor of bringing the college into an alliance with the National Institute for Coordinated

Harold B. Jones, Jr. (Harold@personalcharacter.com) is a professor at Dalton State College in Georgia and pastor of the New Prospect Cumberland Presbyterian Church.

Experiments, or N.I.C.E. He is jovial, overweight, well-meaning, high-minded, supercilious, averse to careful thought, and in many other ways remarkably similar to the real-life Archbishop of Canterbury, William Temple. Temple was among the first of the English-speaking clergy to replace Christian doctrines with Progressive politics and thus to become, in the words of historian Paul Johnson, "a part of that huge movement which, as Nietzsche had foreseen" would transform "religious energy into secular utopianism." He was the condensed human essence of what Nietzsche himself called "that cheapest of all propaganda tricks, a moral attitude."

Since late in the nineteenth century members of the clergy had been turning in large numbers to all-powerful governments as the solution for the world's problems. Among Temple's immediate colleagues there was one who offered the Soviet Union as an example of how socialism produced "comradeship and the zest for efficient public services." Temple himself described Hitler's decision to send his armies into the Rhineland as "a great contribution to the secure establishment of peace." It was at this time, and in a book that is still assigned to seminary students, that the American theologian Reinhold Niebuhr wrote of "Germany, where all the social and political forces of modern civilization have reached their most advanced form."

Once supposedly educated men had begun to insist on doctrines asserting that A and non-A were actually the same, demands for the use of force inevitably followed.

In Nazi Germany, Hayek said, scientists and engineers had "submitted more readily than almost any other class to the new tyranny." Long before the scientists rendered their obeisance, however, teachers and the clergy had led the way by creating the mindset that made it seem only fitting to kneel before the thrones of power. Bismarck was still busy with the foundations of an imperial welfare state when the psychologist Emil du Bois-Reymond said, "We, the University of Berlin, quartered opposite the King's Palace, are, by the deed of our foundation, the intellectual bodyguard of the House of Hohenzollern." They were taking upon themselves, Mises observed, the duty of denying that there were laws superior to governmental decrees, laws in defiance of which no human law could possibly achieve its intended purpose. As German social science began thus to focus on "denying the regularity of economic phenomena," Germany's schools of philosophy and theology began to embrace a "higher criticism" that denied the regularity of moral experience and the validity of ancient traditions. The Greco-Roman and Judeo-Christian themes of individual responsibility were the first to go.

Up until the 1870s, Hayek observed, western ideals and classical liberalism had been moving east. As the direction changed and western intellectuals began to put their faith in the benevolence of an all-powerful State, religious leaders like Archbishop Temple marched in step. They were soon off on tangents that took them far wide not only of "Mere Christianity," but even of mere rationality. During World War I, Charles Gore, bishop of Oxford, published a collection of papers entitled *Property: Its Rights and Duties*. He argued at one point that there was no conflict between property rights and governmental programs for the redistribution of wealth. Once supposedly educated men had begun thus to insist on doctrines asserting that A and non-A were actually the same, demands for the use of force inevitably followed. By the 1940s the British Council of Clergy and Ministers for Common Ownership was insisting that in order to establish socialism "all fundamental opposition must be liquidated."

What they were demanding was of course a violation of every Christian precept. Devout men, unoffending in their private lives, kind and understanding with the members of their parishes, they were inclined toward violent solutions only because of the foolish ideas they had learned to embrace. They had unfortunately picked up a good many of these ideas from people who claimed to be economists.

The work that first brought Lewis to the attention of a wide public was *The Screwtape Letters*, which was published in 1942. This book purports to document the correspondence by means of which a senior devil advises his subordinate Wormwood on how to secure the damnation of the human being for whom Wormwood has been given responsibility. Prominent among the recommended techniques is that of confusing the man's thoughts by means of what he reads. Keep him away from anything carefully logical, Screwtape insists, and as far as possible from subjects dependent on solid reasoning or demonstrable facts. "If he must dabble in science, keep him on economics or sociology."

Lewis was not alone in his unhappiness with the careless thinking behind much of what passed for economics. Hayek said the field had become a factory of "official myths," and Mises begged for "common sense and logical clarity." All three men could see that the most familiar themes on the subject of economics were anything but a display of careful thinking. The London School's Harold Laski is a case in point. He strongly advocated eugenics, the public ownership of productive capital, and centralized planning. Another example is Francis Townsend, who offered a much-applauded plan for curing economic ills by giving people over the age of 60 an income of $200 a month, provided only that they spent every nickel and engaged in no productive activity.

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For men like Archbishop Temple, such ideas seemed to offer a ready answer for the suffering they saw in the world around them. Lewis was in complete sympathy with their desire to alleviate human misery, but he understood that the execution of benevolent intentions requires the expenditure of resources. Since these are in any given moment severely limited, choices must be made. In the most famous of his wartime lectures, he said, "You cannot do *simply* good to *simply* Man; you must do this or that good to this or that man. And if you do this good, you can't at the same time do that."

He gave the example of a man in a boat, who sees two others drowning. The man wants to help both but must start with one, and while he is saving that one, the other may go down for the last time. If he can save the first, he will deeply regret but need not apologize for the second's death. He did what was within his power, which was the only power that could be brought to bear on this particular situation. There were at that moment doubtless other drowning men to whom he could have given no assistance even if he had known of them, but they were not his responsibility. He could be expected to do only as much as his own knowledge and resources permitted.

As Hayek wrote at almost exactly the same moment that Lewis was delivering his lecture, the concrete human being can be aware of and deal with but "an infinitesimal fraction of the needs of all men." Lewis said that the only effective benevolence is that of challenging "each immediate evil as well as we can. . . . [T]he dentist who can stop one toothache has deserved better of humanity than all the men who think they have some scheme for producing a perfectly healthy race."

In the analogy of the drowning men, the clergy and the politicians they want to influence can be compared with onlookers shouting advice from the shore. They cry, "Save both men! Save both!" And surely, from their safe location, it does seem that both could be saved; what they are asking for does seem to be, in Hayek's words, "both desirable and possible." It would in fact be not only possible but easy if there were two boats. Alas there is only one, and the person in it has to make his own best estimate of how to achieve the desired result. Will he save the one who is nearer or the one who seems to be having the harder time of it? The rower sees what needs to be done better than do any of the distant onlookers, but his knowledge is imperfect, and his decision may well lead to what seems to be an unnecessary death.

Limited intellectual and limited material resources: These are the facts of our lives, and the results they produce are seldom perfect from every imaginable point of view. Archbishop Temple saw these imperfections as the result not of the constraints imposed by reality but of a fundamental flaw in human nature. “The centre of trouble,” he said, “is in the personality of man as a whole, which is self-centered.”

There were many churchmen who agreed, and the pulpits of the time rang with cries to turn away from the sin of self interest. Lewis admitted to being baffled with this point of emphasis. Why was it, he asked, that the church leaders of his time had come to insist on “Unselfishness” as the most important of the virtues? The great saints of earlier centuries all agreed that it was Love. A positive term had been replaced with a negative, putting the emphasis not on “securing good things for others, but of going without them ourselves.”

Lewis regarded this as a distortion. “The notion that to desire our own good and to earnestly hope for the enjoyment of it is a bad thing,” he said, “. . . is no part of the Christian faith.” Nor is there anything sinful about personal preferences. These are simply a fact—probably the most important fact—of human life. They make us what we are. Ants and bees, he observed, “have sought first the material welfare and security of the hive,” but human thoughts turn to private concerns and vanities even in the midst of undertakings that involve hundreds or thousands. The Spartan soldiers at Thermopylae stopped to comb their hair, Archimedes propounded mathematical theorems during the siege of Syracuse, and General Wolfe was found reading Gray’s “Elegy in a Country Churchyard” during the attack on Quebec. The repeated tendency to focus on our own interests should not be treated as something surprising or exceptional or worrisome; “it is our nature.”

If human nature really was changed, Lewis replied, what would be left would be something other and less than humanity. Mises agreed: “. . . if a man’s nature is changed, he ceases to be a man.”

Personal preferences, moreover, are the source of every human felicity and every valuable service. The most important earthly thing is not self-sacrifice for the sake of grand schemes, but the private happiness of concrete individuals: “The sun looks down on nothing half so good as a household laughing together over a meal, or two friends talking over a pint of beer, or a man alone reading a book that interests him.” (Is it unreasonable to imagine Adam Smith’s notoriously self-interested brewer and butcher looking forward to sharing glasses of beer and a steak at the end the day?) In doing what we enjoy and in doing it as well as we can, we offer a service every bit as acceptable as Archbishop Temple’s best sermon. “St. Paul urges people to get on with their jobs,” Lewis says, adding a little later that “The work of a Beethoven and the work of a charwoman become spiritual on precisely the same condition, that of being offered to God” and in service to other human beings.

The motives of those who take offense at these realities spring from something other than a desire to ameliorate the human condition. Certain values, Lewis said, “are really true, and others really false, to the kind of thing the universe is and the kind of things we are.” Those who attempt to stand above these values and insist upon others of their own choosing cannot really be interested in “improvement.” Any objective “better” or “worse” must necessarily derive from the preferences that spring from the facts of human nature, and it is precisely these that social engineers (Lewis called them “Conditioners”) want to set aside.

The German Marxists admitted to this. If human nature conflicts with the demands of socialism, they said, then human nature must be changed. Alas, if human nature really was changed, Lewis replied, what would be left would be something other and less than humanity. Mises agreed: “. . . if a man’s nature is changed, he ceases to be a man.”

But if those coming forward with elaborate plans for the “reformation” of society are not really interested in the cause of humanity, what does motivate them? Simply the desire for power: On this point Lewis is in emphatic agreement with both Hayek and Mises. Hayek: "[T]he desire to organize social life according to a single plan itself springs largely from a desire for power." Mises: "Every dictator plans to rear, raise, feed and train his fellow citizens as the breeder does his cattle. His aim is not to make them happy but to bring them into a condition which renders him, the dictator, happy." Lewis in *That Hideous Strength*: "[Y]ou know as well as I do that man's power over nature means a few men's power over other men, using nature as the instrument." Lewis in *The Abolition of Man*: The proposed systems deal with people as poultry keepers deal with young birds, "making them thus and thus for purposes of which the birds know nothing."

Human nature, though, is more stubborn than the henhouse imagery seems to suggest. The great schemes of the past, Lewis observes, have all been foiled by the "beneficent obstinacy" that inspires a person to insist on his view of things. This is the real point of *That Hideous Strength*, in which the schemes of the National Institute for Coordinated Experiments collapse in a communications breakdown reminiscent of the Tower of Babel story in the eleventh chapter of Genesis. In his review of the book George Orwell complained that this conclusion was so dependent on supernatural intervention as to make it unbelievable. He should have thought more carefully. If he had, he would have seen that the story represents the law of unintended consequences and the way in which personal choices make a chaos of every attempt at social engineering. The confusion of tongues at the last meeting of the N.I.C.E. may be taken as symbolizing the "disintegration of social cooperation" that Mises described as the inevitable fate of every socialist utopia.

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If C. S. Lewis can be called a free-market advocate, it is not because of anything he said specifically about economics. It is rather because he believed in the rules of logic and insisted on premises that derive from life as it is actually experienced. He understood that human nature and the laws of nature are fixed realities, which religious leaders and legislators ignore at their peril—and ours. FEE

Two Early Prophetic Anti-Socialist Satires

BY PHILIP VANDER ELST

"I had spent an extremely interesting evening. I had dined with some very 'advanced' friends of mine at the 'National Socialist Club'. We had had an excellent dinner: the pheasant, stuffed with truffles, was a poem. . . . After dinner, and over the cigars (I must say they do know how to stock good cigars at the National Socialist Club), we had a very instructive discussion about the coming equality of man and the nationalisation of capital."

With these opening words, the famous nineteenth-century English writer and humorist, Jerome K. Jerome (1859–1927), fired a satirical but penetrating broadside against socialism under the title, "The New Utopia," one of a collection of essays and short stories first published in 1891.

Although he is best known and loved as the author of *Three Men in a Boat* (1889), Jerome deserves to be remembered for producing this anti-socialist literary gem, which combines great wit with acute political and psychological insight. It is, moreover, all the more interesting because it is not the work of a man who was born with a silver spoon in his mouth and therefore anxious to preserve aristocratic privilege, but the product of one who grew up in poverty and suffered the premature death of his parents during his early teens. (See the Wikipedia article on him.)

The early misfortune could have filled him with resentment toward the rich and successful. Instead, Jerome's varied career as a railroad worker, actor, writer, and journalist gave him a love of individuality and freedom that inoculated him against the socialist virus infecting so many of his Victorian contemporaries. Accordingly, his good-natured satire exposes the totalitarian logic of socialism and its soul-destroying egalitarianism with remorseless zest. Yet the sharpness of his attack is softened, and arguably made more effective, by its lighthearted tone.

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Right from the outset, Jerome reveals his grasp of the essential character and goals of socialism. "Equality of all mankind was their watchword—perfect equality in all things—equality in possessions, and equality in position and influence, and equality in duties, resulting in equality in happiness and contentment. . . . Each man's labour was the property, not of himself, but of the State which fed and clothed him. . . . When all men were equal, the world would be Heaven—freed from the degrading despotism of God. We raised our glasses and drank to EQUALITY, sacred EQUALITY; and then ordered the waiter to bring us Green Chartreuse and more cigars."

Then, for the reader, the fun really begins as Jerome, in his imagination, returns to his lodgings after that dinner at the National Socialist Club and lies awake in

Philip Vander Elst (philipvanderelst@aol.co.uk) is a British freelance writer, lecturer, and C. S. Lewis scholar whose many publications include Power Against People: A Christian Critique of the State *(Institute of Economic Affairs).*

bed thinking "how delightful life would be" if the "State would take charge of us from the hour we were born until we died, and provide for all our wants from the cradle to the coffin. . . ." Not surprisingly, he then falls into a dream in which he imagines himself waking up from sleep only to find that he is lying under a glass case in a museum in a new and unfamiliar socialist England in the 29th century.

After being told by a museum official that his landlady forgot to wake him ten years before "the great social revolution of 1899," Jerome is given a guided tour of the new socialist London, in the course of which we discover all the dramatic changes that have taken place since he fell asleep.

The tour begins with Jerome asking his guide whether all the world's problems have now been solved, since "A few friends of mine were arranging, just before I went to bed, to take it to pieces and fix it up again properly. . . . Is everybody equal now, and sin and sorrow and all that sort of thing done away with?"

This is a significant question, since the slightly flippant language in which it is posed shows a thorough understanding of the utopian social engineering mentality, which underlies the socialist project. The naive and arrogant belief, so widespread on the statist left, that imperfect human nature can be reshaped by the enforced reorganization of society by the State is mercilessly lampooned in the ensuing dialogue between Jerome and his socialist guide.

"Oh, yes," replies the guide to his original question, "you'll find everything all right now. . . . We've just got this earth about perfect now, I should say." And we soon find out what he means by the word "perfect": namely, total collectivization and uniformity. Everyone now lives in the same government-owned barracks-like apartment blocs, wears the same clothing, and eats collectively cooked meals at prescribed times of the day—a chillingly prescient if lighthearted anticipation of social life in many twentieth-century communist societies. When, in addition, Jerome asks his guide why everyone they meet has black hair, the reply he gets appeals to our sense of humor, as it is meant to, but at the same time focuses our attention on the necessary conflict between absolute equality and freedom.

> The truthfulness of Jerome's analysis has been abundantly confirmed by the experience of socialism in the twentieth century. In communist China, for example, during the dictatorship of Mao Zedong conformity of thought, behavior, and dress was rigorously enforced.

"What would become of our equality if one man or woman were allowed to swagger about in golden hair, while another had to put up with carrots?. . . By causing all men to be clean shaven, and all men and women to have black hair cut the same length, we obviate, to a certain extent, the errors of Nature."

The same egalitarian principle, we discover, also applies to the issue of personal cleanliness, since it was found that it was impossible to maintain equality when people were allowed to wash themselves. "Some people washed three or four times a day, while others never touched soap and water from one year's end to the other, and in consequence there got to be two distinct classes, the Clean and the Dirty. All the old class prejudices began to be revived. The clean despised the dirty, and the dirty hated the clean. So, to end dissension, the State decided to do the washing itself, and each citizen was now washed twice a day by government-appointed officials; and private washing was prohibited."

It would be easy, at this point, to dismiss Jerome's attack on socialist egalitarianism as a whimsical satire, especially after his guide reveals that in this new socialist England, good looking and intelligent people are subjected to mutilation and brain surgery to prevent them rising above the human average. But that would be a mistake. Jerome deliberately regales us with these absurdities to bring home the fact that the socialist project is necessarily coercive and totalitarian because it flies in the face of human nature and the human condition. What is more, the truthfulness of Jerome's analysis has been abundantly confirmed by the experience of socialism in the twentieth century. In communist China, for example, during the dictatorship of Mao Zedong (1949–1976), conformity of thought, behavior, and dress was rigorously enforced, and during the infamous Cultural Revolution (1966–1969), anyone who was considered to be of above-average ability or education was denounced as an enemy of the people and subjected to savage humiliation and persecution (See Clarence B. Carson, *Basic Communism*, chapter 17).

Jerome's satirical tour of socialist London explores three other prominent themes with the same acuity and lightness of touch, the first being the obliteration of personality and the family in order to facilitate the absorption of the individual into the collective.

"Why does everyone have a number [on his collar]?" asks Jerome. "To distinguish him by," answers the guide. "Don't people have names, then?" "No," the latter replies, "there was so much inequality in names. Some people were called Montmorency, and they looked down on the Smiths; and the Smythes did not like mixing with the Jones: so, to save further bother, it was decided to abolish names altogether, and to give everybody a number." When, a little later, Jerome asks his guide where the married people live, he is informed that marriage has been abolished. "You see," explains the guide, "married life did not work at all well with our system. Domestic life, we found, was thoroughly anti-socialistic in its tendencies. Men thought more of their wives and families than they did of the State. . . . The ties of love and blood bound men together fast in little groups instead of one great whole."

Here, once more, Jerome perceives the logic of full-blooded socialism, and once again his prophetic satire has been vindicated by history. Names may not have been replaced by numbers in the revolutionary socialist societies of our times (except in concentration camps) or marriage abolished, but in every single one of them the family has been subordinated to the State and individuals (especially the young) herded into compulsory mass movements and organizations. (See John Marks, *Fried Snowballs: Communism in Theory and Practice*, and Carson, *Basic Communism*).

The last few pages of "The New Utopia" unfold the remaining themes of Jerome's critique of socialism. Thus we learn that in the new socialist England all old books, paintings, and sculptures were destroyed and all freedom of thought and expression forbidden, in obedience to the will of the egalitarian "MAJORITY." As the guide emphatically states earlier on in the tour, "A minority has NO rights," revealing Jerome's awareness, shared by all the great nineteenth-century classical liberals, that democracy can be as destructive of liberty as traditional autocracy, especially within a socialist culture that sees individuality and personal excellence as a threat to social unity and equality. That has certainly proved to be the case throughout the postcolonial period in Asia and Africa, where time and again majority-rule elections have spawned dictatorships, ethnic cleansing, and genocide—the victims usually being the most productive members of society. (See, for instance, George B. N. Ayittey, *Africa Betrayed*, and Freedom House's annual global surveys of human rights).

It is particularly interesting that Jerome's satirical attack on socialism was not an isolated example of anti-socialist fiction in the 1890s.

It is particularly interesting that Jerome's satirical attack on socialism was not an isolated example of anti-socialist fiction in the 1890s. In 1893, only two years after the appearance of "The New Utopia," a far more comprehensive literary assault on socialism was mounted in Germany, with the publication of Eugen Richter's *Pictures of the Socialistic Future.*

A German lawyer, civil servant, and politician, Richter (1838–1906) was a strong advocate of free trade and a market economy, and as leader of the German liberals in the Reichstag (parliament), one of the greatest critics of both the Social Democratic Party (the German socialists) and the policies of the imperial chancellor, Otto von Bismarck. From 1885 to 1904 Richter was also the chief editor of the liberal newspaper, *Freisinnige Zeitung,* and it was during this period that he wrote his great anti-socialist satire.

Pictures of the Socialistic Future develops similar themes to those found in "The New Utopia," but at much greater length and less fancifully. While retaining its satirical tone, its vision of a socialist society is entirely realistic, especially in its prophetically accurate analysis of the impact and consequences of socialist institutions and policies.

Richter's story begins on a note of celebration following a successful socialist revolution in Germany. "The red flag of international Socialism waves from the palace and from all the public buildings in Berlin," exults the narrator, the proud father of a socialist family. "The old rotten regime, with its ascendancy of capital, and its system of plundering the working classes, has crumbled to pieces. And for the benefit of my children, and children's children, I intend to set down in a humble way, some little account of this new reign of brotherhood and universal philanthropy." This he then proceeds to do, but with growing disillusionment.

Can anyone presented with this picture deny its prophetic anticipation of the course of socialist revolution in the twentieth century?

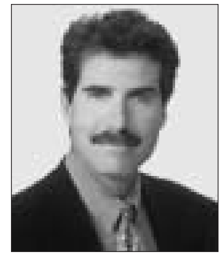
As might be expected, the narrative is initially upbeat, presenting us with enthusiastic descriptions of all the new changes introduced by the socialist revolution. We learn that all private property has been confiscated, all industry and services nationalized, and all personal and family life subordinated to the needs and control of the State. In addition, we are informed, all able-bodied citizens between the ages of 21 and 65 are compelled to register for work, with the government alone deciding where and how they are to be employed. But instead of ushering in a new era of social harmony and plenty, these socialist measures and decrees eventually produce the opposite outcome. And here Richter is particularly skillful, because his satire reveals the unfolding consequences of socialism as they affect the narrator and his family.

The collectivization of childcare, education, and housing, for example, is particularly painful in its effects. The removal of the narrator's young daughter to a State orphanage, and of the narrator's aged father to a government rest home, has a devastating impact on all the family, while the new decrees enforcing State control of the labor force have a similarly demoralizing effect. Not only are the narrator's son and prospective daughter-in-law forced to postpone their marriage by having to live and work in different towns, but the confiscation of their savings blights their ambitions and plans for their future. And as if all this were not bad enough, the enforced collectivization and redistribution of dwellings and furniture, and the establishment of "State cookshops" at which all citizens are obliged to eat their communally provided meals, is a source of further demoralization.

The rest of Richter's narrative describes the processes by which the last socialist straw breaks the German camel's back. The collectivization of the economy and of all cultural institutions discourages effort, creativity, and production, destroying living standards and provoking the emigration of all the most talented and enterprising members of society. At the same time the centralization of all power and decisionmaking in the hands of the State, and the need to discipline the increasingly restive and rebellious population, produces a vast increase in the size of the State bureaucracy and security apparatus, assisted by a growing army of paid informers. As Richter's narrator explains, democratic elections have become a farce since "every single individual is a spy on his neighbour." Eventually, of course, simmering discontent, exacerbated by the closing of the frontiers and the gunning-down of all those seeking escape from the socialist paradise, erupts into full-scale counterrevolution and civil war.

Can anyone presented with this picture deny its prophetic anticipation of the course of socialist revolution in the twentieth century?

Those who have read Roland Huntford's book on Sweden, *The New Totalitarians* (1971), will also recognize the relevance of both satires to the evolution of the welfare state in the increasingly "politically correct" Western democracies, especially in the field of education. Again, we cannot say we were not warned.



America, the Law-crazed

BY JOHN STOSSEL

Over the past few decades, America has locked up more and more people. Our prison population has tripled. Now we jail a higher percentage of people than even the most repressive countries: China locks up 121 out of every 100,000 people; Russia 511. In America? 730.

"Never in the civilized world have so many been locked up for so little," *The Economist* says.

Yet we keep adding more laws and longer jail terms.

Lavrentiy Beria, head of Joseph Stalin's secret police in the old Soviet Union, supposedly said, "Show me the man, and I'll show you the crime." Stalin executed anyone he considered a threat, and it didn't take much to be considered a threat. Beria could always find some law the targeted person had broken. That's easy to do when there are tons of vague laws on the books. Stalin "legally" executed nearly a million people that way.

I'm not saying that America is like Stalin's Russia, but consider the federal laws we have. The rules that bind us now total more than 160,000 pages. The Congressional Research Service said it was unable to count the number of crimes on the books. Yet last week the feds added or proposed another thousand pages. States and cities have thousands more. Have you read them all? Have our "representatives" read them all? You know the answer.

When there is a big crime, legislators quickly demand that felons be given longer jail sentences and "mandatory minimums" for repeat offenses. This wins votes but kills judicial discretion and crushes unlucky people.

In Iowa a man with an old felony conviction found a bullet, put it on his dresser and forgot about it. A police officer, looking for something else, saw the bullet. Felons may not possess any ammunition, and this "crime" made the man a repeat offender. He's now serving a 15-year mandatory sentence for possession of ammunition. Really. The long sentence was appealed, but the U.S. Eighth Circuit Court of Appeals upheld it, saying its hands were tied by the mandatory minimum set in law.

Most of us won't be victimized by mandatory minimums or the countless ambiguities in today's laws, but if you are the kind of person America needs most—an inventor who creates something or someone who builds a business—there is a bigger chance that you'll fall victim to the incomprehensible maze.

The laws burdening business and finance are bewildering—Dodd-Frank merely piled on. Even enterprises with big legal and accounting departments better watch out.

Then there's the so-called war on drugs—a war on people, actually. Lots of politicians admit that they used drugs in their youth—even presidents. Barack Obama wrote in his memoir, *Dreams From My Father*: "Pot had helped . . . ; maybe a little blow [cocaine] when you could afford it."

And yet in office, these same politicians preside over an injustice system that jails a million Americans for doing what they did. Don't they see the hypocrisy? Give me a break.

Libertarian entertainer Penn Jillette has it right: "If Obama had been caught with the marijuana that he says he used and 'maybe a little blow' . . . if he had been busted under his laws, he would have done hard f—ing time . . . time in federal prison, time for his 'weed' and 'a little blow,' he would not be president . . . would not have gone to his fancy-ass college, he would not have sold books . . . made millions of dollars. . . . He would have been in f—ing prison, and it's not a goddamn joke."

I want my government to arrest real criminals—ones who violate our rights—and to lock them up so we'll be protected. But our politicians go way beyond that. Governments at all levels have long been in the business of forbidding conduct that violates no one's rights and piling on complex laws to govern conduct that might harm someone. And they keep passing more.

They have created a byzantine maze of criminal law that is so incomprehensible that even legal specialists don't agree on what the rules specify. Then ambitious prosecutors ruin lives enforcing those laws. The prosecutors and lawmakers say this is for our own good.

No, it's not. FEE

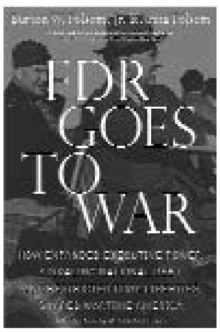
John Stossel hosts Stossel *on Fox Business and is the author of* No, They Can't: Why Government Fails—But Individuals Succeed.

Book Reviews

FDR Goes to War: How Expanded Executive Power, Spiraling National Debt, and Restricted Civil Liberties Shaped Wartime America

by Burton W. Folsom, Jr., and Anita Folsom
Threshold Editions • 2011 • 382 pages • $27.00

Reviewed by Robert Higgs



With the passage of time Franklin Delano Roosevelt's historical shrine has eroded somewhat, and here and there its foundations have been undermined by researchers who reject the idolatry that long marked historical scholarship about the 32nd president. Hillsdale College history professor Burton W. Folsom, Jr., made an important contribution to such historical revisionism with his book *New Deal or Raw Deal?* (2008). Now, in collaboration with his wife Anita, Folsom has written a sequel, *FDR Goes to War*, which traces FDR's actions during the 1940s, as the preceding book did for the 1930s.

Once Roosevelt had decided that he would, by hook or by crook, lead the country into the great European war that had burst into flames in 1939 after 21 years of smoldering, he made a major change in the political course he had followed since 1935. He caged the dogs he had loosed to torment business people and investors. The Folsoms write: "Roosevelt had to have their cooperation. He could not win the war without them. Thus, he was finally ready for a truce with businessmen." This truce brought many businessmen into positions of great authority in the wartime command economy, smoothed the enmity between business people and the government that had helped to prolong the Depression, and set the scene for the successful functioning of the civilian economy after the war.

The Folsoms trace the Roosevelt administration's major diplomatic and related maneuvers before the war, including its policy of turning away Jews seeking refuge from the impending catastrophe in Europe. They remark: "Roosevelt could quietly exclude Jews and cite national security over and over again, whether or not the international crisis really warranted such a response." Many of the people Roosevelt excluded later perished in the death camps during the war.

FDR's pose as a peace-seeker before the Japanese attack on Pearl Harbor has long been recognized as a thin disguise for his actual aims. Even as he promised voters shortly before the election of 1940 that he was not going to send their boys "into any foreign wars," he was fully committed to U.S. engagement in the war. "Behind the scenes he was working with Churchill . . . to prepare for war," the authors write.

Major diplomatic and military developments during the war receive workmanlike attention from the Folsoms, but the details of their account are in the main already known to scholars and serious lay readers. In regard to Roosevelt's responsibility for and foreknowledge of the attack on Pearl Harbor, the Folsoms give the President a conventional pass: They blame him and the military leadership only for incompetence. Here the authors might well have benefited from two sources they neglect—*Day of Deceit* (2000) by Robert B. Stinnett and *The Pearl Harbor Myth* (2007) by George Victor.

Like Burt Folsom's previous book, *FDR Goes to War* shines brightest in its portrayal of Roosevelt the political animal. The authors reveal the extent to which FDR's well-known vindictiveness led him to use the IRS, the FBI, and even the attorney general to go after scores of his political enemies. Illegal wiretaps of telephones, presidentially ordered tax audits, and far-fetched prosecutions were all in a political day's work for the sainted President. FDR also engaged a personal spy group, headed by John Franklin Carter, to collect incriminating information about his political enemies.

He used similarly underhanded tactics to get political friends and allies off the hook. Thus, "Communists Roosevelt tended to ignore because the United States was allied with Russia"—not to mention that the administration was riddled with communists and their sympathizers. When the IRS went after Brown & Root, the political sugar daddy of rising New Dealer Lyndon Baines Johnson, the President heeded Johnson's plea and "intervened with the IRS in 1944 to squelch the case."

FDR's political instincts also guided his order for the forced relocation and confinement of people of Japanese ancestry living on the west coast. He calculated that the internment order would help him carry California and other western states, where hostility to the Japanese-Americans was strong. (German-Americans and Italian-Americans were not interned because Roosevelt wanted their numerous votes.) Even as late as March 1944, when the relocation clearly lacked a plausible military excuse, "Roosevelt wanted to keep the Japanese confined because their return to California would upset voters there and create a possible backlash against him in the 1944 elections," the Folsoms write.

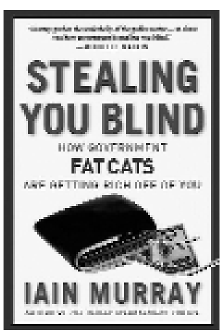
Thus, as the book shows, Roosevelt was above all a conniving, ruthless politician. The legions who have idolized him as America's savior in the 1930s and the world's savior in the 1940s have been worshiping a false god.

Robert Higgs (rhiggs2377@aol.com) is a historian and author of Depression, War, and Cold War.

Stealing You Blind: How the Fat Cats Are Getting Rich Off of You

by Iain Murray
Regnery • 2011 • 204 pages • $27.95

Reviewed by George Leef



Frédéric Bastiat introduced one of the most important concepts in political economy: "legal plunder," the government's forcible extraction of wealth from the populace for the benefit of the ruling class. French monarchs in Bastiat's time sent out tax collectors to plunder the people, most of whom understood perfectly that the king was robbing them to pay for his extravagances and follies.

As Bastiat well knew, democratic governments also engage in legal plunder, although it is obscured by the myth that elected representatives do whatever is in the "public interest." Under democracy the people supposedly *are* the government and therefore all its actions are justified. You certainly can't steal from yourself.

Not so, declares Iain Murray of the Competitive Enterprise Institute in his book *Stealing You Blind*. Democracy is rife with legal plunder, Murray writes, and it's no more justified than if a gang of thugs were to rob you at gunpoint. Politicians long ago figured out how to use government power to line their pockets, and special interest groups long ago figured out that by backing the right politicians, they could get far more wealth out of the public treasury than they could get through production and trade. As a result, Americans are heavily taxed to support "a new leisure class" that produces little or no value. It's like having a huge tapeworm in your gut, feeding parasitically off the food you work to buy.

Much of the book consists of recent and infuriating instances of legal plunder, and that is why it is so effective. The stories Murray tells are memorable because they make you angry. For example, consider Bell, California: The city manager of this small, poor town, along with his cronies, managed to stack the city council with their friends, who voted to give them astronomical salaries. The city manager, Robert Rizzo, was pulling in a salary of nearly $800,000 per year. Did he produce that much in value for the taxpayers? Of course not. He probably couldn't have earned a tenth of that in voluntary exchange with people in Bell, but his ability to manipulate democracy enabled him to live like a king.

Murray quotes the defensive statements he and his highly paid subordinates made when they were caught. The arrogance will make you see red. After years of living it up at public expense, Rizzo and his comrades were arrested and charged with crimes including fraud and breach of fiduciary duty. No matter how that litigation turns out, the taxpayers won't get much if any of their money back, although Rizzo's city pension was reduced to a mere $100,000 annually.

Is Bell an anomaly? No. Murray shows that such plunder is widespread, although often less blatant. Some of the worst legal plunder is done by government employee unions. Union officials have mastered the art of electing compliant politicians who are indebted to them for their campaign support. So when it comes to bargaining over the terms of the contract, they are in effect in control of both sides of the table. As a result compensation for government workers is now significantly higher than for comparable workers in the private sector. That is contrary to the cultivated myth that when people go into "public service" they're making a financial sacrifice.

Moreover the lofty compensation for government employees is only half the problem. As Murray shows, discipline is often lax in government work, so "workers" can get away with a lot of loafing.

Murray devotes considerable space to documenting how we are plundered by the government's education establishment. Teachers are paid handsomely whether or not their students make any academic progress, and the gigantic mass of administrative personnel drives the cost far higher. Murray correctly says that "an astonishing amount of money in public education budgets doesn't go to educators, it goes to turf-protecting bureaucrats. . . ." Decades of government profligacy have driven city and state budgets into the red, but administrators can be counted on to cut spending on things that have some actual educational benefit (music classes, libraries, and so on) while preserving every dollar for the bloated administration.

By the time you've gotten to Murray's final chapter, you'll be convinced that taxpayers are in fact being robbed blind. What is to be done? Murray offers a number of sensible, if well-known ideas, including abolishing many federal departments that are havens for legal plunder (Education, Labor, Energy), ending labor union privileges and corporate welfare, and privatizing government functions wherever possible. He also suggests some that aren't so familiar, such as ending government research grants (many of which involve enormous waste) and instead offering prizes for results, though of course these would be tax-financed.

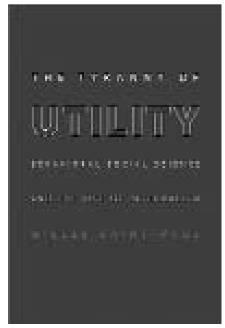
Nothing will happen, however, until the taxpayers realize how badly they're being plundered and get angry. This book will do much in that regard.

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

The Tyranny of Utility: Behavioral Social Science and the Rise of Paternalism

by Gilles Saint-Paul
Princeton University Press • 2011 • 174 pages • $39.50

Reviewed by Dwight R. Lee



It is clear from Saint-Paul's opening pages that he wants to prevent the "gradual elimination of individual freedom as 'social science' makes progress in documenting behavioral biases, measuring happiness, and [favorably] evaluating the effects of coercive policies, while information technology provides ever more efficient tools of control to the government." But he argues that trying to make the case for freedom on instrumental, or utilitarian, grounds will fail as new theories and evidence, such as those found in behavioral economics and happiness research, undermine the unitary individual assumption on which economic analysis rests. As the view of rational, utility-maximizing behavior is undermined, it is replaced with support for paternalistic policies.

Throughout the book Saint-Paul provides examples of paternalistic policies eroding freedom. He gives little hope, however, that this paternalistic trend can be contained, much less reversed. I kept hoping to find some discussion of Public Choice to inject political realism into how paternalistic policies would actually work. Only in the book's final semi-optimistic pages is there a discussion of political agency, followed up with reasons why such arguments are "not likely to be very convincing to the paternalists." Surely true, but maybe they'd be convincing to others.

Saint-Paul recognizes that standard economics provides justification for a liberal social order where social welfare is tied closely to individual welfare, and even when markets are seen to fail, economics suggest they are best remedied by policies that minimize restrictions on freedom. Yet in terms of protecting freedom, he sees the "fundamental philosophical flaw of the economic approach [as being] that it does not value individual freedom per se." His explanation for this statement is the consequentialist approach of economics, according to which economics only cares "about the allocation of resources at the end, not about the *process* by which resources were allocated" (emphasis added).

This seems to me as if Saint-Paul is giving up the game as far as protecting freedom is concerned. Again quoting him, "Once the premises of consequentialism are accepted, we can only object to some government intervention on *instrumental* grounds. . . . This stands in contrast to *principled* objections, which state that the intervention violates some fundamental principle upon which society is built" (emphasis in original).

Process is important in ethical arguments, but while freedom is a consequence of markets (not necessarily defined in terms of strict laissez faire), it is also an essential ingredient in the market process. Moreover, it is a fundamental principle on which society is built and which paternalistic policies violate, as Saint-Paul's discussion and examples make clear. Indeed, at the end of his book he sees hope in achieving "[l]imits to government . . . not . . . from the fear that excess government intervention might get out of control and have harmful consequences but from the principle that one cannot interfere with freedom of choice and individual responsibility."

But why shouldn't the fight for freedom also include an instrumental concern about, and attack on, the harmful consequences of excessive government? After all, Saint-Paul's book is loaded with examples of instrumental arguments for paternalistic policies that have apparently been effective. As he states, "There are countless examples of a public debate about a law that would strip people of their individual rights revolving around the existence or lack of academic studies showing that exercising that right has a statistical effect on undesirable outcomes." Saint-Paul reemphasizes this point after briefly discussing three examples with the comment, "In all these cases the arguments are purely instrumental."

It was known long before the work of behavioral economists and happiness scholars that real-world markets failed to achieve textbook efficiency. But as Public Choice scholars began pointing out in the 1950s, the relevant question with regard to this failure is: Compared to what? And when the realistic alternatives (primarily some type of political or collective process) are subjected to the same analytical scrutiny that uncovers market failure, those alternatives are found to generate their own failures. Of course that suggests a consequentialist approach in which those failures must be compared against some measure of good or bad. Again, despite his criticism of consequentialism early in his book, Saint-Paul recognizes its potential in the fight against paternalism when he states, "[W]hile paternalism may help solve some behavioral biases on paper, it ignores the actual workings of government. Thus the consequentialist approach should also be applied. . . ."

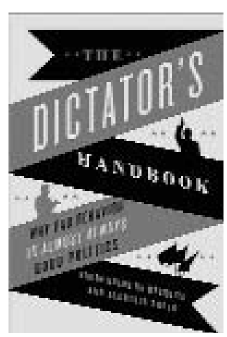
Even though my comments have focused mainly on the concerns I have with Saint-Paul's presentation, I recommend this book to anyone who, like myself, appreciates insightful critiques of what seems to be an endless supply of arguments in favor of expanding government to accomplish good, without any consideration of the harm caused by the accumulating restrictions on our freedom.

Contributing editor Dwight Lee (leed@cox.smu.edu) is professor of economics at Southern Methodist University.

The Dictator's Handbook: Why Bad Behavior Is Almost Always Good Politics

by Bruce Buena de Mesquita and Alastair Smith
Public Affairs • 2011/2012 • 319 pages • $27.99 hardcover; $17.99 paperback

Reviewed by Svetozar Pejovich



This book has a terrific title. Every dictator should have a copy. In it Bruce Bueno de Mesquita and Alastair Smith explain the brainchild they call the "selectorate" theory.

The focus of that theory is the leadership of governments, organizations, business establishments, and other associations. Leaders' power and longevity depend on the balance of power among three key groups in their respective communities: 1) the nominal selectorate, or "interchangeables"; 2) the real selectorate, or "influentials"; and 3) the winning coalition, or "essentials." The nominal selectorate consists of the pool of all potential supporters. The real selectorate is the group actually choosing the leader. And the winning coalition is the subset of the real selectorate on whose support the survival of all leaders depends.

The crucial implication of the authors' analysis is that our belief that there is a great difference between dictators and democratic "representatives" is just a convenient fiction. In their Machiavellian view, all kinds of rulers aim at their own survival, not "the public good."

Dictatorships are defined by a large nominal selectorate (such as all adult citizens in China, or the entire royal family in Saudi Arabia), a relatively small real selectorate (members of the Party in China, senior princes in Saudi Arabia), and a small winning coalition (members of the Central Committee of the Party in China, the innermost group of princes in Saudi Arabia). Democracy is defined by a very large nominal selectorate (one person, one vote in the United States), an almost equally large real selectorate, and a large winning coalition (about one-fifth of the vote, efficiently placed across the United States.)

Bueno de Mesquita and Smith offer numerous observations in support of their claim that the three key groups provide the foundation for our understanding of the workings of governments and other types of associations. Observations range from the policies of medieval kings to Saddam Hussein's rise to power; from the founding of American democracy to City Manager Robert "Ratzo" Rizzo of Bell, California (whose mastery of selectorate theory wheedled him a prodigious salary in a small, poor town); from Tiananmen Square in China to the 2011 revolution in Egypt.

The authors argue that democracies have large winning coalitions and dictatorships have small ones. By implication, survival for dictators depends on the provision of private goods for the winning coalition—for the essentials—and requires little if any concern about providing public goods for the interchangeables or even the influentials. "Members of a small coalition live in luxurious but constant fear: make the coalition smaller . . . and they may be out; make the coalition bigger and their special privileges diminish." Leaders in democracies where the real selectorate is almost the same as the nominal selectorate, and the winning coalition is large, must provide the "hugely valuable public good called freedom."

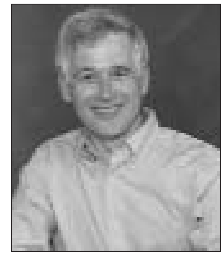
While the authors identify democracies with freedom, they do not address the incentive of leaders to seek a balance between social responsibilities and individual liberty. They merely note that in addition to guaranteeing free speech, free assembly, and a free press, democracies must also satisfy demand for public goods such as education, health care, and a welfare safety net. All of that spending covers a multitude of special interest programs that benefit their supporters.

Selectorate theory claims to be a complete theory, explaining the rise, behavior, and demise of governments, organizations, business establishments, and human associations. This isn't the first attempt at a complete theory of history. Karl Marx used two key variables to develop another complete theory of human history: 1) the productive forces, representing the relation between man and nature in the process of production, and 2) the relations of production or property rights, representing the relation among men themselves in the process of production. With clever use of those two variables and the labor theory of value, Marx thought he could fully explain the past and predict the future. A number of empirical tests of Marx's theory of history in the last century (some still going on) contradict its premises.

Selectorate theory with its three variables is more benign and better grounded in positive analysis than Marxism. The authors identify and discuss the factors (the three key groups) that determine the political and economic lives of different human associations, but they skip analysis of the circumstances on which those factors depend. Like Marxism, selectorate theory falls short as a theory of political, social, and economic forces at work throughout history.

Nevertheless, the book is very readable and full of important observations that shed light on the reasons why people in power act the way they do. FEE

Svetozar Pejovich (pejovic1@sbcglobal.net) is professor emeritus at Texas A&M University and professor of law and economics at the University of Donja Gorica, Montenegro.



Survival of the "Fittest"

BY DAVID R. HENDERSON

Last April President Obama called a House Republican budget plan "thinly veiled social Darwinism." Of course Obama meant it as a put-down. But by the *Encyclopedia Britannica*'s characterization, social Darwinism is simply a correct, ideology-free statement about the world. Moreover, the fact that Obama is president is evidence of social Darwinism. Let me explain.

The *Encyclopedia Britannica* describes social Darwinism as "the theory that persons, groups, and races are subject to the same laws of natural selection as Charles Darwin had perceived in plants and animals in nature." "According to the theory," says the *Encyclopedia*, "the weak were diminished and their cultures delimited, while the strong grew in power and in cultural influence over the weak." The *Encyclopedia* states that social Darwinists "held that the life of humans in society was a struggle for existence ruled by 'survival of the fittest,' a phrase proposed by the British philosopher and scientist Herbert Spencer."

The environment "selects for success" those who are best at working within its rules. You tell me the environment and the rules, and I'll tell you the kind of people who will emerge as the fittest.

That raises the question: What is "fit?" The answer to that depends crucially on the context—that is, on what is rewarded.

Take the Soviet Union. Was Joseph Stalin particularly fit? He certainly didn't produce much that other people valued; yet he thrived. He did so by lying, manipulating, intimidating, and murdering, all on a massive scale. In the Soviet Union the fittest got the best food, houses, cars, and more, but fitness meant the ability and willingness to be untrustworthy, unscrupulous, and bloodthirsty. In that environment Stalin was indeed one of the fittest.

Or take a street gang. The fittest street gangs are those whose members know how to fight the best and who are the least scrupulous about using physical violence. In this way a neighborhood policed by street gangs is similar to the Soviet Union: The most ruthless succeed in each.

That shouldn't be surprising. In both environments the most important rule is: Kill or be killed. There is no protection of the rights of someone who simply wants to go about his or her business peacefully. Peaceful, productive people are in fact sitting ducks waiting to be picked off by the violent.

This is a kind of natural selection. The environment "selects for success" those who are best at working within its rules. You tell me the environment and the rules, and I'll tell you the kind of people who will emerge as the fittest.

Survival of the Sincerest

Back to Obama. The media and the voters tend to reward people who, however insincerely, sound as if they care. The evidence that they *do* care is much less important. And Obama, who is very good at sounding sincere while carrying out actions that often contradict his "sincere" statements, was rewarded with arguably the most powerful job in the world.

Take the rules of academia. You might think that the people who would do well in academia are those who

David Henderson (davidrhenderson1950@gmail.com) is a research fellow with the Hoover Institution and an associate professor of economics at the Graduate School of Business and Public Policy at the Naval Postgraduate School in Monterey, California. He is the editor of The Concise Encyclopedia of Economics *and blogs at econlog.econlib.org.*

teach the best and contribute the most to knowledge by writing clearly about important issues. But the best teachers are *less* likely to get tenure because they spend more time on teaching and less time on research than others. Those who do get tenure tend to be the people who publish, and more than 90 percent of their publications are badly written articles in obscure journals about issues of limited interest. Yet these people are the "fittest" because the main rule in academia is "publish in academic journals." The easiest way to do that is to specialize in one or two very narrow issues, so that you can be one of five to 20 people in the world who are considered experts on those subjects.

Or consider the free market. What are its rules? One rule is that private property rights are respected for all—not just for the wealthy executive but also for the person selling hotdogs on the street corner. Another rule is that contracts are respected and enforced. A third rule, part of property rights, is that people are free to exchange goods or services with each other.

Under those rules, as Adam Smith stated more than 230 years ago in *The Wealth of Nations*, the people who fare best are those who figure out what they can do well that other people are willing to pay for. The key to getting wealthy in a free market is to find a new product people want, a fresh use for an old product, a use for idle resources, or a cheaper way of making or delivering an existing product. The person who creates a software program that does something many people want accomplished, and who then figures out how to market it, will make a lot of money. The person who finds some new use for an unused resource—garbage, wood chips, the blank space on the white uniforms of top-seeded tennis players—will also make a lot of money.

People also do well in a free market by being trustworthy. When I buy a hamburger at McDonald's, whether in San Jose, Moscow, or Paris, I am sure of getting a certain minimum quality. That's why people often eat at branded restaurants when traveling in strange places—they want quality assurance. McDonald's, Coca-Cola, and many other well-known brands are worth a lot because their owners have invested in establishing a reputation.

Survival of the Weakest, Too

And here's the bonus. Although those who do best in a free market are those who are the most productive, even the least productive thrive. One reason is competition. Because of the pressure to innovate more quickly and usefully than their competitors, and to price their products more attractively, people like Bill Gates and the late Steve Jobs created more benefits for us than they will ever create for themselves.

Free markets allow more and more people to survive who wouldn't even stand a chance in an unfree economy.

The other reason even the least productive thrive in a free market is capital accumulation. The dividends and interest people earn by accumulating capital in a free market give them an *incentive* to accumulate capital, and the high amount of capital per worker makes workers more productive, thus increasing their wages. Every worker in a free-market economy, even someone with no capital, gains enormously because of the past capital accumulation of others. Just compare the standard of living of the typical poor person in the United States today with that of a counterpart in India, China, or most of Africa, places without a long tradition of free markets.

The correct statement, therefore, is not that only the fittest survive in a free market. Rather, in a free market, the fittest—the most productive—do best. And free markets allow more and more people to survive who wouldn't even stand a chance in an unfree economy.

The important question is not whether one thinks the fit will survive and thrive better than the unfit. They will. The important question is how the rules define "fit." FEE