The Power and Poverty of Libertarian Thought

by Richard Cornuelle

In the late 1940s, I went to New York City, fresh from college, to study with Ludwig von Mises, the intrepid Austrian scholar who had, 30 years before in 1920, fully explained the inevitability of the eventual collapse of the socialist economies. The socialists had sent the celebrated Polish economist Oskar Lange into the lists against him, and while Mises clearly won the encounter on points, such was the emotional appeal of communism's promise to set right the alleged iniquities of a capitalist order that Lange was lionized and Mises became something of a pariah.

It was a dark hour for the libertarians, and for Mises, their unanimously acknowledged intellectual godfather. In those days, libertarian ideas were considered not just unfashionable but pernicious. Mises's place in the public consciousness, if he had one at all, was in socialist demonology. He was teaching part-time at the Graduate School of Business Administration at New York University because that was the only job he could get. His distinguished student, F. A. Hayek, who would win a Nobel prize in 1975, had been turned down by the Department of Economics at the University of Chicago and a number of other institutions. Hayek had finally found a place on Chicago's Committee on Social Thought after an obscure midwestern foundation, realizing that libertarian scholars were becoming extinct, had arranged to pay his stipend.

When I joined Mises's seminar, it was meeting twice a week in the late evening in a low-ceilinged cellar room, as befitted an underground movement, in the shadow of Trinity Church in lower Manhattan. We were usually about a dozen. Mises arrived last, always on the stroke of the appointed hour, impeccably dressed. He took a single page of notes in German from a small envelope, grasped the edge of the table with his palms flat on the top and his thumbs under, and spoke without interruption for an hour and a half, in a kind of accented chant as if he were reciting scripture from memory. Then there were questions, which he usually answered by repeating, almost word for word, the part of his recitation the question suggested. His method seemed entirely appropriate. We sensed we were in the presence of a towering and uncommonly disciplined intelligence, martyred and misunderstood. We knew Mises had paid dearly for his beliefs.

When his monumental Human Action was published in 1949, the year I joined the seminar, the New York Times Book Review's reaction was to reproach the Yale University Press for publishing it. That sort of thing, of course, only intensified our devotion. We would, except for the practical difficulties, have carved our notes in stone.

So if the collapse of communism caught the CIA and others unawares, it was certainly no surprise to the students of Mises's NYU seminar. We had been expecting it for 40 years. With a confidence no less certain because we had acquired it fortuitously, we knew socialism was doomed and we knew why.

(Cont. on p. 10)
Ignoring Government Failure

Are these people nuts or what? Every newspaper I pick up contains two kinds of stories: first, exposés of various government mistakes, outrages, and scandals. Second, proposals that the government take over more aspects of our lives. Are the people in the second group of stories reading the first group?

Take just a few recent examples. The macro-failure of government in our time, of course, is the fall of communism in the Soviet Union and Eastern Europe. The failure of communism is important because that system represented the most complete attempt ever made to put government in charge of society's affairs. The extent of communism's reliance on government was matched only by the extent of its failure. It serves as a powerful warning about the inability of government to meet the needs of a dynamic society.

But the collapse of communism is hardly the only example of government failure to be found in today's newspapers. In recent weeks we have learned that federal banking regulators didn't notice a bank that was known worldwide as the Bank of Crooks and Criminals International. In Milwaukee, police stood in the street and did not arrest a man who shot and killed a marine and then killed himself. In New Zealand, it has dramatically reduced the tariffs that used to protect its businesses from competition. In Eastern Europe, governments are privatizing shops and factories and even planning competitive, market-oriented school systems. In the past three years, governments have privatized state-owned enterprises worth $90 billion.

But here in the United States both Democratic and Republican politicians ignore the worldwide trend toward freedom; they push new schemes for tinkering with failure and managing more of our lives—all the while wondering why our economy is dead in the water. It's time for a new paradigm in Washington, a market-liberal paradigm that would acknowledge the inability of bureaucratic systems to respond to people's needs and would reject coercion in favor of freedom.

When I hear American politicians proposing a health care system it makes my heart sink, as it does many, into the failed war on drugs or the socially damaging public school system, or to shackle our financial system with more regulations designed to solve problems of the past, I can only think, "Get a clue, man. Boris Yeltsin has figured out that government control doesn't work. How long is it going to take us?"

—David Boaz

Published by the Cato Institute. Cato Policy Report is a bimonthly review. It is indexed in PAIS Bulletin. Correspondence should be addressed to: Cato Policy Report, 224 Second Street S.E., Washington, D.C. 20003. Cato Policy Report is sent to all contributors to the Cato Institute. Single issues are $20.00 a copy. ISSN 0743-803X Copyright © 1992 by the Cato Institute.

Democratic Commit Crimes?

Sentencing Panel “Rushed to Judgment,” Officials Charge

The U.S. Sentencing Commission—"rushed to judgment" in drawing up new draconian guidelines for punishing corporations found guilty of federal crimes, charged several former commission staff members at a conference on Sentencing for being ignorant of the economics of crime deterrence.

The former officials criticized the commission for not analyzing the effects of harsher sentences for being ignorant of the economics of crime deterrence. The included John R. Lett, Jr., of the Wharton School, a former chief economist at the commission who worked with Roger Pilon, director of the Cato Center for Constitutional Studies, to organize the conference; Los Angeles attorney David A. Lambardero, economist Michael Block of the University of Arizona; Jonathan Karpoff of the University of Washington; Mark Cohen of George Washington University's Owen School of Business; and Jeffrey Stanek of the Williamette University College of Law. Lott said the commission failed to estimate the costs and benefits of the higher fines. “We face losing the country to the federal government,” he said. “We must look at the guidelines’ dramatic increases in corporate crime penalties of which the commission seems to be ignorant." Lott said. He pointed out that the commission’s own findings indicate that the average fine will be 20 times higher than the previous average. "After seeing how the commission altered its data and presented other data in deliberately misleading ways while working under the commission, I place absolutely no faith in the Commission’s own estimates," he added. He also told anecdotes demonstrating the lack of sophisticated thinking by commissioners. For example, one commissioner insisted that in her “heart of hearts” she knew that a 100-fold increase in penalties was proper. Other speakers charged the commission with suppressing staff attempts to conduct research on the effects of changing the penalties. Lambardero accused the commission of pandering to the public’s resentment of white-collar crime.

George Mason University law professor Jeffrey S. Parker asks whether a corporation can have a guilty mind at Cato’s conference on corporate crime, as George Washington University professor Stephen Salzburg and Cato senior fellow Roger Pilon listen.

Cohen said his research shows that under the new guidelines the median fine will probably be 5.5 to 11 times greater than the previous median—increasing from about $15,000 to between $30,000 and $60,000. The average fine is likely to rise from about $12,000 to between $80,000 and $160,000.

Defending the guidelines and the commission were Michael Gelacar, a member of the Sentencing Commission; Nolan Clark, its chief legal counsel; and Stephen Salzburg, professor of law at George Washington University and a former ex officio member of the commission.

The conference closed with a debate on the question, “Does Corporate Sen-
Hayek Wins Presidential Medal

"New Perspectives" Seminars Held in Atlanta, Boston

October 3: Richard W. Rahn, former chief economist of the U.S. Chamber of Commerce, and Scott W. Rasmussen, founder of the ESPN cable network, were the keynote speakers at Cato's "New Perspectives for the Nineties" seminar in Atlanta. Rahn spoke on "Fiscal Policy and Economic Growth," and Rasmussen's keynote address was titled "Entrepreneurs and the Free Market." Stephen Moore, Cato fiscal policy director, Roger Pilon, director of Cato's Center for Constitutional Studies, and Cato president Edward H. Crane spoke on state fiscal crises, natural rights and Clarence Thomas, and term limitation, respectively.

October 8: The Cato book Liberating Schools: Education in the Inner City was the focus of a book forum. David Boaz, editor of the book, spoke on the dismal condition of our public schools and the need for educational choice.

October 16: A "New Perspectives for the Nineties" seminar was held in Bos- ton, with William Weld and economist Walter Williams as the main speakers. Weld discussed the problems with the federal budget and his concerns about Supreme Court decisions that infringe upon civil liberties. Williams's topic was "Delegation and Economic Opportunity." Cato executive vice president David Boaz, on educational choice, fiscal policy director Stephen Moore addressed the fiscal crises of the states, and president Edward H. Crane discussed term limitation.

October 24: A book forum was held in honor of the Cato volume Designing Defense for a New World Order by Cato fellow Earl C. Ravenal. Ravenal's talk summarized his case for disengaging from foreign entanglements and substantially scaling back the military establishment.

October 29: A Policy Forum examined "The Philosophy and Politics of the Clarence Thomas Nomination." Roger J.fully, director of Cato's Center for Constitutional Studies, addressed the political philosophy underlying the debate about the Supreme Court and constitutional jurisprudence. Clint Bolick, vice president of the Institute for Justice, spoke on the changed political landscape revealed by the confirmation process, particularly the differences between civil, rights establishment and the broad masses of both black and white people.

November 2: Cato hosted a debate on the proposition "State-Imposed Congressional Term Limits Are Constitu- tional." Arguing the affirmative, attorney and author Stephen Glazer pointed out that several U.S. Supreme Court cases have affirmed the states' authority to regulate the ballot in congressional races. Morton Rosenberg of the Congressional Research Service responded that term limitation is not a ballot access issue; it is an issue of qualification for office. He said that the Court has already decided that no qualifications for holding a seat in Congress may be added to those already specified in the Constitution.

November 15: Six Cato staff members addressed a group of analysts from the Central Intelligence Agency who were making the rounds of Washington think tanks. The discussion was held in parallel with the time of the U.S. presidential election. One of the analysts, President Edward H. Crane, was a former executive vice president of Cato.

November 21: A Policy Forum addressed "The Problem of the Merchant Marine: Can Antiquated Policy Resolve Contemporary Problems?" Rob Quartel, a maritime commissioner, argued that the merchant marine needs fundamental rethinking if the merchant marine is to be competitive in the world economy. Responding was Wallis Sain- sone, deputy commander of the Military Sealift Command.

November 22: A Cato book forum was held to celebrate the presentation of the Presidential Medal of Freedom to F. A. Hayek, the Nobel laureate and long- time advocate of market liberalism. Speaking at the event were Michael J. Boskin, chairman of the Council of Eco- nomic Advisers; James A. Dorn, Cato vice president for academic affairs; Sheldon L. Richman, Cato senior editor; and Laurence H. Tribe, who accepted the award on November 18 on behalf of his father.

Boaz on the failed war on drugs, chairman William A. Niskanen on interna- tional economic policies, foreign policy studies director Ted Galen Carpenter on the pitfalls of the New World Or- der, global economic liberty project director Melanie Taman on disengaging from the International Monetary Fund and the World Bank, and senior editor Sheldon L. Richman on the folly of U.S. intervention in the Middle East.

November 15: A reception was held to celebrate the presentation of the Presidential Medal of Freedom to F. A. Hayek, the Nobel laureate and long- time advocate of market liberalism. Speaking at the event were Michael J. Boskin, chairman of the Council of Eco- nomic Advisers; James A. Dorn, Cato vice president for academic affairs; Sheldon L. Richman, Cato senior editor; and Laurence H. Tribe, who accepted the award on November 18 on behalf of his father.

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Federal mass transit subsidies have failed to achieve their stated objec- tives, according to a recent Cato Pol- icy Analysis. Other studies in the series examine current and historical experiences in Lithuania, the myth of fair trade, and the disastrous government of the Dist- rict of Columbia.

Mass Transit Failure

Federal subsidies to urban mass transit systems have failed to reduce traffic congestion, reduce air pollution, or save energy, according to a study by Cato researchers. The authors, Jean Love and Wendell Cox, found that mass transit ridership has fallen by 2 billion passengers since 1969, despite government subsidies. Taxpayer investment of more than $100 billion during the same period.

Love and Cox challenge the argument that the 20 percent increase, contained in the transportation appropriations bill passed by Congress in June, in funding for bus and rail systems.

Currency Reform in Lithuania

Lithuania needs to establish a curren- cy board, institute clear property rights, and encourage competition among private commercial banks to put its econ- omy on a firm footing, according to economists Kurt Schuler, George Selgin, and Joseph Sinkey, Jr., in their study "Replacing the Ruble in Lithuania: Real Change versus Pseudofreedom." The paper presents a blueprint for creating a stable, convertible Lithuanian currency. The authors, all of whom have traveled to Lithuania to consult with the prime minister and members of the cabinet, recommend that Lithu- ania establish a currency board similar to Hong Kong's to issue the new cur- rency, backed by Lithuanian gold that has been held by foreign banks since 1949, that could first circulate in parallel with the existing currency. They call for property rights to create collateral for bank loans; and pass legislation to pri- vatize the commercial banking func- tions of the central bank.

Free Trade versus Fair Trade

Trade barriers, such as anti-dumping laws, countervailing duties, and subsidies for foreign advertising, punish Americans both as consumers and as taxpayers, writes James Bovard, Cato associate policy analyst, in "The Myth of Fair Trade." Under current U.S. trade policy, government officials decide what Americans will be allowed to buy and the price they will pay. Every trade barrier imposes an opportu- nity cost on the American economy, Bovard writes.

The study reveals that Congress can impose more than 8,000 different taxes on imports, with tariffs as high as 458 percent, and that trade barriers cost American consumers an estimated $80 billion, or more than $1,200 per family, per year.

Government Disaster in D.C.

The District of Columbia spends nearly twice the national average per resident without providing a single high-quality government service, according to William A. Niskanen in "The District of Columbia: America's Worst Government?" Niskanen compares 1987 Dist- rict spending with the national average of state and local government spending for government salaries; education, courts, police, and corrections; public welfare; and public medical care.

The study also compares various measures of social conditions in Wash- ington with those elsewhere in the na- tion to determine the relative success of the District on its investment. Niskanen recom- mends allowing communities within the District to form separate cities, adopt- ing a system of school vouchers, and changing priorities for the use of the district's money.

This study was widely covered by the broadcast media; Fox Morning News radio program debated between Niskanen and D.C. congressional delegate Eleanor Holmes Norton.
The Right to Be Left Alone

Credit Policy Report

Policy Forum

On October 16, 1991, the Cato Institute held the second of its "New Perspectives for the Nineties" seminars in Boston, MA. The opening of the seminar was Gov. William F. Weld of Massachusetts, a Republican elected in 1990.

Governor Weld: I am delighted to be here. As a personal matter, there are two compelling reasons. I have only one question: if you are classical liberals and I am the new breed of conservative, how come we agree almost about everything?

People like those at the Cato Institute, who are devoted to limited government, the free-market system, and individual liberty, should be relatively comfortable with what's going on in Massachusetts. Those concepts are certainly the touchstones of what I'm trying to do in this state with a little help from Barbara Anderson, Howard Foley, and other people.

With respect to limited government, we are the only state that reduced spending from 1991 to 1992. In absolute terms, our spending fell from $12.9 billion to $12.9 billion, which is more than a 5 percent cut. And of course, that's not counting, for the first time in state history, much less than 5 percent cut. I don't want to be too critical of Pete Williams or claim too much for myself. One reason we were able to cut the budget was that citizens in Massachusetts have gotten sick of the tailspin of 1989 and 1990 in the wake of the bright promises of 1988 that they were totally fed up. So it may be that the difference between Massachusetts and California is due more to public opinion than to any particular forcefulness on the part of the person who happened to be governor. But for whatever reason, we are doing the right thing.

We've reduced taxes twice. We've repealed a sales tax on services, and we were able to enact a credit for research and development that Howard Foley of the High-Tech Council had championed. I consider myself a disciple of Friedrich Hayek, and I keep constantly in mind that taxes are coercive. For that reason, we try to approach the tax table with giving credits rather than with raising rates in mind. Recently, I proposed new credits for small business over a $900,000 base and for job training. If we can induce desired behavior through a credit, through a carrot, which is less coercive than raising taxes, then that's the way to go. The aggregate tax burden here, for the most part, the program is implemented, so school systems couldn't build ahead. But the more important point is that putting pressure on schools through the market, through parental and student choice, is exactly what the new program is supposed to do.

In areas such as day care, we are moving toward a voucher system, rather than a contracting system. I'm a great believer in vouchers for empowering parents and enabling them to make their own decisions about what they want to consume and where they are going to consume it. I think the use of vouchers for medical care has huge potential.

In the economic sphere, the free market has been good in good times, but even in bad times. The economies are there for the kind of technology and goods and services that the market does well. And if you reduce the Fourth Amendment to questions like, was it in a bag or a box? or were we talking about whether people are acting in good faith or whether they say they are? It's worth considering whether the redcoats at the Boston Massacre believed that they were acting in good faith—indeed, John Adams got them acquitted. And the ones who were sent to Concord and Lexington to confiscate public property may have probably thought they should be awarded the Order of the British Empire for their successful operations.

I think that recent Supreme Court decisions are leading us down a slippery slope. The focus of decisions is changing. It used to be the Court would ask whether the rights of the individual were abridged; if the answer was yes, the Court would stop— and dissolve the evidence. Now, we draw lines in terms of jury misconduct, grand jury prosecutors for false testimony... an aggressiveness that earned my staff a reputation for zealousness. I always knew we had won when the defense attorneys accused us of zealousness, just as in civil business litigation practice, I was always gleeful when the other side said, "We're going to sue you. I hope you lose it." Sometimes I wonder where that aggressive attitude could lead under today's doctrines. I am coming to the incremental restrictions on our Fourth Amendment-it's like picking our way through our forebears feared. Piece by piece, case by case, the Court seems to be holding that government has the right to intrude on our privacy—to intrude ad libitum—as long as the intrusion does not concern some government-sanctioned goal.

Does it really matter whether the intrusion is to billet soldiers or to track down drug runners? Does it matter if it is corn and cotton cloth that are being seized or cars and computers? What, exactly, has changed so much in the past two centuries that we no longer have any idea what constitutes invasion of government authority? I would think that the change has gone in the other direction—what information—that the government is so much more invasive, so much more of an octopus, that theoretically and ideologically there's so much more of an invasion of privacy than less concerned about limiting government. But the current trend of decisions is leading us down a slippery slope. The focus of decisions is changing, and we need to be careful about whether people are acting in good faith or whether they say they are. It's worth considering whether the redcoats at the Boston Massacre believed that they were acting in good faith—indeed, John Adams got them acquitted. And the ones who were sent to Concord and Lexington to confiscate public property may have probably thought they should be awarded the Order of the British Empire for their successful operations.
for not clearly delineating what is right and what is wrong—what is allowable and what is clearly a violation of the Fourth Amendment prohibition on unreasonable search and seizure.

Generally, I’ll go with law enforcement. Count me in for the ride. But even I finally get off the bus.

I was unhappy, as I said, with the Supreme Court’s 1976 decision in United States v. Martinez-Puente, which upheld a checkpoint even if it was assumed that referrals for strip and other searches were made largely on the basis of apparent Mexican ancestry. The Court had to balance the minimal intrusion on Fourth Amendment rights against the public interest in preventing illegal immigration. I couldn’t help thinking of John Rawls’s theory of justice. According to Rawls, you’d want to order a society so that it would be one you would choose even if you didn’t know what role you were going to play in it. It would be tough to justify a model of society that allowed that kind of checkpoint if you might wind up being hauled over because of your racial ancestry.

Other Court decisions are as, or more, troubling. United States v. Ross, 1982. The automobile exception to the search warrant requirement is extended to closed containers within a car that is in use. That’s not entirely crazy but note the rationale: “Niche distinctions in the case of a vehicle must give way to the state’s interest in the prompt and efficient completion of the case at hand.” Translation: the constable shoved his toe and we are going to look the other way because we want to hook the bad guy so much.

Texas v. Brown, 1983. You’ve got to include common-sense assumptions about distinctive closed containers, in this case a knotted green balloon containing narcotics. Of what, it appeared to be was a knotted green balloon. You can almost hear the judges saying, “We know what’s in there. Go get ‘em.”

Maryland v. Garrison, 1987. U.S. Supreme Court says evidence is admissible if officers enter the wrong apartment while acting in good faith.

Illinois v. Krull, 1987. Evidence is admissible if it is seized under a warrant issued pursuant to an unconstitutional statute. Justice O’Connor dissent, I think with considerable persuasive force, saying that “providing legislatures a grace period during which the police may freely perform unreasonable searches . . . creates a positive incentive to promulgate unconstitutional laws.”

Illinois v. Rodriquez, 1990. U.S. Supreme Court says evidence seized during a warrantless search of an apartment, finding that police officers acted reasonably in accepting the consent of a person who, it was later determined, had moved out of the apartment before the search was conducted. That one is crazy. That person had absolutely no standing to consent to a search of the apartment. And the fact that the person had moved out 2 weeks instead of 10 years earlier should not make a legal difference in case. If the police had found someone who used to live in the apartment and said, “Is it okay with you if we search this apartment?” they would have been laughed out of court. But because the person had recently lived there and the police thought his consent might be sufficient, the Court approved the search. In my view, they are over the line.

California v. Acevedo, May 30, 1999. Warrantless seizure of evidence found in a closed container in an automobile is okay where reasonable suspicion exists about the container itself, not the automobile. In other words, the police could not have opened the paper bag if the fellow had been walking rather than driving. Same closed paper bag in either case. Makes no sense.

Florida v. Bostick, June 20, 1991. Officers of the Broward County Sheriff’s Department routinely board buses at scheduled stops and ask passengers for permission to search all luggage: pocketbook, wallet, handbag, suitcase. If you don’t want to consent to having your pocketbook dumped out onto the seat in front of you, you won’t be searched by the officers, it’s no problem. You can get off the bus and walk the rest of the way. That’s perfectly all right. It applies not just to city buses. It applies to all buses, anywhere, even in the middle of the desert. It’s no problem; you can simply walk. That is where I firmly and irrevocably get off the bus. Forty-one miles west of Ocala. And I’m still walking.

I want to leave one thought with you. I’m about as unlikely to be subjected to a reasonable frisk, stop, or search and seizure as anybody you can find. I love law enforcement officers. I travel in their company every day of my professional life. It’s just not likely that I’m going to be on the receiving end of unwarranted government behavior. And what that suggests to me is that if I’m nervous about these Supreme Court cases, so should all of you be.

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CATO INSTITUTE CALENDAR

Money in Transition: From Plan to Market
Annual Monetary Conference
Willard Hotel • Washington, D.C. • March 5–6, 1992
Speakers will include Malcolm S. Forbes, Jr., Nikolai Perakos, Václav Klaus, Allan Meltzer, Antonino Martini, Alan Reynolds, Oleg Bogomolov, Wayne Angell, and Judy Shelton.

The New World Order and Its Alternatives: America’s Role in The 1990s
Capital Hill Club • Washington, D.C. • March 31, 1992
Speakers will include Charles William Maynes, Joseph S. Nye, Ben Wattenberg, Kenneth Waltz, Earl C. Ravenal, and Christopher Layne.

The Regular Delivery of Medical Care: Annual Regulation Conference
J. W. Marriott Hotel • Washington • April 30–May 1, 1992
Speakers will include Reg. Bill Gradison, George B. Fish, Jack Haddie, Thomas Hoge; Deborah Haas-Wilson, Robert Moffet, John Holohan, Susan Negensman, Steven Hyde, and John C. Goodman.

Liberating the Hamisphere: Trade and Beyond
Corporacion de Inversiones y Delegacion Square Libre Empresa
Camino Real • Mexico City • May 19–22, 1992
Speakers will include Milton Friedman, Pedro Aspe, Herman Buchli, Enrique Cienfuegos, Michael Novak, and bourbon Pizzolato.

Summer Seminar in Political Economy
Dartmouth College • Hanover, N.H. • July 5–11, 1992

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At a Cato Forum on term limitation, Morton Rosenberg argues that states cannot limit terms of members of Congress. Cato senior fellow Roger Plinio modestly, and attorney Stephen Glazer waits to respond.
Now everyone knows what we know: the one big thing the libertarians knew and could explain better than anyone else: that the free market is a more reliable organizer of the economic life of nations than the visible hand—or any other visible hand. The collapse of the communist economies has at last put an end to the utopian fantasies of modern times, which absorbed an unreasonable share of the world's intellectual energy for nearly a century. Libertarians had it right from the very beginning.

The assimilation of this enlightenment into everyday affairs will be a long and uncertain process. It may take years, for example, for the people of the Russian republics to accept the idea that the acquisitive private vices they have been conditioned for three generations to repress must now be indulged in the public interest. But socialism is dead, its ponderous "how to" literature has become waste paper, and history has exonerated libertarian scholarship.

New Challenges for Libertarians

The irony is that while the libertarians awaited for a day of public acceptance, the sun shone on them for only a moment. Their central propostion—promptly absorbing the conventional wisdom and is no longer interesting. Now the unsettled questions are in now and less familiar territory.

The dialogue is shifting to ground for which, regrettably, the libertarians are no longer armed. They can no longer make mature decisions about their own welfare, that it pollutes the streams and wastes the water; that it creates an acidic social atmosphere in which the smell of money works its way indelicately into the fabric of everything, that it leaves undone or poorly done all the things a society needs most, and finally that capitalism is given by its nature to large arhythmic spasms, and the burden of the rhythms economic insecurity falls primarily on working people.

In fact, the essentials of this nightmare were most brutally realized in the Soviet Union where the members of a new ruling class lived Western rock stars on unearned income and the simplest human and material requirements of ordinary people were ignored. The entire system of values being eliminated was, collectivized, and after a while the theory of worker control faded into the background. In this context, the rigidly regimented and politicized workplaces. But in spite of those disappointments, Marxian conviction in the propriety of the Marxian indictment of capitalism persists with a remarkable intensity and almost to the end, communists drew its legitimacy from its ends rather than its means, from the powerful echo of its original premises to pro-

The Marxian pre-scrption may be in disreput, but Marx continues to control the social agenda from his grave in Highgate."
Libertarianism (Cont. from p. 11)

siderable futures.
Before America's Great Depression, after a century and a half of remark-
able growth, the United States was no longer a viable alternative to government action for almost every aspect of the public busi-
ness. The size of the American government had increased in a vertigo of stabilization. Toqueville had consid-
ered the habit of aggressive and imagi-
native public action as the key to American success — an interest — neither commercial on the one hand nor governmental on the other — the most distinctive and promising aspect of the developing American poli-
ly. When the crash came in 1929, this third dimension of the public sector (now increasingly called the "independent" sector) had become so large and complex as to be literally indescribable in any reasonable space. Nor had any-
one catalogued its elements or assessed its total contribution to the general wel-
fare. Even now, the organizations of the independent sector are waiting to be counted and classified.
America's overall institutional land-
scape consists of one federal govern-
ment, 50 state governments, and, at last count, about 80,000 local govern-
ments of various shapes and sizes. There are more than 30 million com-
mercial entities, ranging from boot-
blacks and pushcart peddlers to giant conglomerate corporations running through and among and around all those like glue are the institutions of the third dimension, those who hold a billion or a million of them altogether. The variety of their purposes is staggering. There are banks of universities, element-
ary and secondary schools, thousands of hospitals, museums, symphony or-
chestras, a legion of religious and thousands of mutual aid groups like Alcolitices Anonymous, to mention only a few of its more visible entities. Its institutions range from the giant Teach-
ers Insurance and Annuity Association, now the world's largest govern-
ment pension provider with assets of more than $80 billion, to a clear-
town through which amusements which can trade their useless left or right shoes or gloves. Any list of its activities of reasonable length would exceed the bounds of this paper.
How we could mislay a sector of society of this size and scope is some-
thing of a mystery. Perhaps the decline of this dimension of American plural-
ism began when Woodrow Wilson, the Schoolmaster president, set out to use his extraordinary wartime powers to jail all our most gallant, original, and independent citizens who did not go along with the American society. In any case, by 1934, the American tradition of independent government had been buried alive — an accidental casualty of Wilson, two wars that greatly improved the power of the federal government, the demoralizing depression, and, finally, the politically captivating Keynesian contention that, in a presumably mature economy, government spending was

often its own justification. This gave government a decisive advantage in the battle for confluence of the political economy, and the independent sector stopped growing. Many of its forms have survived and since the 1960s a tentitive renaissance has begun, but for half a century the third sector was in limbo, the victim of an unexamined supposition that in an industrial soci-
ety, independent social action was tech-
nologically obsolete.
So while there can be no doubt about the existence of a third sector, there are everywhere understandable doubts about its fitness as a competitor for the vast responsibilities of the welfare state. Given the present state of social thought, it is as hard to believe in the utility and virility of independent social action as it was to believe in the rationality and moral legitimacy of free markets before The Fable of the Bees and The Wealth of Nations were written. But we need only understand voluntary social process as completely as we understand market process, and

libertarians could again show the way.

Central Planning in One Firm

As the dust settles on the ruins of the socialist epoch, a second crippling defi-
cency of libertarian thought is becom-
ing visible. Its vocabulary, its economic methodology that the Rus-
sians have lately found unworltable still governs the public discussion of capitalist and socialist countries alike. An economy presumably works best if it is not centralized from the top; a factory presumably works best if it is

Adam Smith's hypothetical pin factory, the work was divided and specialized — and hence much more pro-
ductive. That perception (and a dozen other clichés) once again came the basis for the industrial era.

Another element drew less attention: the method used to coordinate the efforts of these specialized workers were borrowed from the army, the principal previous undertaking that had involved substantial numbers of specialized par-
ticipants. The necessary coordination was, according to Adam Smith, the task of some people giving orders and others taking them. This primitive method sur-
\times \text{remarked in its original paper, as it would be with its military vocabulary: officers, rank and file, line, stack, chain of command.}

When freemen went to work in fac-
tories, their status was not unlike that of the soldiers in the army; they agreed to submit to supervision for a cer-
nium number of hours for an agreed-
on amount of pay. Workers were free in some sense but painfully unreli-

Feudalism had only moved midwives, doctors, and healers. The relationship began immediately and has been more or less continuous. Work-
places have been made safer, lighter, warmer, and more agreeable. Wages are higher, hours shorter, and an accumu-
lation of conditions in the United States on the part of employers, and put limits on the prerogatives of employ-
ers. But the system has never been altered elementally. Working people are far, far freer than slaves or indentured servants. Nor have they had to keep their bosses and not nearly as far as they might be.

The economic consequences of regi-
nent are enormous: productivity is undoubtedly much lower than it could be, even with a full-time policy work, which is boundless, into jobs, which are finite, is a primal cause of unemployment. Private employment takes more time that ever, and more energy. The need of such workers' effort must be spent, and there is no efficient way of finding the right ways that are entirely unrelated to the work itself. In a society that is forever boasting of its dedication to democratic ideals, employees are, however, affluently they may have become, members of a subordinate class.

The regeneration of work has cre-
a political majority whose atti-
dudes about themselves and their work are heavily conditioned by a lifelong habit of subordination—what Hayek has called an "employee mentality."

How can people see the value of inde-
pendence and self-propulsion when they have never known that they are independent and subordinate? There is little in their daily experience that would lead them to believe that the society is kept alive by a continuous process of adaptation, led by indepen-
dent, voluntary action.

This is the third dimension of society as something static—something to be administered. Employed people can scarcely see, much less admire, what they have been carefully instructed to resist. Instead, they tend to become what Hayek called the "enlight-
mind, unimaginative, unenterprising, petty, security-obsessed, and passive."

Thomas Jefferson, for example, the body by labor-saving machinery, still feared that industrialization would produce a breed of drudges, the very people who needed to be free, that they would be "fed and daily subordination that they would be unfit for self-government."

Here, the problem of the unwork-
able, unaffordable, and untouchable welfare state and the problem of work-
place labor suboptimization is how to organize America's long march to its distinctive brand of social democracy, there came into being something Marx could not have anticipated: a working class with prole-
tarian status but middle-class means. Now that the idea of a new kind of free labor, the free entry of Americans, in their working-class capacity, consider themselves entitled to an ever-expanding range of social services, which in their middle-class capacity they pay for in taxes; they find it increasingly ethically indefensible.

The search for ways to liberate work-

ting people from their proletarian sta-
must be a long one. Most of the many experiments in workplace reform, accepting the apparent necessity for politized workplaces, have sought to give workers more political power, and the flaw in this approach sometimes to the point of being unpalatable. Even worker-managed plants strike against themselves. But now there is movement toward more elemental reform that would depoliticize workplaces entirely.

"Libertarians' analysis of how an invisi-
ble hand allocates economic resources rationally without authoritarian direc-
tion stopped abruptly at the factory gate."

A Theory of Community

Libertarians, to their enduring credit, believe passionately in the power of ideas. They learned from Hayek that socialism was always and everywhere an intellectual movement before it could become a mass movement—and that any successful anti-socialist effort would have to begin with an unshakable intel-
llectual foundation. That has been the central article of faith that has sus-
tained the movement since it began to rebuild itself in the 1940s and 50s. Lib-
ertarians are, perhaps inevitably, some-
thing of the chronic world's social democracies is putting demo-

cratic political institutions under in-
creasing stress. We may be in process of fulfilling the familiar prophecy, often made by some of political democracy's most pious defenders, that democr-
ocratic societies are inherently unsta-

table and self-destructive. It seems more and more that the several forms of pluralism are interdependent—that the lack of economic pluralism imper-
ers. America's pluralism is three-dimen-

sional, as Hayek has remarked, and our two-dimensional societies are showing unsparing signs of instabil-
ity and failure. Hayek's third dimension, third, less familiar pluralism—the social pluralism manifested in the institutions of the American economy—holds the key to the survival of the other two; more-
over, it may be that regimented working people will have great difficulty building and maintaining free societies and that history has suddenly redefined the task of liberty.

I believe Mises himself would have welcomed enthusiastically the continu-

ing enlargement of libertarian thought. Unique among economists, his knowl-
edge of economics was so complete that he understood its limitations. In Human Action he said, with his customary clar-
ity, that in the vast spectrum of human activities, economics treated only a slice, those which result in an exchange. Mises knew that economics is the begin-
ning of the world and that we need to understand the process of human action and cer-

tainly not the end of it.
Market Liberals from Western Hemisphere to Meet in Mexico City

Market liberals from throughout the Western Hemisphere will gather in Mexico City next May for a conference, sponsored by the Cato Institute, entitled "Liberating the Hemisphere: Free Trade and Beyond." The conference, scheduled for May 19-22 at the Camino Real Hotel, will be cosponsored by the Centro de Investigaciones Sobre la Libre Empresa (CISLE). Conference sessions will be devoted to trade issues, the environment, the denationalization of money, privatization, political reform, the war on drugs, and foreign aid. Among the confirmed speakers are Nobel laureate Milton Friedman; Pedro Aspe, Mexican minister of finance; Hernan Buchi, former Chilean minister of finance; Michael Novak, Enrique Ghersi, a member of the Peruvian parliament; Alberto Benegas Lynch, Jr., of Argentina; Paul Craig Roberts; Luis Pazos de la Torre, president of CISLE and Norman Macrae, former deputy editor, The Economist.

The conference is being organized by Melanie Tammen, director of Cato’s Project on Global Economic Liberty, and Roberto Salinas of CISLE in cooperation with the Instituto Cultural Ludwig von Mises of Mexico, headed by Carolina Romero de Bolivar.

Call for Papers


Cato Policy Report

Cato Institute Wins Plaudits in Capital For Its Anti-Interventionist Philosophy

By Scott Walker

Staff Reporter Of The Wall Street Journal

WASHINGTON—Most of this city’s political establishment fears the wave of voter anger rising across the country, but one capital libertarian even invited President Bush to his think tank, the Cato Institute, one of the fastest-growing think tanks here.

Suddenly, Cato’s dedication to attacking the way Washington does business in vaguely, James Pinkerton, a senior Bush ad- minister, domestic policy analyst, says he reads “every one of Cato’s studies.”

Several Cato’s stance sets it apart from the three biggest Washington think tanks, which are associated with one party or the other—the American Enterprise Institute and the Heritage Foundation with the Republican party, and the Brookings Institution with the Democrats. Because Cato’s policies don’t necessarily favor either the Republican or Democratic platforms, the institute “is free to do a lot of independent thinking,” says Rep. Timothy Penny (D., Minn.).

To be sure, Cato’s anti-interventionism often places it in the conservative camp. But unlike the Heritage Foundation, Cato doesn’t limit its issues to preoccupation with the marketplace. Cato seeks to develop a new role for government from people’s personal lives as well. One of its most controversial proposals, for example, is this call for the legalization of drugs. Similarly, its opinions on gay rights and pornography are more than those of other elements of the Demo- cratic left.

And while Cato may get praise from the White House, Mr. Crane isn’t returning the favor. He calls President Bush’s record an “utter disaster.” Similarly, he remains pained by Cato’s stance against the Persian Gulf War, even though it hurt the institute financially by offending some contributors.

That sort of contrariness continues to build a reputation of integrity that is more valuable than ever in today’s atmosphere in Washington. “I opposed their leaving [Iranian] on the grounds that moving to Washington is a sure recipe for getting corrupted,” says Nobel Prize-winning economist Milton Friedman, a long-time Cato associate. “So far I’ve been wrong.”
If that doesn't work, we'll try good service
As the result of an agreement between top [American Postal Workers Union] officers and the Postal Service, window clerk identification badges will now carry only the first name of that individual. The change is the result of numerous complaints the union received from window clerks who were receiving harassing telephone calls at their homes as a result of some postal customer looking up their last name in the telephone directory.

The union is hopeful that the change to first name only ID badges will put an end to harassing telephone calls.
—Washington Post, Nov. 15, 1991

Robbing hood
“Our approach is simple: We believe the middle class deserves a tax cut paid for by the rich,” said House Majority Leader Richard A. Gephardt (D-Mo.).
—Washington Post, Nov. 8, 1991

It'll be a cold day in hell when government employment freezes
D.C. Mayor Sharon Pratt Dixon's administration has hired 1,061 employees in the first nine months since ordering a hiring freeze throughout the District government.
—Washington Post, Nov. 8, 1991

At last, a good idea from Gorby
Berlin prosecutors... want to try [former East German leader Erich Honecker] for the deaths of about 200 East Germans shot by border guards....
[Soviet president Mikhail] Gorbachev told the German magazine Stern this week that Honecker's is a "humanitarian" case. "If we look at the history of the past decades and use the same measure being applied to Honecker, then we would probably have to send all statesmen and government heads to jail instead of into retirement," Gorbachev said.

We were afraid of that
The books of the federal agency that insures employee pensions across the country are in such disarray they cannot be audited, the agency doesn't know if it is collecting all the premiums it is due from employers, and the computer system the agency uses for recording payments was down for two years, according to a congressional report released yesterday.

So extensive is the disarray that the Pension Benefit Guaranty Corp. cannot tell exactly what its potential liabilities are.

The PBGC insures certain types of pension funds in much the same way the Federal Deposit Insurance Corp. insures bank deposits.
—Washington Post, Nov. 8, 1991

Putting kids first
Angered by budget cuts, teachers at several Montgomery County [Maryland] high schools are refusing to write college recommendations for seniors or are agreeing to do so only if the students or their parents write county officials to request more money for education.

Stop me before I legislate again
The Senate... is expected to act this week on legislation that effectively would force telemarketers to ask permission before they set their machines loose on the buying public....

"In the fifth century, the scourge of civilization was Attila the Hun. Today, the scourge of civilization is computerized sales calls and fraudulent 900-number sales offerings," said Sen. Ernest Hollings (D-S.C.), who introduced the bill to ban the practice unless the called party consents.

Senders of "junk fax" advertisements get similar treatment in the legislation.