

Potpourri

A few of my columns do not fit the categories chosen. Many of them represent the economists' tendency to venture into areas not typically thought of as being in economics. Some of them are my pet peeves; some of them were articles published by the New York-based Foundation for Economic Education.

Illegal Immigration

Wednesday, July 11, 2007

President Bush and his pro-amnesty allies both in and out of Congress suffered a devastating defeat at the hands of the American people. Like any other public controversy, there are vested interests served on both sides of the amnesty issue, but I'd like to raise some ordinary non-rocket-science questions to the pro-amnesty crowd, many of whom are my libertarian friends.

Do people, anywhere in the world, have a right to enter the United States irrespective of our laws pertaining to immigration? Unless one wishes to obfuscate, there's a simple "yes" or "no" answer to that question. If a "yes" answer is given, then why should there be any immigration requirements, such as visas, passports and green cards, for anyone who wishes to visit or reside in our country? Why not abolish the U.S. Citizenship and Immigration Services?

If your answer is "no," one does not have a right to enter the U.S. irrespective of our laws, what does that make a person who does so? Most often we call a person whose behavior violates a law a criminal. If people commit criminal acts, should there be an effort to apprehend and punish them? In general, my answer is yes, with one important exception.

I was summoned for jury duty some years ago, and during voir dire, the attorney asked me whether I could obey the judge's instructions. I answered, "It all depends upon what those instructions are." Irritatingly, the judge asked me to explain myself. I explained that if I were on a jury back in the 1850s, and a person was on trial for violating the Fugitive Slave Act by assisting a runaway slave, I would vote for acquittal regardless of the judge's instructions. The reason is that slavery is unjust and any law supporting it is unjust. Needless to say, I was dismissed from jury duty. While our immigration laws are overly cumbersome and in urgent need of streamlining, they do not violate human rights and should be obeyed.

Many pro-amnesty supporters offer the canard that there are 12

to 20 million illegal immigrants in our country. We cannot keep every illegal immigrant out or expel the ones living here. That might be true, but it is also true that we can't prevent every rape and murder. Does that mean we shouldn't attempt to enforce the laws against rape and murder and try to prosecute the perpetrators?

In addition to greater efforts to secure our borders, there are several non-rocket-science steps we can take. People who are here illegally should be denied access to any social service such as Medicaid, public education and food assistance programs. An exception might be made for temporary emergency medical treatment. In some cities, such as Los Angeles, police are prohibited from asking people they stop about their immigration status. While state and local police shouldn't be turned into federal agents, they shouldn't knowingly conceal criminal acts.

The United States is a nation of immigrants from all over the world. The resulting ethnic mosaic goes a long way toward explaining our greatness as a nation. Immigration has always been a blessing for us, and it still is. But yesteryear's immigration and today's differ in several important respects. For the most part, yesteryear's immigrants came here legally. Because there was no welfare state, we were guaranteed that they'd work as opposed to living off the rest of us. Furthermore, they sought to assimilate and adopt our culture and become Americans. That's not so true today, where Hispanic activists seek to impose their language and culture on the rest of us. At some public schools, they've raised the Mexico flag atop the U.S. flag. They've announced that they seek to take back parts of the U.S. that were formerly Mexico.

Straight Thinking 101

Wednesday, June 27, 2007

Just about the most difficult lesson for first-year economics students, and sometimes graduate students, is that economic theory, and for that matter any scientific theory, is positive or non-normative. You might ask, “What’s this business about positive and normative?” It’s easy. Positive statements deal with what was, what is or what will be. Normative, or subjective, statements deal with what’s good or bad, or what ought to be or should be. Confusing the two leads to considerable mischief.

The statement “Scientists cannot split the atom” is a positive statement. Why? If there’s disagreement with the statement, there are facts to which we can appeal to settle the disagreement—just visit Stanford University’s linear accelerator and watch atoms being split. The statement “Scientists shouldn’t split the atom” is a normative statement. Why? There are no facts whatsoever to which we can appeal to settle any disagreement. One person’s opinion on the matter is just as good as another’s.

How about the statement “Gasoline prices are unreasonable”? If some think they’re reasonable while others don’t, the argument can go on forever without resolution because there are no facts to which we can appeal to settle the disagreement. However, there are facts that tend to back up the statement: Buyers of gasoline prefer lower prices while sellers prefer higher prices.

By the way, years ago, Mrs. Williams would arrive home complaining about unreasonable grocery prices. After airing her complaints, she’d ask me to unload her car full of groceries. Having completed the chore, I’d ask her whether she was unreasonable, suggesting that it was my opinion that only an unreasonable person would pay unreasonable prices. The conversation never went far in a pleasant direction.

Having explained the difference between positive and normative statements, I tell my students that in no way do I propose that they

purge their vocabulary of normative statements. Normative statements are excellent tools for tricking others into doing what you want them to do. I simply caution that in the process of tricking others, there's no need to trick oneself into believing that one normative statement is better or more righteous than another.

A related term that doesn't make much economic sense is the term "need." The implication of an absolute, crying, dying or urgent need is that one cannot do without the need in question. Students sometimes say they absolutely need a car or a cell phone. At that point I ask them, how in the world was it that Gen. George Washington could defeat Britain, the mightiest nation on earth, without a cell phone or a car?

The problem with the term "need" is that it suggests there are no substitutes for the item in question. Thus, people will pay any price for it; however, the law of demand says that at some price, people will take less of something, including none of it. In response, a student might say, "Diabetics can't do without insulin" or "People can't do without food." I say, "Yes, they can; diabetics have been doing without insulin for thousands of years." In some poor African countries, people do without food. Of course, the results of doing without insulin or food are indeed unpleasant, but the fact that the results are unpleasant doesn't require us to deny that non-consumption is a substitute for consumption. Again, I tell my students not to purge their vocabulary of crying, dying and urgent needs; just don't trick yourself while you're tricking others.

You say, "Williams, it doesn't sound like economics is a very compassionate science." You're right, but neither is physics, chemistry or biology. However, if we wish to be compassionate with our fellow man, we must learn to engage in dispassionate analysis. In other words, thinking with our hearts, rather than our brains, is a surefire method to hurt those whom we wish to help.

Things to Think About

Wednesday, May 16, 2007

Last week, Japan pledged \$100 million in grants to fight global climate change. The UN's Intergovernmental Panel on Climate Change (IPCC) is the world's major leader in the struggle against climate change. The World Conservation Union has recently recognized the work of women from all over the world fighting against climate change. We might want to ask whether it's too late to worry about fighting climate change. Let's look at it.

About 65 million years ago, the Earth experienced one of the most rapid and extreme global climate changes recorded in geologic history. The period has been named the "Paleocene-Eocene Thermal Maximum." The ocean was 18 to 27 degrees hotter than it is today. Antarctica, which is today's coldest place on Earth, was home to temperate forests, beech trees and ferns. The Earth had no permanent polar ice caps.

In the past 65 million years, the Earth's temperature has increased and decreased with no help from mankind. My questions to the anti-climate change warriors are: Can mankind really stop climate change, and what is the "correct" Earth temperature?

Now let's turn to gun control laws. What do Virginia Tech's 32 murders, Columbine High School's 13 murders, Jonesboro Westside Middle School's five murders, Germany's Gutenberg High School's 16 murders, the murder of 14 legislators in Zug, Switzerland, and the murder of eight city council members in a Paris suburb all have in common? Answer: All the murders were committed in "gun-free zones." So a reasonable question is: Does legislation creating gun-free zones prevent murder and mayhem?

In 1970, Israel adopted a policy to arm teachers and parents serving as school aids with semi-automatic weapons. Attacks by gunmen at Israeli schools have ceased. At Appalachian Law School in Virginia, a gunman who had already murdered three people was stopped from further carnage by two armed students. Gun possession stopping

crime is not atypical, though it goes unreported by the media. According to various research estimates, from 764,000 to as many as 2.5 million crimes are prevented by armed, law-abiding people either warning a criminal that they're armed, brandishing their weapon or shooting a criminal. In the interest of truth in packaging, I think we should rename "gun-free zones" to "defenseless zones."

Now let's consider income tax laws. This tax filing year found 20 million Americans having to pay the Alternative Minimum Tax (AMT). That's up from fewer than 4 million last year. The AMT was legislated in 1969 to make sure that the rich paid their share of taxes by eliminating several legal tax avoidance means. Now a person earning \$75,000, hardly rich, can be slapped with the AMT.

During the legislative debate on the 16th Amendment, congressmen argued that only the rich would ever be liable for income taxes. For that reason, getting the rich, the income tax had widespread American support. In 1917, only one-half of 1 percent of income earners paid income taxes—of that .5 percent, those earning \$250,000 a year in today's dollars paid 1 percent, and those earning \$6 million in today's dollars paid 7 percent. Today, most income earners are liable for federal income taxes.

One is tempted to argue that people are stupid to fall for congressional get-the-rich scams. As a good social scientist, I know that stupidity is a poor explanation for human behavior because people are not stupid in the long run. It might be historical ignorance from one generation to another, where one generation has no knowledge of the promises Congress made to the previous generation. That enables Congress to see each generation as new suckers for their get-the-rich scams.

Historical Tidbits

Wednesday, June 21, 2006

Karl Marx is the hero of some labor union leaders and civil rights organizations, including those who organized the recent protest against proposed immigration legislation. It's easy to be a Marxist if you haven't read his writings. Most people agree that Marx's predictions about capitalism turned out to be dead wrong.

What most people don't know is that Marx was an out and out racist and anti-Semite. He didn't think much of Mexicans. Concerning the annexation of California after the Mexican-American War, Marx wrote: "Without violence nothing is ever accomplished in history." Then he asks, "Is it a misfortune that magnificent California was seized from the lazy Mexicans who did not know what to do with it?" Friedrich Engels, Marx's co-author of the "Manifesto of the Communist Party," added, "In America we have witnessed the conquest of Mexico and have rejoiced at it. It is to the interest of its own development that Mexico will be placed under the tutelage of the United States." Much of Marx's ideas can be found in a book written by former communist Nathaniel Weyl, titled *Karl Marx, Racist* (1979).

In a July 1862 letter to Engels, in reference to his socialist political competitor, Ferdinand Lassalle, Marx wrote, ". . . it is now completely clear to me that he, as is proved by his cranial formation and his hair, descends from the Negroes from Egypt, assuming that his mother or grandmother had not interbred with a nigger. Now this union of Judaism and Germanism with a basic Negro substance must produce a peculiar product. The obtrusiveness of the fellow is also nigger-like."

Engels shared much of Marx's racial philosophy. In 1887, Paul Lafargue, who was Marx's son-in-law, was a candidate for a council seat in a Paris district that contained a zoo. Engels claimed that Paul had "one eighth or one twelfth nigger blood." In an April 1887 letter to Paul's wife, Engels wrote, "Being in his quality as a nigger, a degree

nearer to the rest of the animal kingdom than the rest of us, he is undoubtedly the most appropriate representative of that district.”

Though few claim him as their own, such as leftists claim Karl Marx, Thomas Carlyle is another unappreciated historical figure. Carlyle is best known for giving economics the derogatory name “dismal science,” an inversion of the phrase “gay science,” which at the time (1849) referred to life-enhancing knowledge. Most people have incorrectly learned that the term “dismal science” had its origins in reference to Thomas Malthus’ gloomy predictions that the global population would grow faster than food supplies, condemning mankind to perpetual poverty and starvation. My George Mason University colleague, Professor Davy Levy, and his co-author, Sandra Peart, tell the true story in their 2001 book, *The Secret History of the Dismal Science: Economics, Religion and Race in the 19th Century*.

Carlyle first used the term “dismal science” in his 1849 pamphlet entitled “An Occasional Discourse on the Nigger Question.” He attacked the ideas of Adam Smith, John Stuart Mill and other free market, limited government economists for their belief in the fundamental equality of man and their anti-slavery positions. The fact that economics assumes that people are all the same and are equally deserving of liberty was offensive to Carlyle and led him to call economics the dismal science. Carlyle argued that blacks were subhuman, “two-legged cattle,” who needed the tutelage of whites wielding the “beneficent whip” if they were to contribute to the good of society. Carlyle was by no means alone in denouncing economics for its anti-slavery and pro-equality position.

No less a historical figure and a Christmastime favorite, Charles Dickens, author of *A Christmas Carol*, shared Carlyle’s positions on pro-slavery and blacks as subhuman.

Marx, Engels, Carlyle and Dickens all share one belief prevalent throughout mankind’s history down to today: the belief that some people are endowed with superior intelligence and wisdom and they’ve been ordained to forcibly impose that wisdom on the masses.

Running Out of Oil?

Wednesday, July 19, 2006

“Proven” oil reserves, oil that’s economically and technologically recoverable, are estimated to be more than 1.1 trillion barrels. That’s enough oil, at current usage rates, to fuel the world’s economy for 38 years, according to Leonardo Maugeri, vice president for the Italian energy company ENI. Mr. Maugeri provides a wealth of information about energy in “Two Cheers for Expensive Oil,” published by *Foreign Affairs* (March/April 2006) and reprinted on the same date in *Current*.

There are an additional 2 trillion barrels of “recoverable” reserves. Mr. Maugeri says these oil reserves will probably meet the “proven” standard in a few years as technological improvement and increased sub-soil knowledge come online. Estimates of recoverable oil don’t include the huge deposits of “unconventional” oil such as Canadian tar sands and U.S. shale oil, plus there are vast areas of our planet yet to be fully explored. For decades, alarmists have claimed we’re running out of oil. In 1919, the U.S. Geological Survey predicted that world oil production would peak in nine years. During the 1970s, the Club of Rome report, “The Limits to Growth,” said that, assuming no rise in consumption, all known oil reserves would be entirely consumed in just 31 years.

There are several factors that explain today’s high prices. There has been a huge surge in demand for oil as a result of rapid economic growth in China and India, as well as in the United States. Another factor is the under-exploration. Mr. Maugeri says Saudi Arabia has 260 billion barrels of proven reserves, accounting for 25 percent of the world’s total, but only one-third of the oil known to lie below its surface. Russia’s reserves are three times its proven reserves of 50 billion barrels. While high prices are beginning to stimulate investments in oil exploration, they’ve lagged for several decades out of fear of oil gluts and low prices. It’s going to be 2010 before today’s investments yield fruit.

A substantial increase in oil production alone cannot ease today's high prices because of weak refining capacity. Not a single refinery has been built in the United States for 30 years. Improvements to existing refineries failed to keep up with growing demand and tougher environmental regulations. We're the world's only industrialized country with a net deficit in refining capacity that comes to 20 percent of domestic demand. That makes us highly vulnerable to disasters like last year's hurricanes. Exacerbating weak refining capacity are regulations whereby gasoline produced for one state may not be sold in another. There are 18 mandated different types of gasoline sold in the United States.

The long-term outlook for oil is good. There's an increase in oil-drilling technology and exploration. Oil as a source of energy has been in decline. In 1980, oil was 45 percent of energy consumption; today, it's 34 percent, yielding ground to natural gas, coal and nuclear energy. Recently, the House of Representatives passed "The Deep Ocean Energy Resources Act of 2006," which now awaits a Senate vote. Offshore oil exploration has been banned since 1982, despite Department of the Interior estimates that suggest the presence of 19 billion barrels of oil and 84 trillion cubic feet of natural gas. The House of Representatives also passed the "Refinery Permit Process Schedule Act of 2006." Should these measures become law, our energy capacity will be enhanced significantly.

America stands alone in the world as the only nation that has placed a substantial amount of its domestic oil and natural gas potential off-limits. That reflects the awesome control that radical environmentalists have over Congress. With high fuel prices, Americans might be ready to put an end to that control.

Passing of a Giant

Wednesday, December 6, 2006

Nobel Laureate and Professor Milton Friedman, at age 94, succumbed to heart failure on Nov. 16. While the man is gone, those of us who hold personal liberty as society's highest end will always remember his steadfast support of the principles of personal liberty.

Professor Friedman, above all, was an economist's economist. During his professional life, his research on statistical techniques, consumption behavior and monetary theory became part and parcel of today's accepted wisdom among economists. His research on monetary theory and the role of money in an economy has provided central banks worldwide with the knowledge, whether they use it or not, for monetary stability.

Professor Friedman will surely be remembered for these intellectual contributions, but what he'll be remembered for the most is his steadfast support for personal liberty. In 1947, he joined with Friedrich Hayek and 40 other free-market academics, mostly economists of international distinction, to form the Mont Pelerin Society. The Society's founding purpose was to reduce the academic isolation among liberty-oriented scholars at a time when socialism was seen as the wave of the future.

The Mont Pelerin Society now boasts more than 500 members worldwide, eight of whom have been Nobel Laureates. I'm proud to be a member.

Friedman's first big step into public policy issues, as an indefatigable defender of personal liberty, came in his 1962 book *Capitalism and Freedom*. In it he argued that educational vouchers were the solution to poor education; free markets make racial discrimination more costly; government regulations are the primary sources for harmful monopolies; and Social Security is an unfair and unsustainable system. At the time these weren't popular ideas, even seen as heresy, but today they are much more widely accepted.

In 1980, Professor Friedman co-authored *Free to Choose* with his

wife, Rose Friedman, which was written as a follow-up to his 10-part PBS series with the same name. Among the topics discussed: The Great Depression was not a failure of capitalism, as so often claimed, but a failure of government, mainly the Federal Reserve Bank and the U.S. Congress; our welfare system creates permanent wards of the state; and we should decriminalize drugs by treating abuse as a medical problem.

Friedman made a major intellectual contribution to the formation of a voluntary army. In testimony before President Nixon's commission on eliminating the draft, General William Westmoreland said he did not want to command an army of mercenaries. Mr. Friedman interrupted, "General, would you rather command an army of slaves?" Gen. Westmoreland replied, "I don't like to hear our patriotic draftees referred to as slaves." Mr. Friedman then retorted, "I don't like to hear our patriotic volunteers referred to as mercenaries. If they are mercenaries, then I, sir, am a mercenary professor, and you, sir, are a mercenary general; we are served by mercenary physicians, we use a mercenary lawyer, and we get our meat from a mercenary butcher."

Whether one agreed or disagreed with Professor Friedman, they found him to be a friendly, witty and tolerant person. My first encounter with him occurred during the mid-1960s while I was a graduate student at UCLA and he was a visiting lecturer. I've since forgotten my statement to him during a lecture, but I recall he had patiently replied, "Walter, you don't really mean that," and proceeded to show me why.

During my guest-hosting stints on the Rush Limbaugh show, Professor Friedman was a guest on several occasions. His responses to caller questions demonstrated the real teacher in him—the ability to explain complex phenomena in a way that ordinary people can readily understand.

In terms of his scholarly output and worldwide contributions to ideas on liberty, Professor Milton Friedman was the 20th century's greatest economist.

The Productive vs. the Unproductive

Wednesday, April 27, 2005

“The Greatest Century That Ever Was: 25 Miraculous Trends of the Past 100 Years” is the appropriate title of a 1999 article authored by Stephen Moore and the late Julian L. Simon and published by the Washington-based Cato Institute. Let’s highlight some of the phenomenal progress Americans made during the 20th century. During that century, life expectancy rose from 47 to 77 years of age. Deaths from infectious diseases fell from 700 to 50 per 100,000 of the population. Major killer diseases such as tuberculosis, polio, typhoid fever, and whooping cough were virtually eliminated. Infant mortality plummeted.

The 20th century saw unprecedented material gains as well. Controlling for inflation, household assets rose from \$6 trillion to \$41 trillion between 1945 and 1998. Today, more than 98 percent of American homes have a telephone, electricity and a flush toilet. More than 70 percent of Americans own a car, a VCR, a microwave, air conditioning, cable TV, and a washer and dryer. In 1900, no homes had the modern conveniences of today. Today’s poor Americans have choices that yesterday’s millionaires could have only dreamt of, such as cell phones, computers and color television sets. Added to all this progress, most adults have twice as much leisure time as their turn-of-the-20th-century counterparts.

You say, “Williams, it would take an idiot to deny the human progress Americans made during the 20th century. What’s your point?” The productive people who made this progress possible are often painted as villains. I’m talking about the innovators and the risk-takers, in a word—entrepreneurs. Today’s heroes are often seen as the people who attack entrepreneurs—among them lawyers, politicians, media people, leftist organizations, college professors and others who often contribute little or nothing to human progress. My colleague, Thomas Sowell, calls the entrepreneurs, scientists and inventors the “doers” and their attackers the “talkers.”

The talkers who attack the doers are glib and can turn clever phrases and thereby trick the gullible and uninformed, whether it's the general public through the mass media or judges and juries. For example, even if a particular drug has massive benefits, like saving tens of thousands lives or reducing the suffering of tens of thousands of people, but a few people suffer or die, the talkers are ready to crucify the company. Their first charge is corporate greed.

The attack on the pharmaceutical industry is particularly vicious, led by lawyers looking to make a financial killing like their colleagues who sued the tobacco industry and Microsoft. One target of today's talkers is Merck drug company, the maker of Vioxx, because for some individuals it poses an increased risk of heart attack and stroke. But for other individuals, it is safe and effective for pain relief from arthritis. The operational question for any drug is whether its benefits exceed its costs—not whether some people are harmed. Moreover, some patients would willingly accept the risk of heart attack and stroke to obtain relief from painful, crippling arthritis. Why should the FDA or the plaintiff's bar prevent them from doing so?

If we developed the practice of removing products from the market because some people are harmed by them, we might starve to death. Anaphylaxis is a sudden, severe, potentially fatal reaction that some people have to foods such as milk, wheat, soy, peanuts, fish, shellfish and eggs. Each year, food-induced anaphylaxis sends about 30,000 people to hospital emergency rooms and about 200 of them die. Since many people are harmed by these food items, should they be removed from our supermarket shelves? If not, why not? The next time we hear a talker attacking a doer, we just might ask: What have you done to further human progress?

Making Intelligent Errors

Wednesday, August 10, 2005

We're not omniscient. That means making errors is unavoidable. Understanding the nature of errors is vital to our well-being. Let's look at it.

There are two types of errors, nicely named the type I error and the type II error. The type I error is when we reject a true hypothesis when we should accept it. The type II error is when we accept a false hypothesis when we should reject it. In decisionmaking, there's always a non-zero probability of making one error or the other. That means we're confronted with asking the question: Which error is least costly? Let's apply this concept to a couple of issues.

The stated reason for going to war with Iraq is that our intelligence agencies surmised Saddam Hussein had, or was near having, nuclear, biological and chemical weapons of mass destruction. Intelligence is never perfect. During World War II, our intelligence agencies thought that Germany was close to having an atomic bomb. That intelligence was later found to be flawed, but it played an important role in the conduct of the war.

Since intelligence is always less than perfect, we're forced to decide which error is least costly. Leading up to our war with Iraq, the potential errors confronting us were: Saddam Hussein had weapons of mass destruction and we incorrectly assumed he didn't. Or, he didn't have weapons of mass destruction and we incorrectly assumed he did. Both errors are costly, but which is more costly? It's my guess that it would have been more costly for us to make the first error: Saddam Hussein had weapons of mass destruction and we incorrectly assumed he didn't.

Another example of type I and type II errors hits closer to home. Food and Drug Administration (FDA) officials, in their drug approval process, can essentially make two errors. They can approve a drug that has unanticipated dangerous side effects (type II). Or, they can disapprove, or hold up approval of, a drug that's perfectly safe and ef-

fective (type I). In other words, they can err on the side of under-caution or err on the side of over-caution. Which error do FDA officials have the greater incentive to make?

If an FDA official errs by approving a drug that has unanticipated, dangerous side effects, he risks congressional hearings, disgrace and termination. Erring on the side of under-caution produces visible, sick victims who are represented by counsel and whose plight is hyped by the media.

Erring on the side of over-caution is another matter. A classic example was beta-blockers, which an American Heart Association study said will “lengthen the lives of people at risk of sudden death due to irregular heartbeats.” The beta-blockers in question were available in Europe in 1967, yet the FDA didn’t approve them for use in the U.S. until 1976. In 1979, Dr. William Wardell, a professor of pharmacology, toxicology and medicine at the University of Rochester, estimated that a single beta-blocker, alprenolol, which had already been sold for three years in Europe, but not approved for use in the U.S., could have saved more than 10,000 lives a year. The type I error, erring on the side of over-caution, has little or no cost to FDA officials. Grieving survivors of those 10,000 people who unnecessarily died each year don’t know why their loved one died, and surely they don’t connect the death to FDA over-caution. For FDA officials, these are the best kind of victims—invisible ones. When an FDA official holds a press conference to announce its approval of a new life-saving drug, I’d like to see just one reporter ask: How many lives would have been saved had the FDA not delayed the drug’s approval?

The bottom line is, we humans are not perfect. We will make errors. Rationality requires that we recognize and weigh the cost of one error against the other.

Economic Lunacy

Wednesday, September 7, 2005

According to a couple of poorly trained economists, there's a bright side to Hurricane Katrina's destruction. J.P. Morgan senior economist Anthony Chan believes hurricanes tend to stimulate overall growth. As reported in "Gas Crisis Looms" (Aug. 31, 2005), written by CNN/Money staff writer Parija Bhatnagar, Mr. Chan said, "Preliminary estimates indicate 60 percent damage to downtown New Orleans. Plenty of cleanup work and rebuilding will follow in all the areas. That means over the next 12 months, there will be lots of job creation which is good for the economy."

Professor Doug Woodward, of the business school at the University of South Carolina, has the same vision. Professor Woodward said, "On a personal level, the loss of life is tragic. But looking at the economic impact, our research shows that hurricanes tend to become god-given work projects." Within six months, Professor Woodward "expects to see a construction boom and job creation offset the short-term negatives such as loss of business activity, loss of wealth in the form of housing, infrastructure, agriculture and tourism revenue in the Gulf Coast states."

Let's ask a few smell-test questions about these claims of beneficial aspects of hurricane destruction. Would there have been even greater economic growth and job creation for our nation had Hurricane Katrina not only destroyed New Orleans, Mobile and Gulfport, but other major metropolitan areas along its path, like Cincinnati and Pittsburgh, as well? Would we consider it a godsend, in terms of jobs and economic growth, if a few more category 4 hurricanes hit our shores? Only a lunatic would answer these questions in the affirmative.

Frederic Bastiat (1801–1850), a great French economist, said in his pamphlet "What is Seen and What is Not Seen": "There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist

takes into account both the effect that can be seen and those effects that must be foreseen.” What economists Chan and Woodward can see are the jobs and construction boom created by repairing hurricane destruction. What they can’t see, and thus ignore, is what those resources would have been used for had there not been hurricane destruction.

Bastiat wrote a parable about this which has become known as the “Broken Window Fallacy.” A shopkeeper’s window is broken by a vandal. A crowd formed sympathizing with the man. After a while, someone in the crowd suggested that the boy wasn’t guilty of vandalism; instead, he was a public benefactor, creating economic benefits for everyone in town. After all, fixing the broken window creates employment for the glazier, who will then buy bread and benefit the baker, who will then buy shoes and benefit the cobbler, and so forth.

Those are the seen effects of repairing the broken window. What’s unseen is what the shopkeeper would have done with the money had the vandal not broken his window. He might have employed the tailor by purchasing a suit. The vandal’s breaking his window produced at least two unseen effects. First, it shifted unemployment from the glazier who now has a job to the tailor who doesn’t. Second, it reduced the shopkeeper’s wealth. Had it not been for the vandalism, the shopkeeper would have had a window and a suit; now he has just a window.

Of course, were it the Tooth Fairy or Santa Claus providing the resources to repair the destruction of Hurricane Katrina, Mr. Chan and Professor Woodward would be correct. But what the heck, maybe we shouldn’t be so harsh on these economists in light of the fact that they didn’t receive their training at George Mason University’s Economics Department, where there are no bad economists.

Do We Really Care about Children?

Wednesday, November 2, 2005

I cringe with disgust when I hear politicians say, “We’re doing it for the children.” What’s worse is so many Americans mindlessly fall hook, line and sinker for the hype. Judging by our actions, Americans could not care less for future generations, and future generations will curse us for it. Let’s look at it.

According to several respected authorities, including the Concord Coalition (co-chaired by former Sens. Warren Rudman and Robert Kerrey), the Congressional Budget Office, U.S. Treasury Secretary John Snow, and the Social Security Administration, the estimated present value of the unfunded liability of Social Security and Medicare ranges between \$61 trillion and \$75 trillion dollars.

“Williams,” you ask, “what’s this present value business?” Simply put, between \$61 trillion and \$75 trillion dollars is the money that would have to be put aside right now, at current interest rates, in order to meet future obligations of Social Security and Medicare. To put an astronomical sum like \$61 trillion or \$75 trillion in a bit of perspective: The value of our entire national output of goods and services (GDP) in 2004 was only \$12 trillion.

Congress can’t put aside \$75 trillion as reserves against future liabilities of Social Security and Medicare. Therefore, according to the Dallas, Texas-based National Center for Policy Analysis (NCPA), the annual rate of Social Security unfunded liabilities is growing at a \$667 billion clip and Medicare’s at \$4 trillion.

What does all this mean? It means little in pocketbook terms to today’s Americans who are 65 years or older. They will collect their Social Security checks and their promised Medicare benefits, but not so for future generations. Here’s that future according to House Ways and Means Committee testimony, given by Dr. John Goodman, president of the NCPA (May 2005). “In 2020, combined Social Security and Medicare deficits will equal almost 29 percent of federal income taxes. At that point the federal government will have to stop doing

almost a third of what it does today. By 2030, about the midpoint of the baby boomer retirement years, federal guarantees to Social Security and Medicare will require one in every two income tax dollars. By 2050, they will require three in every four." And by 2070, Social Security and Medicare will consume all federal revenues.

There are some "optimists" who seek to minimize the pending disaster that will be caused by these and other federal unfunded liabilities. They argue that the federal government can always meet its obligations through its power to tax. According to some estimates, by 2030, Social Security and Medicare obligations alone will require a 50 percent increase in payroll taxes. If tax increases are off the table, 2030 will see a 30 percent reduction in promised Social Security benefits and stringent rationing of health care services promised by Medicare. There's another "solution." Even though Congress can't increase our life-expectancy, they can raise the age of Social Security and Medicare eligibility. Were Congress to make 80 as the age for Social Security and Medicare eligibility, they'd solve the problem because most of us would be dead.

Let's look at the raw politics of the Social Security/Medicare situation. Few, if any, of our 535 congressmen will be around in 2030 and later when the real crunch comes, but they are subject to today's, not tomorrow's, political pressures. Similarly, few of today's Americans 65 years of age and older will be around. Other than mouthing a concern for future generations, both have little economic incentive to be concerned about what happens in 2030. After all, what do they have at stake?

In 2030, will young people in the labor force be willing to see themselves taxed at Social Security rates of 20, 30 and 40 percent to take care of some old people? I don't think that will politically fly, and they might begin to get ideas about euthanasia. In addition to economic strife, Social Security and Medicare are laying the groundwork for intergenerational conflict. Unfortunately, the politics of today don't give us room to prevent these twin disasters.

Why We're a Divided Nation

September 13, 2004

Recent elections pointed to deepening divisions among American people but has anyone given serious thought to just why? I have part of the answer that starts off with a simple example.

Different Americans have different and intensive preferences for cars, food, clothing and entertainment. For example, some Americans love opera and hate rock and roll. Others have opposite preferences, loving rock and roll and hating opera. When's the last time you heard of rock and roll lovers in conflict with opera lovers? It seldom if ever happens. Why? Those who love operas get what they want and those who love rock and roll get what they want and both can live in peace with one another.

Suppose that instead of freedom in the music market, decisions on what kind of music people could listen to were made in the political arena. It would be either opera or rock and roll. Rock and rollers would be lined up against opera lovers. Why? It's simple. If the opera lovers win, rock and rollers would lose and the reverse if rock and rollers won. Conflict would emerge solely because the decision was made in the political arena.

The prime feature of political decisionmaking is that it's a zero-sum game. One person or group's gain is of necessity another person or group's loss. As such political allocation of resources is conflict enhancing while market allocation is conflict reducing. The greater the number of decisions made in the political arena the greater is the potential for conflict.

There are other implications of political decisionmaking. Throughout most of our history we've lived in relative harmony. That's remarkable because just about every religion, racial and ethnic group in the world is represented in our country. These are the very racial/ethnic/religious groups that have for centuries been trying to slaughter one another in their home countries, among them: Turks and Armenians, Protestant and Catholic, Muslim and Jew, Croats and

Serbs. While we haven't been a perfect nation, there have been no cases of mass genocide and religious wars that have plagued the globe elsewhere. The closest we've come was the American Indian/Euro-pean conflict that pales by comparison.

The reason we've been able to live in relative harmony is that for most of our history government was small. There wasn't much pie to distribute politically.

When it's the political arena that determines who gets what good-ies, the most effective coalitions are those with a proven record of being the most divisive—those based on race, ethnicity, religion and region. As a matter of fact our most costly conflict involved a coalition based upon region—namely the War of 1861.

Many of the issues that divide us, aside from the Iraq war, are those best described as a zero-sum game where one group's gain is of necessity another's loss. Examples are: racial preferences, social security, tax policy, trade restrictions, welfare and a host of other government policies that benefit one American at the expense of another American.

You might be tempted to think that the brutal domestic conflict seen in other countries at other times can't happen here. That's nonsense. Americans are not super-humans; we possess the same frailties of other people in other places. If there were a severe economic calamity, I can imagine a political hustler exploiting those frailties, just as Hitler did in Germany, blaming it on the Jews, the blacks, the East Coast, Catholics or free trade.

The best thing the President and Congress can do to heal our country is to reduce the impact of government on our lives. Doing so will not only produce a less divided country, greater economic efficiency but bear greater faith and allegiance to the vision of America held by our Founders—a country of limited government.

What's Inflation?

Wednesday, November 16, 2005

Last month, President Bush nominated Dr. Ben S. Bernanke, currently chairman of the President's Council of Economic Advisors, as chairman of Federal Reserve Board to replace the retiring Alan Greenspan. Alan Greenspan's replacement comes at a time of heightened fears of inflation resulting from the recent spike in oil prices.

First, let's decide what is and what is not inflation. One price or several prices rising is not inflation. When there's a general increase in prices, or alternatively, a reduction in the purchasing power of money, there's inflation. But just as in the case of diseases, describing a symptom doesn't necessarily give us a clue to a cause. Nobel Laureate and professor Milton Friedman says, "[I]nflation is always and everywhere a monetary phenomenon, in the sense that it cannot occur without a more rapid increase in the quantity of money than in output." Increases in money supply are what constitute inflation, and a general rise in prices is the symptom.

Let's look at that with a simple example. Pretend several of us gather to play a standard Monopoly game that contains \$15,140 worth of money. The player who owns Boardwalk or any other property is free to sell it for any price he wishes. Given the money supply in the game, a general price level will emerge for all trades. If some property prices rise, others will fall, thereby maintaining that level.

Suppose unbeknownst to other players, I counterfeit \$5,000 and introduce it into the game. Initially, that gives me tremendous purchasing power, whereby I can bid up property prices. After my \$5,000 has circulated through the game, there will be a general rise in the prices—something that would have been impossible before I slipped money into the game. My example is a highly simplistic example of a real economy, but it permits us to make some basic assessments of inflation.

First, let's not let politicians deceive us, and escape culpability, by defining inflation as rising prices, which would allow them to make

the pretense that inflation is caused by greedy businessmen, rapacious unions or Arab sheiks. Increases in money supply are what constitute inflation, and the general rise in the price level is the result. Who's in charge of the money supply? It's the government operating through the Federal Reserve.

There's another inflation result that bears acknowledgment. Printing new money to introduce into the game makes me a thief. I've obtained objects of value for nothing in return. My actions also lower the purchasing power of every dollar in the game. I've often suggested that if a person is ever charged with counterfeiting, he should tell the judge he was engaging in monetary policy.

When inflation is unanticipated, as it so often is, there's a redistribution of wealth from creditors to debtors. If you lend me \$100, and over the term of the loan the Federal Reserve increases the money supply in a way that causes inflation, I pay you back with dollars with reduced purchasing power. Since inflation redistributes (steals) wealth from creditors to debtors, it helps us identify inflation's primary beneficiary. That identification is easy if you ask: Who is the nation's largest debtor? If you said, "It's the U.S. government," go to the head of the class.

So what about the president's nomination of Ben S. Bernanke as Alan Greenspan's replacement? I know little or nothing about the man. What I do know is that it's not wise for one person, or group of persons, to have so much power over our economy. Here's my recommendation for reducing that power: Repeal legal tender laws and eliminate all taxes on gold, silver and platinum transactions. That way, Americans could write contracts in precious metals and thereby reduce the ability of government to steal from us.

Basic Economics

Wednesday, December 7, 2005

With all the recent hype and demagoguery about gasoline price-gouging, maybe it's time to talk about the basics of exchange. First, what is exchange? Exchange occurs when an owner transfers property rights or title to that which is his.

Here's the essence of what transpires when I purchase a gallon of gasoline. In effect, I tell the retailer that I hold title to \$3. He tells me that he holds title to a gallon of gas. I offer to transfer my title to \$3 to him if he'll transfer his title to a gallon of gas to me. If this exchange occurs voluntarily, what can be said about the transaction?

One thing we know for sure is that the retailer was free to retain his ownership of the gallon of gas and I my ownership of \$3. That being the case, why would we exchange? The only answer is that I perceived myself as better off giving up my \$3 for the gallon of gas and likewise the retailer perceived himself as better off giving up his gas for the \$3. Otherwise, why would we have exchanged?

Exchanges of this sort are called good-good exchanges, namely "I'll do something good for you if you do something good for me." Game theorists recognize this as a positive-sum game—a transaction where both parties are better off as a result. Of course there's another type of exchange not typically sought, namely good-bad exchange. An example of that kind of exchange would be where I approached the retailer with a pistol telling him that if he didn't do something good for me, give me that gallon of gas, I'd do something bad to him, blow his brains out. Clearly, I'd be better off, but he would be worse off. Game theorists call that a zero-sum game—a transaction where in order for one person to be better off, the other must be worse off. Zero-sum games are transactions mostly initiated by thieves and governments.

Some might argue that there's unequal bargaining power between me and the gas retailer. That's nonsense! The retailer has the power to charge any price he wishes, but I have the power to decide how

much I'll buy, including none, at that price. You say, "Gas is a necessity, and we're forced to buy it." That too is nonsense. If I voluntarily purchase the gas, I do so because I deem it better than my next best alternative. Of course, at a high enough price, I wouldn't deem it as such.

In the wake of the spike in fuel prices, many Americans demand that politicians do something. You can bet the rent money that whatever politicians do will end up harming consumers. Despite a long history of their economic calamity, some Americans and politicians are calling for price controls or, what amounts to the same thing, anti price-gouging legislation. As Professor Thomas DiLorenzo points out in "Four Thousand Years of Price Control" (www.mises.org/story/1962), price controls have produced calamities wherever and whenever they've been tried.

Economic ignorance, misconceptions and superstition drive us toward totalitarianism because they make us more willing to hand over greater control of our lives to politicians. That results in a diminution of our liberties. Think back to the gasoline price controls during the 1970s. The price controls caused shortages. To deal with the shortages, restrictions were imposed on purchases. Then national highway speed limits were enacted. Then there were more calls for smaller and less crashworthy cars. With the recent gasoline supply shocks, we didn't experience the shortages, long lines and closed gas stations seen during the 1970s. Why? Prices were allowed to perform their allocative function—get people to use less gas and get suppliers to supply more.

U.S. Atrocities in Iraq

May 12, 2004

It's the end of the semester at George Mason University and for the past couple of weeks I've been too busy preparing final exam harassment for my students to pay much attention to all the news stories about how U.S. soldiers were torturing Iraqi prisoners at Abu Ghraib prison. Now that my spring semester's work has just about been completed, I decided to bring myself up to speed on these American atrocities.

I braced myself for the worst. Part of my 1959 Fort Jackson, South Carolina, basic training involved lessons on evasion and escape. Our drill sergeant who fought in the Korean War told us about how North Koreans tortured American prisoners of war. His graphic descriptions gave us added incentive to pay attention to what we were being taught about evasion and escape. Remembering his graphic descriptions, and given the worldwide condemnation of our soldiers, I was prepared to see pictures of American soldiers engaged in atrocities such as: eye gouging, piercing of prisoner's hands and knees with electric drills, beating soles of prisoner's feet, cigarette burns, fingernail extraction, whipping, and placing prisoners in acid baths. I also thought I might see pictures of Iraqis looking like the diseased and starved World War II American prisoners of the Japanese who were brutally marched from Bataan to Camp O'Donnell and when liberated from Japanese prisoner of war camps, many didn't weigh much over 100 pounds if that.

Much to my surprise I saw none of this. What I saw in no way could be described as torture or atrocities, at least if we stick to historical definitions of torture and atrocities. Among the pictures I saw were: Pfc. Lynndie England with a dog leash tied to a naked Iraqi. Iraqi prisoners forced to parade naked before their jeering captors. Two American soldiers—a male and a female—forcing a group of Iraqi prisoners into simulating group sex. An American female soldier playing with two naked Iraqi captives. A British soldier urinating on

an Iraqi prisoner. Of the pictures I saw, the worst act was a soldier putting a rifle butt to an Iraqi prisoner's groin.

These acts aren't anything that Americans should be proud of but at the same time they don't qualify as torture and atrocities so far as those terms have been historically defined. Moreover, they are mild in comparison to the kind of prison treatment to which Iraqis have become accustomed.

Before we condemn our soldiers too much we might consider that this war is the most humane war ever fought. In toppling the Saddam Hussein regime, there were relatively few non-combatant casualties. Afterwards our troops and American and foreign civilians went to great lengths to begin to rebuild the country and much of that rebuilding has little to do with what was destroyed in war. How has this unprecedented effort been rewarded? Our soldiers have been ambushed and murdered by Hussein holdouts and Muslim fanatics. American and foreign civilians have been brutally murdered and their corpses treated in unspeakable ways. And all of this to the glee of large Iraqi mobs. We should keep in mind that our soldiers are humans. I think it's understandable that they might want revenge against perpetrators who've been involved with the murder and maiming of their comrades.

Don't get me wrong about this. Their actions are not to be condoned. But if President Bush and Congress want to know whether our soldiers' actions constitute torture, I suggest they ask former American Japanese POWs or better yet ask former Hanoi Hilton resident Senator John McCain. By the way, if our soldiers are to be court martialed for anything, it should be for stupidity—stupidity of permitting photos to be taken of what they were doing.

Will the West Survive?

June 23, 2004

The Muslim world is at war with western civilization. We have the military might to thwart them. The question is: do we have the intelligence to recognize the attack and the will to defend ourselves from annihilation? Their intent is clear but let's refresh our memories with a bit of history.

At the 1972 Olympic games in Munich several athletes were massacred. In 1979, the U.S. embassy was taken over and 52 hostages held for more than a year. In 1983, U.S. Marine barracks in Beirut were blown up killing 241 U.S. soldiers. In 1988, Pan Am flight 103 was bombed killing 270 people. In 1993, there was the first bombing of the World Trade Center and in 2001 it was reduced to rubble killing more than 3,000 Americans. In 1988, U.S. embassies in Kenya and Tanzania were bombed resulting in the deaths of 220 people and 4,000 injured. Who are the people responsible for these and other wanton murders of innocents including the recent barbaric beheading of two innocent men? They were all Muslims.

You say, "Williams, you can't make an indictment of a whole people and their religion!" I'm not and let me clearly state: By no means are all Muslims murderers. But on the other hand, I've never heard broad Muslim condemnation of their fellow Muslims' murderous acts committed in the name of their God. If anything there has been jubilation and dancing in the streets in the wake of Muslim attacks on westerners. Contrast their response to the widespread western condemnation of the, mild by comparison, behavior of a few coalition forces in Iraq's Abu Ghraib prison.

Muslim atrocities, and the collective Muslim response to those atrocities, might be better understood knowing their belief system as spelled out by a few, among many, passages from the Koran: "Fight those who do not believe in Allah" (Surat At-Taubah 9:29). "I will instill terror into the hearts of the unbelievers, smite ye above their necks and smite all their finger tips of them" (Koran 8:12). "The un-

believers among the People of the Book and the pagans shall burn forever in the fire of Hell. They are the vilest of all creatures” (Koran 98:1-8). “Fight against those who believe not in Allah, and those who acknowledge not the religion of truth [Islam], until they are subdued” (Surat At-Taubah 9:29).

Phil Lucas, editor of the *Panama City News Herald* 4/4/04, in his editorial, “Up Against Fanaticism” asks, “Can anybody name three ongoing world conflicts in which Muslims are not involved?” Mr. Lucas says, “They can’t get along with their neighbors on much of the planet: France, Chechnya, Bosnia, Indonesia, Spain, Morocco, India, Tunisia, Somalia, etc., etc., etc.”

My colleague Dr. Thomas Sowell observes, “Those in the Islamic world have for centuries been taught to regard themselves as far superior to the “infidels” of the West, while everything they see with their own eyes now tells them otherwise.” He adds, “Nowhere have whole peoples seen their situation reversed more visibly or more painfully than the peoples of the Islamic world.” Sowell adds that few people, once at the top of civilization, accept their reversals of fortune gracefully. Moreover, they don’t blame themselves for their plight. For the Muslim world, it’s the West who’s to blame.

History never repeats itself exactly but we might benefit from knowledge of factors leading to the decline of past great civilizations. Rome was one of those advanced civilizations. Rome was so caught up in “bread and circuses” and moral decline that it couldn’t manage to defend itself from invading barbaric hordes that ultimately plunged Europe into the Dark Ages. The sooner we recognize that the West is in a war for survival the more likely we’ll be able to escape the fate that befell the Roman Empire.

Economics 101

August 11, 2004

Economic ignorance allows us to fall easy prey to political charlatans and demagogues, so how about a little Economics 101.

How many times have we heard “free tuition,” “free healthcare,” and free you-name-it? If a particular good or service is truly free, we can have as much of it that we want without the sacrifice of other goods or services. Take a “free” library; is it really free? The answer is no. Had the library not been built, that \$50 million could have purchased something else. That something else sacrificed is the cost of the library. While users of the library might pay a zero price, zero price and free are not one and the same. So when politicians talk about providing something free, ask them to identify the beneficent Santa Claus or Tooth Fairy.

It’s popular to condemn greed but it’s greed that gets wonderful things done. When I say greed, I don’t mean stealing, fraud, misrepresentation, and other forms of dishonesty. I mean people trying to get as much as they can for themselves. We don’t give second thought to the many wonderful things that others do for us. Detroit assembly line workers get up at the crack of dawn to produce the car that you enjoy. Farm workers toil in the blazing sun gathering grapes for our wine. Snowplow drivers brave blizzards just so we can have access to our roads. Do you think these people make these personal sacrifice because they care about us? My bet is that they don’t give a hoot. Instead, they, along with their bosses, do these wonderful things for us because they want more for themselves.

People in the education and political establishments pretend they’re not motivated by such “callous” motives as greed and profits. These people “care” about us but which areas of our lives do we derive the greatest pleasures and have the fewest complaints, and which areas do we have the greatest headaches and complaints? We tend to have a high satisfaction level with goods and services like computers, cell phones, movies, clothing and supermarkets. These are areas were

the motivation is greed and profits. Our greatest dissatisfaction are in areas of caring and no profit motive such as public education, postal services, and politics. Give me greed and profits and you can keep the caring.

How about the idea that if it saves just one life it's worth it? That's some of the stated justification for government mandates for child-proof medicine bottles, gun locks, bike helmets and all sorts of warning labels. No doubt there's a benefit to these government mandates but if we only look at benefits we'll do darn near anything because there's always a benefit to any action. For example, why not have a congressionally mandated five mph highway speed limit? According to the U.S. Department of Transportation, there were 43,220 highway fatalities in 2003 with an estimated cost of \$230 billion. A five mph speed limit would have spared our nation of this loss of life and billions of dollars.

You say, "Williams, that's preposterous!" You're right. Most people would agree that a five mph speed limit is stupid, impractical and insane. That's one way of putting it but what they really mean is: the benefit of saving 43,200 highway deaths and the \$230 billion, that would result from mandating a five mph speed limit, isn't worth all the inconvenience, delays and misery.

Admittedly, the five mph speed limit is an extreme example, a *reductio ad absurdum*. Nonetheless, it illustrates the principle that our actions shouldn't be guided by benefits only; we should also ask about costs. Again when politicians come to us pretending they're Santa Clauses or Tooth Fairies delivering benefits only, we should ask what's the cost and who's going to pay and why.

Economic Lunacy

November 17, 2004

Here's a couple of newspaper headlines following Florida's bout with hurricane disasters: "Storms create lucrative times," *St. Petersburg Times* (9/30/04). Then there's *USA Today*, "Economic growth from hurricanes could outweigh costs" (9/26/04). The writers, Joni James and Barbara Hagenbaugh might have been listening to economists like Steve Cochrane, director of regional economics at Economy.com, a consulting firm in West Chester, Pennsylvania who said, "It's a perverse thing ... there's real pain, but from an economic point of view, it is a plus." Why are Florida's hurricanes a "plus"? It's simple. According to *St. Petersburg Times* reporter Joni James, "Construction creates thousands of jobs, insurance provides for billions in consumer purchases and new facilities built to higher standards might help offset future storm-related losses."

This kind of reasoning, often put forth by poorly trained economists, doesn't even pass a simple smell test. Think about it this way. Using Mr. Cochrane's statement, if "from an economic point of view, it [hurricanes] is a plus," would the country have been even better off if the entire east coast shared Florida's damage and destruction? If it would have been a plus for the east coast, what about hurricane destruction for the entire nation east of the Mississippi? Almost anyone with a speck of brains would recognize that equating economic growth with destruction is lunacy.

French economist Frederic Bastiat (1801–1850) wrote a pamphlet "What is Seen and What is Not Seen," where he says, "There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen." In the case of Florida's hurricane disaster, what is seen is the employment associated with rebuilding. What is unseen is what Floridians would have spent the money on and the benefits there from had there not been hurricane destruction.

Bastiat wrote a parable about this which has become known as the “Broken Window Fallacy.” A shopkeeper’s window is broken by a vandal. A crowd forms sympathizing with the man, but pretty soon they start to suggest the boy wasn’t guilty of vandalism; instead, he was a public benefactor, creating economic benefits for everyone in town. After all fixing the broken window creates employment for the glazier who will then buy bread and benefit the baker, who will then buy shoes, and benefit the cobbler, and so forth.

Those are the seen effects of the broken window. What’s unseen is what the shopkeeper would have done with the money had the vandal not broken his window. He might have employed the tailor by purchasing a suit. The broken window produced at least two unseen effects. First, it shifted unemployment from the glazier who now has a job to the tailor who doesn’t. Second, it reduced the shopkeeper’s wealth, namely, had it not been for the vandalism the shopkeeper would have had a window and a suit; now he has just a window.

The broken window fallacy was seen in a column written by Princeton University Professor Paul Krugman after the terrorist attack on the World Trade Center, “After the Horror” *New York Times* (9/14/01). He wrote, “Ghastly as it may seem to say this, the terror attack—like the original day of infamy, which brought an end to the Great Depression—could do some economic good.” He went on to point out how rebuilding the destruction would stimulate the economy through business investment and job creation. Again, do the smell test. If Professor Krugman is right, wouldn’t the terrorists have done us a bigger economic favor if they had destroyed buildings in other cities?

Maybe we shouldn’t be so harsh on these reporters and economists in light of the fact that they didn’t receive training at George Mason University’s Economics Department where there are no bad economists.

Attack on Decency

December 1, 2004

Janet Jackson's "wardrobe malfunction," Nicolette Sheridan's towel malfunction and naked leap into the arms of Philadelphia Eagle wide receiver Terrell Owens on ABC's Monday Night Football, and the recent Detroit Pistons/Indiana Pacers game melee are just the most recent signs of a new culture that has emerged among Americans and it's just the tip of the iceberg.

Years ago the lowest of lowdown men wouldn't use the kind of language that's routinely used today not only in the presence of women but often to women. To see men sitting while a woman was standing on a public conveyance used to be unthinkable. Children addressing adults by their first name was also unthinkable, not to mention the use of foul language in the presence of or to adults. How about guys and girls walking down the street whilst the guy has his hand in the girl's rear pocket?

What might explain the differences in behavior today versus yesterday? A significant part of the explanation is seen by recognizing that society's first line of defense is not the law but customs, traditions and moral values. Customs, traditions and moral values are those important thou-shalt-nots such as: shalt not murder, shalt not steal, shalt not lie and cheat. They also include respect for parents, teachers and others in authority plus those courtesies one might read in Emily Post's rules of etiquette.

The importance of customs, traditions and moral values as a means of regulating behavior is that people behave themselves even if nobody's watching. There are not enough cops and laws can never replace these restraints on personal conduct so as to produce a civilized society. At best, the police and criminal justice system are the last desperate line of defense for a civilized society. Unfortunately, too many of us see police, laws, the criminal and civil justice systems as society's first line of defense.

For nearly a half century, the nation's liberals along with the ed-

ucation establishment, pseudo-intellectuals and the courts have waged war on traditions, customs and moral values. Many in this generation have been counseled to believe that there are no moral absolutes. Instead, what's moral or immoral is a matter of convenience, personal opinion, or what is or is not criminal.

During the '60s, the education establishment launched their agenda to undermine lessons children learned from their parents and the church with fads like "values clarification." So-called sex education classes are simply indoctrination that sought to undermine family/church strictures against pre-marital sex. Lessons of abstinence were ridiculed and considered passé and replaced with lessons about condoms, birth control pills and abortions. Further undermining of parental authority came with legal and extra-legal measures to assist teenage abortions with neither parental knowledge nor consent.

Customs, traditions, moral values and rules of etiquette, not laws and government regulations, are what makes for a civilized society. These behavioral norms, mostly transmitted by example, word-of-mouth, and religious teachings, represent a body of wisdom distilled through ages of experience, trial and error, and looking at what works and what doesn't.

Customs, traditions and moral values have been discarded without an appreciation for the role they played in creating a civilized society and now we're paying the price. What's worse is that instead of a return to what worked, many of us fail to make the connection and insist "there ought to be a law." As such it points to another failure of the so-called "great generation"—the failure to transmit to their children what their parents transmitted to them.

Profiling Needed

November 5, 2001

Standing in long lines to pass through airport security, I thought: Where's racial and sexual profiling now when it can benefit most, if not all passengers? You say, "What's wrong with you, Williams, everybody knows that profiling has been declared racist and sex profiling is no better?" Let's look at profiling as a principle.

Suppose you were chief of police seeking to apprehend some unknown gangsters involved in a recent drive-by shooting, would you instruct your officers to include 80-year-old women as possible suspects to be detained and questioned? You probably wouldn't and why? It's not because you have affection or special respect for the civil rights of older women. Focusing police resources on 80-year-old women, and for that matter 80-year-old men, as suspects would be stupid and a gross waste of resources because the chances that 80-year-olds would be involved in drive-by shootings is close to nil.

Criminals involved in the drive-by shooting would benefit if there were to be an anti-profiling law forcing police to view 80-year-olds just as likely to be involved in drive-by shootings as any other age group in the population. Doing so would waste police resources and give criminals greater opportunities to escape detection and apprehension.

Similar reasoning can be applied to airport security measures. Right now part of enhanced security includes forcing all passengers to wait in long lines to have their tickets and ID checked, take off outer garments, be frisked, and have their carry-on items searched for anything that might be used as a weapon—that includes fingernail files and clippers, cuticle cutters, knitting needles and you name it. Lines and passenger inconvenience could be reduced by applying profiling where less scrutiny is given to older women and men. While older women and men are not likely to be hijackers, they might be used by hijackers to carry weapons; thus, a reasonable case can be

made for requiring them as well as any other passengers to pass through metal detectors.

Who should receive more scrutiny and who should receive less? This is an important question if we are to insure against hijacking. As a generality women should receive less scrutiny, after all women have never been significant players in hijacking. Black Americans of either sex should receive less scrutiny for the same reason. Most security resources should be spent scrutinizing Caucasian males, particularly those with a Middle East appearance. And why? It's simply that virtually all hijackings in the U.S. and elsewhere have been committed by men fitting that general description.

Some might say that it's unjust to single out some Americans for more security scrutiny than others. But it is also unjust, plus a waste of resources, to subject people to airport security harassment who pose absolutely no hijack threat, such as old men, women of any age and young children.

There are security measures we can take that are far more effective than anything that we're doing now. There are tens of thousands of retired policemen and active duty policemen, as well as their counterparts in the FBI and Secret Service who fly. How about a program that allows them to fly half-fare if they carry their weapons and act as sky marshals? That would create considerable uncertainty for hijackers. They wouldn't know who or how many people were on the plane who would be in the position to blow their brains out. Current government regulations give aid and comfort to hijackers. The FAA has guaranteed hijackers that no one on the plane is armed but them. That must be changed.

A Dynamite Economics Department

November 30, 2001

Reporting their findings in *Applied Economics Letters* (2/2001), a British professional journal, Professors Franklin G. Mixon, Jr. and Kamal P. Upadhyaya rank economics departments in the U.S. South. The rankings are based upon faculty research productivity. As former chairman of George Mason University's Economics Department, for the last six years, I am pleased and proud to report that our department heads the list of some 69 southern university Ph.D. granting economics departments.

You say, "How did we achieve that status? What kind of economists are you people anyway?" Everybody's heard of Keynesian economists, Austrian, neoclassical, and free market economists. I'd like to think that we're none of those. My friend and colleague Nobel Laureate Milton Friedman always reminds us there are only two kinds of economists—good economists and bad economists. We're good economists.

You say, "Nobody's going to admit that they're a bad economist so how can we tell the difference?" See if the economist suggests the possibility of a free lunch. We all know that there's no free lunch but free-lunch economists will tell you things such as: WWII got us out of the Depression; building sports arenas will stimulate employment; monopolies can charge any price they wish; government spending is good for the economy; and trade surpluses are good and trade deficits are bad. Since my colleagues are good economists, you'll hear no such nonsense from them.

George Mason University economists are leaders in economic thinking. They include scholars such as Nobel Laureate James Buchanan who, along with his colleague Gordon Tullock, pioneered the field in economics known as public choice. At the heart of their contribution is the idea that when people become politicians or bureaucrats they don't suddenly become selfless servants imbued with the

public interest. Instead, they remain self-interested just as any other person but simply face a different set of restraints.

Towards the end of my tenure as department chairman, we acquired all seven members of the University of Arizona's distinguished Economic Science Laboratory. Professor Vernon Smith, its director, is widely mentioned as a likely prospect for the Nobel Prize in economics for his path-breaking work in the field of experimental economics. Along with Professor Gordon Tullock, also mentioned as a likely prospect for the Nobel Prize in Economics, it is not inconceivable that GMU's Economics Department will not only rank number one in the South but will be home to every single Nobel Laureate in the South. In addition to these three stars on our faculty, there are a number of junior and senior faculty who are also on the frontiers of the pursuit of economic knowledge.

You say, "Okay, Williams, there are good economists and bad economists but can't you give a better description of your department?" If asked to generalize, I'd say that GMU's economics department is probably the nation's, if not the world's, only completely free market department, although there's one of my colleagues whom I hold under suspicion. In other words, we accept the evidence that peaceable, voluntary exchange is not only morally superior to other forms of social organization, such as those involving force, intimidation and threats, it also provides for the highest standard of living for the ordinary man.

Some readers might accuse me of immodestly bragging. I accept the accusation and I don't mind. It was my beloved grandmother who used to say, "It's a poor dog that won't wag his own tail."

Who May Harm Whom?

December 24, 2001

Webster's Dictionary defines harm as: to hurt, damage, injure. People who don't or can't think believe that government should step in to prevent one person from harming another such as in the case of tobacco smoke. But harm is a two-way street and it's a daunting task to determine whether one harm is more important than another.

Let's list just a few instances of harms and decide whether they should be banned. When handheld calculators were invented, manufacturers of slide rules were harmed. They were run out of business. When chain hardware stores like Home Depot and Lowes opened, many neighborhood hardware stores were run out of business. When I married Mrs. Williams, other women were harmed by a reduction in the number of highly desirable men to marry. I enjoy smoking and you might find it an abomination and worry about the health effects of secondhand smoke. If I'm stopped from smoking, I'm harmed by a reduction in my pleasure and you're benefitted. If I'm permitted to smoke, I'm benefitted and you're harmed.

There are literally thousands of examples of how people harm one another. No one but an idiot would make an attempt to objectively determine which harm is more important than the other and should be banned by government. Thus, we're confronted with the question: What is it that decides what kinds of harm should be permitted? How is it decided who may harm whom? In a dictatorship it's the dictator who decides. In a democracy, it's mob rule.

How is it decided in a free society? In a free society, the question of who may harm whom in what ways is decided through private property rights. Harming another by rape, murder and robbery should be prohibited because it violates private property rights. We own ourselves. Thus, rape, murder and robbery are private property rights violations. In the case of the handheld calculator producer harming the slide ruler producer, it's property rights that decides. The calculator producer owns his materials and skills. Customers have private prop-

erty rights to their money. That means they have the right to spend it purchasing calculators. The slide rule producer has no right to force customers to purchase his product. While the calculator producer has a right to harm the slide rule manufacturer by offering a more desirable product, he doesn't have the right to harm him by burning down his factory. That would violate the slide rule manufacturer's property rights.

What about cigarette smoke harming others? In a free society, as opposed to a dictatorship or mob rule, the matter is resolved through private property rights. If you own property, be it your house, restaurant, airplane or workplace, another does not have the right to smoke on your property without your permission. Alternatively, in the house, restaurant, airplane or workplace that I own, another doesn't have the right to prohibit smoking. If you don't like the fact that smoking is permitted in my restaurant, you can go elsewhere. Similarly, I can do the same if you don't permit smoking. Of course, if there's dictatorship or mob rule, and I can get the ear of the dictator or mob, a law can be written to require you to allow smoking. You say, "Williams, that would be unfair." It's no more unfair than when people get the ear of the dictator or mob and get laws written to ban smoking.

A free people will always want private property rights to decide who may harm whom. It's less arbitrary, more certain, and less subject to political whims.

Too Much Safety

August 27, 2001

There's the old admonition: It's better to be safe than sorry. The fact of life is that one can be both safe and sorry—that's if we acknowledge the consequences of having too much safety. Let's look at it.

National Transportation Safety Board (NTSB) investigators blamed a fuel tank fire for the July 17, 1996 crash of Paris-bound TWA 800 where all 230 people on board were killed. The Federal Aviation Administration (FAA) advisory committee recently heard a joint industry-agency task force report concluding that adding non-flammable gases (fuel tank inerting) would significantly reduce, perhaps eliminate, the risk of fuel tank explosions. Nonetheless, the task force recommended against a FAA fuel tank inerting mandate saying that it would "have an enormous operational impact, with costs that far exceeded the benefits." They estimated that the \$10 to \$20 billion cost of fuel tank modification would save a total of 253 lives.

One predictable response to the agency-industry task force recommendation was the condemnation: You can't put a price on human life. That's a frequently heard response to safety issues, often accompanied by: if it saves one life, it's worth it. Despite the emotional appeal of such pleas, intelligent, not to mention humane, public policy demands that we ask: Is it worth it to spend \$10 to \$20 billion dollars to save an estimated 253 lives? Of course if it's your life that's saved, you'll say, "It's worth it," but that's a callous disregard for other lives.

You say, "Williams, what in the world could you possibly mean?" Reconfiguring airliner fuel tanks will cost \$10 to \$20 billion. Guess how airlines will recoup that cost? If you guessed higher ticket prices, go to the head of the class. Higher ticket prices might mean that some families, who might otherwise fly to visit grandmother during the Christmas holidays, would decide to drive instead. Highway travel is many times more hazardous than air travel. So we should ask: how many people would die on the highway as a result of higher ticket

prices caused by “fuel tank inerting”? It might be many more than 253 lives.

Some years ago, there were calls for mandatory airline infant seats. The FAA’s analysis showed that, by forcing parents traveling with babies to purchase another ticket, instead of their infant traveling on their laps would cost an additional \$1 billion in airfare expenses on families over a 10-year period. Because of the higher cost, 20 percent of the families would shift to driving. Because of the higher fatality rate associated with driving, FAA analysis concludes there would be a net increase of 82 infant and adult fatalities over the 10-year period as a result of imposing this “safety” regulation.

So what’s the lesson? The first is that if we only look at the benefits of a policy, we’d do darn near anything, including stupid things such as mandating a 5 mph highway speed limit. After all there’s a benefit to anything. The second is that in evaluating public policy we shouldn’t only pay attention to what is seen but to what is unseen as well. Another way of putting this is: There is no free lunch. Fuel tank inerting might save 253 lives by preventing fuel tank explosions but is the \$10 to \$20 billion price tag the only cost? What if higher airfares led to an additional 1,000 highway deaths? Are the 253 lives saved by fuel tank inerting worth it? If more of us were familiar with Frederic Bastiat’s pamphlet “What Is Seen and What is Not Seen,” (available through fee.org) these questions would be a natural part of the public policy debate.

There's No Free Lunch

September 24, 2001

Each semester I spend a few minutes explaining to my students, both graduate and undergraduate, the first and second laws of thermodynamics. Why? Mother Nature permits us to do many things but she prohibits the construction of machines of the first and second kinds. The first is a something-for-nothing machine and the second is a perpetual motion machine. If students understand this, they can't be tricked into believing there's a free lunch.

Dr. Paul Krugman, Princeton University economist and *New York Times* writer, apparently believes in the machine of the first kind. In his column, "After the Horror" (*New York Times* 9/14/01), he says, "Ghastly as it may seem to say this, the terror attack—like the original day of infamy, which brought an end to the Great Depression—could do some economic good."

He suggests that the destruction will stimulate the economy through business investment in rebuilding the destruction.

We know this has to be fishy just by asking: Would there have been even greater "economic good" had the terrorists succeeded in destroying buildings in Los Angeles, San Francisco, Chicago, Philadelphia, Boston and all other major cities? Of course, you and I know that is utter nonsense. Property destruction always lowers the wealth of a nation. I hope one of Professor Krugman's students asks him, "If property destruction is good for the economy, why aren't Beirut and Belfast boom towns?"

There's another question related to both the Krugman article and measures that Congress is considering to jumpstart the economy: Where does the government or private money come from for rebuilding the destruction or bailing out the airlines? If it came from the Tooth Fairy or Santa Claus, then at least some of what Professor Krugman and politicians say has some merit. They both might benefit from reading French economist (1801–1850) Frederic Bastiat's pamphlet "What is Seen and What is Not Seen," where he says, "There

is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen.”

Since the money going to rebuild the destruction or bail out the airline industry doesn't come from the Tooth Fairy or Santa, we might ask what would have been done with the money if it weren't spent rebuilding destruction or bailing out the airline industry? What is seen is the employment associated with the rebuilding and the bailout. What is unseen is what the money would have been used for. Not asking this question commits the “broken window fallacy.” This is a story where a vandal smashes a baker's window. A person in the crowd that gathered (it could be Professor Krugman) tells the baker there's a good side to his misfortune. It will create a job for the glazer and when the glazer spends the \$100 there will be multiplier effects that stimulate the village's economy. That's the seen. The unseen is that the baker would have spent that \$100 to buy a suit and it would have created employment for the tailor. Had the vandal not struck, the baker would have had a window plus a suit; now he has just a window. Of course, there's greater employment for glazers but at the expense of less employment for tailors.

Steps Congress could take to jumpstart the economy are cuts in the capital gains tax and taxes in general and deregulation but guess what: Professor Krugman is against these steps; he calls them political opportunism. I call them sound economics.

Dopey Ideas and Expressions

May 19, 2003

How many times have we applauded those who “made a difference in the lives of others” and been admonished to do the same? On the face of it, that has to be one of the more mindless generalities of our modern era. After all didn’t Hitler, Stalin, Pol Pot and Castro also make a difference in the lives of others?

A prominent politician once told me that it’s up to Congress to save jobs. That’s a sentiment with enormous appeal today, reflected in tariffs, quotas and other economic restrictions. Taken literally saving jobs means lower wealth and I’m against it. Let’s think about it.

In 1776, farmers made up 90 percent of the labor force; today farmers are about two percent. That’s a lot of jobs lost. What should an earlier congress have done to save those jobs? In my youth, icemen and milkmen delivered their wares in horse-drawn wagons. Those jobs have been lost, along with the jobs of stable keepers and wagon repairmen. Was it the responsibility of congress to save those jobs?

The destruction of jobs through natural market forces is, for example, a wonderful thing; it frees up labor resources to do other things, although a hardship on those displaced. After all if 90, 60, or 30 percent of our labor force were farming where in the world would we get workers to produce cars, computers, roads and ships? Many parents tell their children that anything worth doing is worth doing as well as possible. That’s nonsense. I never tell my economic students they ought to try to get the best grade they can in my class. Why? Spending the resources to earn an A in economics means that those same resources can’t be spent for other classes. For example, spending the time to earn an A in my class might mean a C in biology, D in math and a F in chemistry. That translates into a grade point average of 1.75. If by spending less time learning economics, maybe earning a C, and spending more time on other classes so as to earn a C in each of them, the student would have a higher grade point average.

What about statements like this: “It’s advantageous to have reporters on the ground,” or, we should “connect policy to people on the ground in developing countries.” I sometimes wonder whether there’s the alternative of, say, connecting policy to people in the air in developing countries. I personally grow weary of one reference or another, usually made by a reporter or politician, to people, equipment, food, this or that “on the ground.”

I have generous office hours for students but not every hour in my office is open to students. Quite often during non-office hours, a student or colleague will knock on my door. When I open it, they’ll often ask, “May I disturb you?” That’s an incredible question to which I frequently rely, mostly in a civil fashion, “You’ve already disturbed me; now what do you want?”

Dr. Martin Rosenberg, my high school English teacher, having had it with my classroom antics whilst he drilled us in English grammar, told me “Williams, teaching you this material is like casting pearls before the swine.” That was in 1952 before everyone became concerned about self-esteem but it was precisely the kind of dressing down that I needed to challenge me and turn my high school academic performance around. Two years later, it was Dr. Rosenberg who proudly coached me with my salutatorian address for our graduation ceremony. I thank God that I received my education before educators and psycho-babblers became concerned about self-esteem; I’m also thankful for having received it before it became fashionable for white people to like black people. It meant my grades were honest.

Different Visions, Different Policy

March 3, 2003

We're often confronted by the enigma of decent people professing identical goals but advocating polar opposite policies. Sometimes the political alignment is seen as conservative versus liberal where, for example, conservatives fight against minimum wage increases and liberals support those increases. The enigma is why is it that two groups of people, professing concern for low-skilled workers, advocate vastly differing means to help them. I think that part of the answer lies in differing visions of how the world works; but that answer only applies to honest people who don't have a self-interested hidden agenda.

Consider what might have been an argument between two Spaniards in 1300 A.D. One person's initial premise is that the earth is flat while the other's initial premise is that the earth is round. The person with the flat-earth premise would argue that it's impossible to sail west from Spain and reach India. The person with the round-earth premise would argue the opposite, while the voyage would be long, one can sail west from Spain and reach India.

The internal logic underlying both arguments, given the initial premises, are flawless. After all if the world is flat, and India lies to the east of Spain, sailing west from Spain means that somewhere along the way you're going to fall off the earth. By contrast, with the premise that the earth is round, of course one could sail west and reach India. Here's the point: Given the initial premises both arguments are flawless, internally consistent and believable to their adherents.

Let's apply this reasoning to the minimum wage debate to see how it might explain how two groups of decent and honest people can reach polar opposite conclusions. If one's initial premise is that employers must employ certain amount of labor, say ten workers, to get a job done, the logic that higher minimum wage laws would help low-skilled workers is flawless. It simply means higher wages for those ten workers coming at the expense of the employer's profits.

By contrast, if one's initial premise is that employers are sensitive to labor prices and can substitute capital for labor or move their operation to places where there's cheaper labor, the logic that the minimum wage would hurt at least some low-skilled workers is similarly flawless. After all a low wage is better than no wage as a result of having been replaced by machinery or your job has moved overseas.

Competing visions of how the world works enters many areas of our lives and generate polar opposite policies. Another example is gun control. If it's your vision that an inanimate object such as a gun can cause crime, then you'll advocate gun control as a means to reduce crime. The logic is impeccable; fewer guns means less crime. But, if it's your vision that evil people, not guns, cause crime, you might advocate more gun ownership as a means to reduce crime, namely giving law-abiding citizens greater protection and providing more uncertainty for criminals.

A way out of the conundrum of competing visions is to demand that people make their initial premises explicit so they can be challenged. Supporters of higher minimum wage law, as a means to help low-skilled workers, should be required to provide evidence that employers are insensitive to increases in labor prices and those who argue against should be required to provide evidence employers are sensitive. Gun control advocates should be required to provide evidence that guns, not evil people, cause crime and gun ownership advocates should be pressed for their evidence that it's evil people, not guns, that cause crime.

My Organs Are for Sale

The Freeman: Ideas on Liberty, *October 2002*

According to a new book, *The U.S. Organ Procurement System*, written by economists David Kaserman and A. H. Barnett, there are 80,000 Americans on the organ transplant waiting list. Twenty of them die each day as a direct result of organ shortages; that's over 7,000 each year. These lost lives are not so much an act of God as they are an act of Congress because of its 1984 National Organ Transplant Act, that prohibits payment to organ donors. Reliance on voluntary donations, has been an abject policy failure. It's noteworthy that everyone else involved in the organ transplant business is rewarded handsomely—that includes surgeons, nurses and organ procurement workers.

How might an organ transplant market work? Lloyd Cohen, a law professor at George Mason University, envisions letting people contract in advance to permit the harvesting of any usable organs when they die. The money earned would become a part of their estate. Many people are offended by the notion of human body parts becoming commodities for sale. There's at least a tiny bit of inconsistency because there is a market for human blood, semen and hair.

How many vital things in our lives do we depend on altruism or voluntary donations to provide? Food is vital, water is vital; so are clothing and housing. We don't depend on altruism and voluntary donations to provide these goods. And for good reason—there'd be massive shortages. Why should we depend on altruism or voluntary donations to provide what we may one day need more urgently than food, water, clothing or housing? All objections to organ sales reduce to either nonsense, ignorance or arrogance. Let's look at some of them.

One concern is that if organs are sold rather than donated, poor people couldn't afford them. There's a difference between methods

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of attaining organs and methods of distributing them. For example, poor people need food but Congress hasn't mandated that food prices be zero so that poor people can eat. If Congress did that, there'd be massive shortages and poor people would probably starve. Instead of such a stupid policy, we simply allow the market mechanism to supply food and then subsidize purchases, through programs like food stamps. That same principle can be applied to organ transplants—allow the market to supply organs and if needed subsidize or provide through charity their distribution.

Won't organs be very costly? Kaserman and Barnett and others estimate that the organ shortage would be resolved at a price of \$1,000 to \$3,000 per donor. To the extent that markets would eliminate organ shortages, it would significantly reduce health care costs. For example, the cost of kidney dialysis is about \$44,000 per year. The cost of kidney transplant and medical care for the first year is about \$90,000. After the first year, medical treatments, mostly for immunosuppressant drugs to prevent rejection are \$16,000. That means after about two and a half years transplants save the medical system \$27,000 per year as opposed to patients remaining on long-term dialysis.

Another concern is that if there's a market for organs, poor people will sell their organs and become ill. The proposals made so far provide monetary payments be made for only cadaver organs. But from a strictly ethical point of view, people should be able to dispose of their organs for whatever reason they please. Why? If we agree that people have property rights in themselves, i.e., own themselves, they have a right to dispose of themselves anyway they please so long as they do not violate the property rights of others. I would surely prefer a person who might be unwilling to give me his kidney find motivation to sell me his kidney rather than for me to do without.

Some people have argued that an organ transplant market will lead to murder and the sale of the victim's organs to unscrupulous organ brokers. Murder will remain illegal and punishable. However, when the sale of a commodity is illegal there's a heightened potential for illegal activity and concomitant social disorder. During Prohibition there was far more criminal activity associated with alcohol manufac-

ture, distribution and consumption than there is now. To the extent that prohibition of organ sales reduces their supply, holding all else equal there's greater incentive for illegal activities involving organ transplants, including murder.

The medical profession has traditionally been opposed to organ sales. Their opposition would seem to be in violation of Hippocrates' admonition—*primum non nocere*. But they've recently taken steps, all be they timid, towards ending the day to day deaths due to organ shortages. At their July 2002 meeting, the American Medical Association voted agreement to commence trials in which payments will be made to organ donors or their families as a means to encourage cadaveric organ collections.

Parting Company Is an Option

The Freeman: Ideas on Liberty, *November 2004*

My last essay in *Ideas On Liberty*, “How Did We Get Here?,” provided clear evidence that Congress, the White House, as well as the Courts, had vastly exceeded powers delegated to them by our Constitution. To have an appreciation for the magnitude of the usurpation, one need only read Federalist Paper 45, where James Madison the acknowledged father of our Constitution explained, “The powers delegated by the proposed Constitution to the Federal Government, are few and defined. Those which are to remain in the State Governments are numerous and indefinite. The former will be exercised principally on external objects, as war, peace, negotiation, and foreign commerce; with which last the power of taxation will for the most part be connected. The powers reserved to the several States will extend to all the objects, which, in the ordinary course of affairs, concern the lives, liberties and properties of the people; and the internal order, improvement, and prosperity of the State.”

Short of some kind of cataclysmic event liberties lost are seldom regained but there is an outside chance to regain them if enough liberty-minded Americans were to pursue Free State Project’s proposal to set up New Hampshire as a free state. Free State Project (www.freestateproject.org) intends to get 20,000 or so Americans to become residents of New Hampshire. Through a peaceful political process they hope to assume leadership in the state’s legislature and executive offices and reduce burdensome taxation and regulation, reform state and local law, end federal mandates that violate the Ninth and Tenth Amendments to the U.S. Constitution and restore constitutional federalism as envisioned by the nation’s Founders.

Since there is only a remote possibility of successful negotiation with Congress, the Courts and White House to obey the U.S. Constitution, it is my guess that liberty could only be realized by a uni-

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lateral declaration of independence—namely, part company—in a word secede. While our Constitution is silent about secession, there is clear evidence that our Founders saw it as an option.

On March 2, 1861, after seven states had seceded and two days before Abraham Lincoln's inauguration, Senator James R. Doolittle (WI) proposed a constitutional amendment that said, "No State or any part thereof, heretofore admitted or hereafter admitted into the Union, shall have the power to withdraw from the jurisdiction of the United States." Several months earlier Representatives Daniel E. Sickles (NY), Thomas B. Florence (PA) and Otis S. Ferry (CT) proposed a constitutional amendment to prohibit secession. One is immediately faced with the question: Would there have been any point to offering these amendments if secession were already unconstitutional? There's more evidence. The ratification documents of Virginia, New York and Rhode Island explicitly said that they held the right to resume powers delegated should the federal government become abusive of those powers.

There's more evidence. At the 1787 constitutional convention a proposal was made to allow the federal government to suppress a seceding state. James Madison rejected it saying, "A Union of the States containing such an ingredient seemed to provide for its own destruction. The use of force against a State would look more like a declaration of war than an infliction of punishment and would probably be considered by the party attacked as a dissolution of all previous compacts by which it might be bound."

Professor Thomas DiLorenzo, in his revised *The Real Lincoln*, provides abundant evidence in the forms of quotations from our Founders and numerous newspaper accounts that prove that Americans always took the right of secession for granted. Plus, secession was not an idea that had its origins in the South. Infuriated by Thomas Jefferson's Louisiana Purchase, in 1803, the first secessionist movement started in New York, Massachusetts, Connecticut and other New England states.

The preponderance of evidence shows that states have a right to secede. The Constitution probably would have never been ratified if the states, sovereign nations as per the 1783 Treaty of Paris that

ended the war of independence with Great Britain, did not believe they had a right to secede. The only barrier to secession is the brute force of the federal government as witnessed by the costly War of 1861 that produced only one decent result—the elimination of slavery. Since the issue of secession was brutally settled, it left a devastating legacy for future generations of Americans. The federal government is free to run roughshod over the restrictions and safeguards the Framers imposed on the federal government.

Self-determination is a human right we all should respect. If some people want socialism that is their right, but it is not their right to use force to make others who wish to be left alone be part of it. By the same token, liberty-minded Americans have no right to impose their will on socialist-minded Americans. A far more peaceful method is for each to simply part company.

One wonders whether the brutality witnessed in 1861 would be repeated if New Hampshire seceded—massive troops along with today's deadly modern military equipment and Americans killing Americans.

Honesty and Trust

The Freeman: Ideas on Liberty, *January 2005*

Several decades ago I used to enjoy an occasional lunch in Washington, D.C. with the late Professor G. Warren Nutter, a distinguished economist who taught at the University of Virginia. Professor Nutter had considerable expertise in comparative economic systems, particularly that of the former Soviet Union. While he had a deep understanding of economic markets, he always stressed that markets do not operate within a vacuum and we gain a greater understanding of human behavior if we paid attention to the role of non-market forces.

At one of our luncheons, just out of the clear blue sky, and maybe to get an argument, Professor Nutter said to me that if we had to stop to count our change each time we purchased something markets would grind to a halt. That's a bit of exaggeration but Professor Nutter was making the point that the institutions of trust and honesty are vital to human well-being. Honesty and trust are not simply matters of character and morality; they're crucial for efficient human interaction and a smoothly working economy.

To appreciate the significance of honesty and trust, consider what our day-to-day life would be if we couldn't trust anyone. We purchase a bottle of a hundred aspirins from our drug store. How many of us bother to count the tablets to ensure that in fact we received a hundred? We drive into a gasoline station and the meter reads that we put ten gallons of gasoline into our fuel tank. Does anyone of us bother to verify whether in fact we received ten gallons instead of nine? We paid \$7.00 for a one-pound package of steak. How many of us bother to check to verify that it was in fact one pound instead of three-quarters or seventh-eighths of a pound?

Then there's, "Send me 100 diskettes and bill me." Or you call your broker telling him to purchase 50 shares of AT&T at the market price and you'll settle within seven days. A salesman says, "If you're

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not satisfied with your order, bring it back and your money will be refunded.” Or, “Mow my lawn and I’ll pay you.” In literally millions upon millions of transactions like these, we simply trust each other.

Imagine the costs and inconvenience we’d suffer if people were generally dishonest and we couldn’t trust anyone. We would have to lug around measuring instruments to ensure, for example, that it was ten gallons of gas and one pound of steak we purchased. We’d have to bear the costly burden of writing contracts instead of relying on a buyer or seller’s word and bear the monitoring expense to ensure compliance in the simplest of transactions. It’s safe to say that whatever undermines trust and confidence raises costs of transactions and makes us worse off.

But generalized honesty and trust goes further than that. I live in the Main Line suburbs of Philadelphia. FedEx, UPS and other deliverymen leave packages containing valuable items on the doorstep if we’re not home. A local supermarket leaves plants, fertilizer and other home and garden items outdoors overnight with no one to guard them from theft. As one enters the store, he sees merchandise unattended in the entryway. In neighborhoods, where there’s less honesty, leaving merchandise on doorsteps, outdoors overnight and in the supermarket entryway would be equivalent to economic suicide. Delivery companies must bear the costs of making return trips or the customer is inconvenienced by delayed receiving. If the supermarket places goods outside, they must bear the costs of retrieving the items at the close of business, that’s if they can risk to have merchandise outdoors in the first place.

Generalized honesty affects stores like supermarkets in another way that often goes unappreciated. One of the goals of a supermarket manager is that of maximizing the rate of merchandise turnover per square foot of leased space. When theft is relatively low, the supermarket can use outdoor and entryway footage thereby raising his profit potential. That opportunity is denied in localities where there’s less honesty.

The fact that honesty and trust are vital should make us re-think the treatment of those who violate honesty and trust. Dishonest people impose losses that go beyond those suffered by the actual victim

of the dishonest behavior. If packages are stolen from people's doorsteps, the response of delivery companies to not leave a package unless someone's home imposes costs on rest of us. If people rob bus operators and taxi drivers it requires all of us to have exact change or small bills.

Considering the large economic effects of dishonesty and not being able to trust one another, we should show little tolerance for violators. Fortunately, on the one hand we live in a society where we can generally trust and accept the word of one another, but on the other hand it's not quite the level of trust and honesty of earlier periods.