

The FreeMarket

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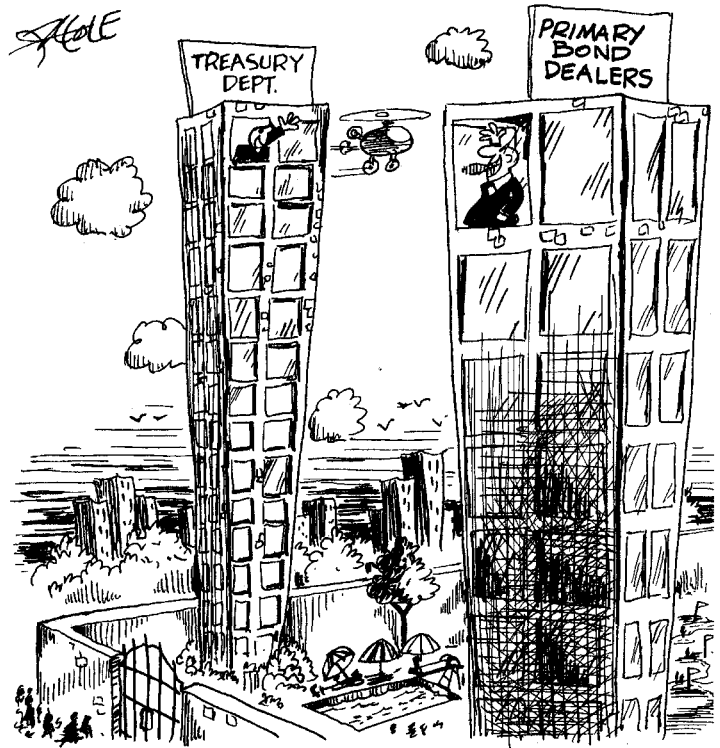
NOVEMBER 1991

The Salomon Brothers Scandal

BY MURRAY N. ROTHBARD

Financial scandals are juicy, dramatic, and fun, especially when they bring down such arrogant and aggressive social lions as Salomon Brothers head, John Gutfreund and his crew. And even more so when they elevate, as the rugged Nebraskan in the white hat, riding in to Wall Street to try to save the day, Mr. Integrity, billionaire Warren Buffett (coincidentally, the son of my old friend, the staunch libertarian and pro-gold Congressman, the late Howard Buffett). But when we have stopped exhilarating in Mr. Gutfreund's grievous fall, we might ponder the matter a bit more deeply.

In the first place, what did Salomon Brothers do that merits all the firings and the stripping of epaulets from the shoulders of the top Salomon executives? That they finagled a bit to get around rules on maximum share of government bond issues, doesn't seem to merit all this hysteria. Why should Salomon have cleaved solemnly to rules that make no sense whatever? But Salomon might have cornered the market temporarily on some new Treasury issues? So what?



Why shouldn't they make some money at the expense of competitors? The only thing clearly beyond the pale done by Salomon Brothers was to sign its customers' names to bond orders without their knowledge or consent. That, surely, was fraud and merits censure; but, again, it needs to be pointed

out that such chicanery would not even have been considered were it not to evade the silly maximum purchase regulations imposed by the Treasury.

If much too much is being made of Salomon's bit of hanky-panky, does this mean that nothing is wrong on the

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Thinking About Norplant

BY CLIFFORD F. THIES

Norplant, the new, improved version of "the pill," consists of six tiny progestin-emitting capsules that, inserted under the skin (usually in the under-arm area), prevent pregnancy for up to five years.

Norplant is also the newest weapon in the government's 10-year-old war on drugs and 26-year-old war on poverty.

Last January, a 28-year-old

unwed welfare mother of four, pregnant again, was found to have brutally beaten her children. She was sentenced to four years in prison unless she accepted an implantation of Norplant. Rather than go to jail, she agreed.

Assisted by the—surprise!—American Civil Liberties Union, the woman appealed her sentence as a violation of her Constitutional rights to privacy and due process of law.

While this case has received lots of publicity, a less-noticed grassroots effort is pushing Norplant as a general treatment for drug and child abusing women, and those on welfare. In Kansas, a state legislator has filed Norplant bills to mandate it for all women of child-bearing age convicted of felony cocaine, crack, or heroin offenses, and to offer cash bonuses to welfare

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Property-phobia

From the President



BY LLEWELLYN H. ROCKWELL, JR.

Writers

IN THIS ISSUE

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Clifford F. Thies is associate professor of economics and finance at the University of Baltimore.

The Clarence Thomas confirmation hearings were both idiotic and mealymouthed. Typical was Joe Biden (D.-Del.) gesticulating with a copy of Richard Epstein's book *Takings*, and demanding to know if Thomas agreed with the evil tome.

Epstein leads "a fervent area of scholarship," said Biden, "that basically says, 'Hey, look, we, the modern-day court have not taken enough time to protect people's property, the property rights of corporations, the property rights of individuals, the property rights of businesses.'"

Every American—with 45% of his income taken by governments and with his economic life regulated to a Mussolinian extent—knows just how absurd that view is.

Epstein thinks the Fifth Amendment means what it says: that "private property" shall not "be taken for public use without just compensation." This dangerous idea, says Biden, would undermine government's ability "to have zoning laws..., pollution laws..., laws protecting the public welfare."

"Private property once may have been conceived as a barrier to government power," writes Epstein, "but today that barrier is easily overcome, almost for the asking." Nevertheless, the "public use" criterion ought to stop "the entire array of government transfer payments in its tracks."

If Congress does identify a genuine police-power or public-use justification for a taking, says Epstein, compensation must be provided. That proviso makes much of government self-defeating. For every dollar in property taken, a dollar must be paid in compensation.

Applied as written, the Fifth Amendment would level Leviathan. Epstein mentions welfare, social security, unemployment benefits, and anti-trust laws. It would also apply to inflation (a hidden tax), environmental policy (a war on economic progress), and civil rights (a war on private decision-making).

The rights we hear championed in Washington: to welfare, to a job, to loiter, to immigrate, to health care—are pernicious nonsense because they trample on the will of property owners.

Private property is the real human right, and the foundation of all freedom. If a church can't own its building, there can be no freedom of religion. If a newspaper can't own its press or newsprint, there can be no freedom of the press. If there is no private land, there can be no freedom of speech.

Liberals like Biden do a rhetorical snake dance to avoid admitting that the lack of property rights doomed communism. They refuse to face the fact that the welfare state must fail for similar reasons.

Without property rights, there can be no economic calculation. The result must be chaos. Yet, in the capital of the land of the free no one is supposed to mention property, especially if he's nominated for the Supreme Court.

The issue of private property used to divide the world along the Berlin Wall. But no more. Citizens of the ex-USSR want private property. Eastern Europeans struggle to undo the damage of collectivized property.

All of these peoples look to America for guidance. Instead of hailing private property, Biden and friends treat it like a balanced budget—not to be mentioned in polite company.

Yet private property gives us the incentive to work and save for our families. It makes market prices possible, so we can tell the difference between profit and loss. It makes contracts possible, so that we don't battle our neighbors over who owns what. It is the foundation of peaceful human relations.

As Aristotle said, "the abolition of private property will mean that no man will be seen to be liberal and no man will ever do any act of liberality; for it is in the use of articles of property that liberality is practiced."

To John Locke, in the just society "the supreme power

cannot take away from any man any part of his property without his own consent." Our Founding Fathers agreed, with James Madison calling the protection of private property "the first object of government."

Yet Thomas repudiated the liberals' suspicion that he might agree with the Founding Fathers. Instead he moaned about a childhood outhouse and an insult to his grandfather. Worse, he acted as if such sob stories qualified him for the Supreme Court.

Genuine sob story: they do, for the idea of merit is hated on Capitol Hill. Having a firstclass mind is a disqualification, as Robert Bork discovered.

Instead of defending property, Thomas hailed "equality" as the "central tenet" of America.

That unfortunate principle fueled the French and Bolshevik revolutions, but not the American. As Jefferson, Madison, and Hamilton made clear, *inequality* is central to our free society.

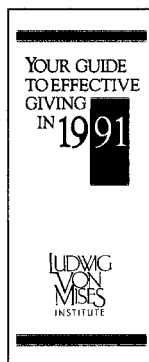
In an American Right now largely run by Truman-Humphrey Democrats posing as conservatives, only one man pointed out the non-existence of the judicial emperor's robes. Writing presciently last summer for the October *Chronicles*, Dr. Samuel Francis showed that when equality is the guiding principle, as it is to Thomas, the result must be interest-group serfdom.

It matters little that Thomas once claimed not to believe in group rights. He believes in a sort of individual rights—the right to compel economic transactions, for example—that is incompatible with private property.

Meanwhile, the administration's commitment to equality is shown not only in the Thomas appointment, but in the Civil Rights Act of 1991, which would further welfareize business payrolls, and the Americans With Disabilities Act, which forces businesses to hire and cosset the literally crazy. Are we all to become one big Senate? ♦

The Protectionist Attack on American Industry

BY JAMES BOVARD



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Consumers are the primary victims of protectionist policies, but domestic manufacturers suffer too, especially from the U.S. policy of curtailing steel imports. Although steel-using industries account for 46% of U.S. exports, federal steel policy has perennially sacrificed America's leading manufacturers to shield one industry and its workers from their own complacency. American steel policy has been the ultimate "circle the wagons" strategy of slashing supply and boosting prices.

For most of the last 23 years, steel imports have been restricted by one quota scheme after another. The current system began in 1984, when President Reagan responded to the steel lobby's demand for more protection by declaring that "we must do all we can to avoid protectionism [and] to keep our market open to free and fair competition." Then Reagan announced that his administration would "negotiate" with foreign nations to limit steel imports to 18.5% of U.S. consumption.

Under the 1984 quotas, Venezuelan and Mexican exports were forcibly reduced by 62%. Finland was allowed only 0.16% of the U.S. sheet and strip market, and 0.044% of the wire rod and bar market. Poland was told how many pounds of barbed wire and nails it could ship. Yugoslavia was forced to restrict its exports although they amounted to only 0.02% of U.S. steel consumption.

Quotas have made American steel far more expensive than foreign steel. Bill Lane of Caterpillar observed, "In 1985, U.S. steel prices were significantly higher than world prices, 59% greater than competitors in Germany, 22% greater than those in Japan." The *New Orleans Times-Picayune* observed in 1988, "Some [ship] builders fear they will lose their

chances at new business because they can't get the steel at affordable prices. Steel plate prices have risen nearly 50% in the last six months." The International Trade Commission (ITC) concluded that the steel import quotas actually increased the U.S. trade deficit, causing a significant increase in manufactured goods containing steel and a decrease of U.S. exports of steel products. The Institute for International Economics estimated that steel quotas cost U.S. consumers \$6.8 billion a year.

Steel shortages have had even more devastating impacts on American manufacturers than higher steel prices. By 1987, lengthy delivery delays by American steel companies were commonplace. Bill Lane of Caterpillar observed, "In late 1987 we ran out of large special section steel. This is the steel that we use to make our undercarriage, or track shoes. There are no U.S. suppliers, yet this product is covered by the quotas." Even General Motors was hurt by quotas: GM Vice President James D. Johnston complained to the White House that steel shortages "have jeopardized vehicle assembly at the company."

Davis-Walker, the largest fabricator of wire and wire production on the West Coast with 750 employees, was bankrupted by Voluntary Restraint Agreements (VRAs), according to the company's CEO, Ed McNew. Because of steel rod shortages, Davis-Walker ceased all production of nails. McNew complained, "It is clear that U.S. rod manufacturers simply do not have sufficient capacity to supply the U.S. market."

The 1984 Trade and Tariff Act contained a short-supply provision intended, as a congressional conference report noted, "to protect domestic purchasers of steel products from undue hardship due to an inability to obtain

adequate supplies from domestic sources." Under this provision, U.S. manufacturers could petition the Commerce Department to permit additional imports of specific types of steel in short supply.

The short-supply program vivified the dichotomy between protected and unprotected producers. The Commerce Department decided that no burden was too heavy, no price too high, and no quality too low in order to force American manufacturers to bankroll U.S. steel producers.

Commerce's short-supply program allowed some American steel makers to hold other steel producers hostage. Gulf States Steel in Gadsden, Alabama, made a short-supply request in early 1987 for 104,000 tons of steel slabs. Commerce denied the request because Bethlehem Steel and USX [formerly U.S. Steel] promised to supply sufficient steel slab to the company. But Bethlehem delivered nothing and USX delivered late a quality of steel much lower than Gulf States needed. Frequently, USX and Bethlehem would be in direct competition with the company they promised and failed to supply. The General Accounting Office (GAO) concluded that the VRAs gave some companies monopolies of certain types of steel in the U.S. market.

The short-supply program was highly arbitrary. In 1986, Commerce took an average of 236 days to decide a short-supply request. As Allan L. Mendelowitz of the GAO noted, "Commerce viewed it as their responsibility, under the law, to keep foreign steel out of the U.S., and that is how they administered the short-supply program. One of the reasons why the decisions took so long, particularly in the early years, was specifically to create obstacles to acquiring steel through the program."

Commerce officials intentionally tried to create steel shortages. Deputy Assistant



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Secretary Gilbert Kaplan, who ran the program, declared in 1988 that a short supply is "not a negative situation..., that's a positive situation," meaning the industry is "doing very well." Kaplan observed, "The amount requested [under short-supply provisions] doesn't have much to do with the amount granted. People come in very, very high." Federal steel policy routinely gave one man authority to judge whether American manufacturers really needed the steel they were begging for.

Steel quotas have destroyed far more jobs than they saved. Caterpillar led the fight against the extension of steel quotas in 1989 with buttons proclaiming, "Steel VRAs Steal Jobs." Professor Hans Mueller estimated that the quotas resulted in 13 jobs lost in steel-using industries for each steelworker's job saved. Because of the VRAs' impact on steel prices, shopping carts previously produced in California are now produced in Taiwan. The Institute for International Economics estimated that

quotas were costing the equivalent of \$750,000 a year for each steel job "saved." A 1984 Federal Trade Commission study by Morris Morke and David Tarr estimated that steel quotas cost the U.S. economy \$25 for each additional dollar of profit of American steel producers.

American steel is widely perceived as inferior in quality to foreign steel. Ford Motor Company's rejection rate for U.S.-made steel during the 1980s was, at one point, five times higher than its rejection rate for foreign steel. A 1988 ITC report concluded that U.S. steel is sometimes not flat enough for auto companies to make fenders and other items, thereby putting American auto companies at a disadvantage in competition with the Japanese. A 1990 ITC survey found that 55% of American purchasers of stainless steel bars and rods rated Japanese product quality and customer service as "excellent," while only 2% of American purchasers rated U.S. product quality and service as "excellent."

President Bush on July 25, 1989, extended steel import quotas for another two and a half years, labeling it a "Steel Trade Liberalization Program"!

The 1989 quotas were expanded to include oil pipes and railroad locomotive axles and wheels, thereby hurting both the U.S. oil industry and locomotive producers. The U.S. now maintains 231 separate quotas on steel imports from different nations, and the quotas cover over 500 different steel products.

Federal officials have long talked and acted as if they owned American consumers. U.S. Deputy Trade Representative Linn Williams declared on December 4, 1989, that "the U.S. has 'contributed' a substantial part of its domestic market to imported steel." Do government officials own the market, allocating shares to whom they choose? This is the moral arrogance—and the grasp for power—that lurk behind every trade restriction imposed by the U.S. government on American citizens. ♦

The Public School Cartel

BY THOMAS J. DILORENZO

Many states have proposed or enacted state tax increases with the ostensible purpose of improving local public schools. Why, since there is, of course, no evidence that spending more money will improve the public schools? But governors, state education bureaucrats, teachers unions, superintendents associations, and legislators still say we need higher taxes for schools because it is in the "public interest."

What these people never mention, however, is that local public schools are monopolies enforced by government power, and is never in the consumers' or taxpayers' interest.

By law, local public schools enjoy a captive audience of students, are funded by compulso-

ry taxation, and are bolstered by mandatory attendance laws that force "customers" to "consume" their "product," regardless of how bad the quality. School districts across the United States would like to enhance their monopoly power (and "profits" in the form of tax revenues) by acting as one giant cartel—at least within each metropolitan area. But they are often unable to do so effectively.

The reason for this is opposition by taxpayers through voting and through "voting with their feet." For example, if there are 10 school districts within a metropolitan area, and one of them raises taxes significantly (or, equivalently, reduces the quality of education), it will be at a competitive disadvantage. Many parents will move.

If all 10 jurisdictions conspired to raise taxes, however, then the taxpayers would have to move to a different metropolitan area. This is more costly to the taxpayers and therefore less likely to occur.

To raise taxes as much as they would like, local governments must enter into a cartel arrangement. But like all cartels, they face the problem of "cheating" by other cartel members. There is no guarantee that every jurisdiction will raise its taxes.

No jurisdiction will increase its taxes if it thinks the others won't follow suit. Even though they would all like to raise taxes, each one individually hesitates to do so unilaterally. Moreover, the more members of the cartel there are, the more difficult it



Professor
Thomas
DiLorenzo at
our 1991 "Mises
University"

becomes to enforce price-fixing.

That's where the state government comes in. Raising state taxes and then redistributing some of it back to local governments is a way to avoid the cheating problem.

State governments are the enforcement mechanism to raise everyone's taxes; taxpayers must then move to a different state to vote with their feet. Needless to say, this makes it less likely that taxpayers will express their freedom of choice. The local government price-fixing cartel becomes effective, thanks to state government enforcers.

Imagine that the grocery industry was organized like the public schools. Each family would be assigned to a single government-owned store where it would have to shop for all its food, with no competition allowed. Each family would pay an annual grocery tax and be required to enter the government grocery store five times a week—whether they buy anything or not—because of "mandatory attendance" laws.

Such laws would have been established through the lobbying of grocery monopolists who would know that federal and state subsidies would depend partly on the average daily attendance in their stores. All cost overruns would be automatically covered by additional taxpayer subsidies, and whenever costs outstripped the

ability of local government to provide the subsidies, a "food crisis" would be declared, and the government would wage a propaganda campaign to raise taxes.

No one can reasonably argue that citizens shouldn't have the right to shop around for the best deals in groceries, cars, clothing, appliances, recreation, and every other consumer item. Even Mikhail Gorbachev has said that "freedom of choice is a universal ideal."

This is not true, however, for the public school bureaucracy, which seeks to stop parents from exercising the same freedom in choosing the education of their children that they do in selecting a soft drink.

Yet simply allowing choice between government schools is not the answer, just as allowing choice between government grocery stores would not solve the problems in our hypothetical example.

Today, we have "choice" between post offices. The quality of service is bad in all, so it doesn't really matter that we can choose. Effective competition requires free entry and exit. In private industry, businessmen can organize new firms, and these firms can fail. This would not exist under the "choice in schooling" proposal.

But isn't education what economists call a "public good" that the market cannot provide? Here's a good test of whether something is a "public good": does the private sector

supply it in sufficient quantities? Despite unfair competition by government schools, private schools proliferate. Without government competition—and the taxes that fund it—there would be vastly more. Private schools were dominant before monopolization in the last century. The demand for education is nearly universal; the market would hardly ignore it.

Under the public goods rationale, government is supposed to compensate for the failures of private markets. But the growing private school movement has turned this rationale on its head. Instead, we see private schools responding to the failure of governments. Businesses are even hiring private tutors to compensate for government failures.

Other public-school advocates claim we need to insure a "uniform education." Yet public schools have never done that, and why would it be a good thing if they did? Why should everyone have the same education? Why do we all need to think alike?

The American Revolution was fought, in part, against the government-sponsored monopolies of George III. What a wonderful lesson it would be for America's school children (and their parents) if they could witness another American revolution, this one with the dismantling and privatization of the public school cartel as its goal. ♦

Book of the Month

The newest issue of the Mises Institute's scholarly economics journal, *The Review of Austrian Economics* (vol. 5, no. 2), published in cooperation with Kluwer Academic Publishers, is hot off the presses. It features Murray N. Rothbard on "The End of Socialism and the Calculation Debate Revisited," Richard K. Vetter and Lowell Gallaway on "The Great Depression of 1946," Jeffrey Herbener on "Ludwig von Mises and the

The Review of Austrian Economics

Articles

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1991

Austrian School of Economics," and Hans-Hermann Hoppe on "Desocialization in a United Germany." Also included are book reviews and a hot debate. The most exciting and readable economics journal published, and the only one devoted to Austrian economics, is \$17, including postage and handling. Full-time students, who should include a photocopy of their academic ID, pay \$5. ♦

Bogged Down in Wetlands

BY WILLIAM G.
LAFFER

Rick McGown, a corn farmer in Missouri, was prosecuted for repairing a sunken levee on his property, thereby restoring 150 acres of brushland to cropland, on which he had planted corn. But McGown failed to obtain a Corps of Engineers permit. The Corps considers his cornfield a wetland, and thus a "water of the United States." A Corps member said he found cattails, a marsh plant, growing on the land. Further research found

the Clean Water Act. A Colorado farmer was indicted for redirecting a stream, which the Corps had diverted onto his land, back into its original bed.

Around the country, farmers have been warned that their land is a federally protected wetland, and hence they are not allowed to plow it or plant crops without a permit.

In most of these cases and many others, the land in question was not a "water of the U.S.," but instead basically dry;

edly a danger that pollutants will seep into nearby bodies of water. Protection of the wetland itself was not an issue. But over the years, the U.S. Army Corps of Engineers and the EPA—without an act of Congress—used the Clean Water Act to protect wetlands, and the bugs, weeds, and other flora and fauna that grow there, for their own sake.

In litigation, the Corps and the EPA have argued that a wetland is a "water of the United States" if it actually or potentially can be used by migratory waterfowl that may have crossed a state or national boundary while traveling to or from the wetland.

How much of the country, then, is "wetland"? Economist Warren Brookes says the regulators' defined "at least half of all farmland, and as much as 60% of U.S. total land area" as wetland. Others say most of the eastern United States and 40% or more of California fits the 1989 definition.

If a plot of land is called a wetland, and in need of protection for that reason, it comes under the effective control of the U.S. government. The owner must get a federal permit to use the land, which he must do according to bureaucratic specifications. The burden of proof is on the owner to demonstrate his land is not wet.

The definition of wetland may seem obscure and unimportant, but the results are not. They affect the way people are allowed to use their property and could shut down land development in large parts of the country. Federal wetlands policy has reduced the availability of land for housing, raising its price. And with the amount of farming land reduced, the price of food goes up.

The federal government already owns between one-quarter and one-third of all the land in the U.S. Does it really need to control more? Isn't it time for the government to sell the land it does own, and stop encroaching on the private property rights of American citizens? ♦

Regulators defined "as much as 60% of U.S. total land area" as wetlands.

that it was actually sorghum, a plant that looks like a cattail but grows on dry land, which McGown himself had planted.

John Pozsgai, a self-employed truck mechanic in Morrisville, Pennsylvania, was sentenced to three years in prison and fined \$202,000 for removing old tires and rusting car parts from his land, and then hauling in clean soil to level the property to build a garage. The Army Corps of Engineers told Pozsgai that he needed a permit since by cleaning up his land, he was discharging pollutants (clean dirt) into "water of the United States" (his own land).

In Juneau, Alaska, plans to expand a private homeless shelter were held up for more than a year because the land underneath was declared a wetland. It made no difference that it was in the middle of a city block.

A young couple in Pennsylvania was threatened with a suit by federal authorities for installing a tennis court in their yard. They were polluting the water. An elderly woman in Wyoming was prohibited from planting a bed of roses on her land, in the name of enforcing

and the alleged pollutants being "discharged" were no threat whatsoever. For the Army Corps of Engineers and the Environmental Protection Agency to move against such lands, therefore, amounts to nation-wide zoning.

A primary job of government, or so it tells us, is protecting private property. But through its wetlands policy, the federal government has waged a continuing war on private property by declaring much of the nation a wetland and therefore subject to "protection." The Bush administration's new rules move in the right direction, but just barely.

The definition of a "wetland" has been vague for years, allowing many plots of essentially dry land, or even small puddles, to be classified as such. Under the 1989 definition—issued by George Bush three days after his inauguration—even if land is dry for 358 days out of the year, it is targeted by government regulators.

Under the Clean Water Act of 1972, the government can regulate pollutants dumped into wetlands when there is suppos-

The Salomon Brothers Scandal

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Murray N. Rothbard, dean of the Austrian School of Economics, heads academic affairs for the LvMI

government bond market? Quite the contrary. This fuss was made possible by a much more deeply-rooted scandal which no one has denounced: the fact that the U.S. Treasury has, for decades, conferred special privilege upon a handful of government bond dealers, whom it has picked out of the pack and designated as "primary dealers." Then, instead of selling its new bond issues at auction in the open market, the Treasury sells the great bulk of them to these primary dealers, who in turn resell them to the rest of the market. In the meanwhile, there is cozy and continuing conferring by the Treasury with these privileged big bond dealers, who are grouped together in an influential lobbying group called the Public Securities Association (once named the Primary Dealers Association).

The Treasury, of course, claims that it is more efficient to deal with these designated primary dealers, and it can thus finance its bond issues more cheaply. But surely the cozy closed partnership and the conflicts of interest it conjures up, more than makes up for the alleged benefit by bathing the entire proceedings in what looks very much like cartel privilege. The small group of large dealers benefits at the expense of their smaller competitors.

Moreover, the problem in the government bond market is even deeper. Once a small and relatively insignificant part of the capital market, the Treasury bond market now looms massively, casting its blight on all credit and capital. The total U.S. public debt now amounts to \$3.61 trillion, of which no less than \$117 billion of securities changes hands every day. But a flourishing government bond market means a market starved for private capital and credit; it means that increasingly, private savings are being siphoned away from productive investments and into the rathole of wasteful and counter-pro-

ductive government expenditures.

It is doubtful, therefore, if we really want a smoothly running and efficient government bond market. On the contrary, a government bond market in

debt burden from the capital markets.

Alternatively, and more radically, we could even ponder the old drastic Jeffersonian solution: simply repudiating the debt, and writing it off the

We need to do some long, hard thinking about the blight of government debt on our capital markets.

difficulty is a market where less of our savings is poured down a rathole, and more is channeled into productive investment that will raise our living standards.

We need, in fact, to do some long, hard thinking about the blight of government debt on our capital markets. Wouldn't it be better if such debt were to disappear altogether? One beneficial reform would be to return to the route of Britain in the 19th century, where much government debt was due not in six months, or five years, or twenty-years, but was permanent debt, or "consols," that never came due at all.

The permanent consol paid perpetual interest, and was never contracted to pay in principal. If the British government wanted to reduce the public debt, it could use its fiscal surplus to buy back and cancel some of the consols. Replacing our current debt with consols would mean that the government would not have to keep coming back to the bond market, redeem principal, and refloat the debt; the crowding out of private credit and investment would be far smaller. Of course, the government would then have to pay higher interest since the principal would never be redeemed; but that would be a small price to pay for lifting so much of the

books. Undoubtedly, repudiation would be a severe blow to American bondholders; on the other hand, think of the burden that would be lifted from U.S. taxpayers! Think of the spur to savings and productive investment! It might be replied, however, that, upon such a stark declaration of bad faith and bankruptcy, no one would lend money to the Treasury for a long time thereafter. But wouldn't this be a blessing? Surely a world where people refuse, for one reason or another, to trust or invest in the operations of government, would be a world happily inoculated against the temptations of statism.

Congress, in its wisdom, is trying to decide whether the Salomon Brothers scandal merits more severe regulation of the bond market. It should look first, however, to removing government privilege from that market, such as the primary dealers' cartel and the vast scope of the government bond market. As in other parts of the economy, and as in the Communist countries seeking freedom, the best course for government, far from coining new plans and regulations, would be to get itself out of the way, as quickly as possible. Once again, the best way for government to benefit the economy is to disappear. ♦

Thinking About Norplant

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Professor Clifford F. Thies

women who accept Norplant.

In Texas, the state legislature also considered a bill to offer cash bonuses to welfare women who agree to be Norplanted. In the state of Washington, doctors who deal with crack babies are lobbying to require Norplant for female addicts.

Civil libertarians, believing that people have or should have a right to welfare, argue that the government should not force Norplant on anyone. They believe that people should be able to behave as irresponsibly as they like—be idle, abuse drugs, beat their children—and have taxpayers foot the bill.

Supporters of Norplant, on the other hand, believe that misbehavior on the individual's part justifies government intervention to make things right. Many poor people, they say, are incapable of caring for themselves or their children. They need the government as provider, protector, and disciplinarian.

Both views are wrong.

What the vast majority of abusive and dependent people need more than anything else is responsibility. Generally speaking, the urban poor are poor because they are ill-equipped to become responsible. They lack the values, incentives, social skills, and even desire to improve their lot in life. Their parents were the same, and so, likely, will be their children.

Government intervention reinforces this. By offering indefinite welfare payments, it removes the cost of not working. Through Medicaid, the government removes both the barrier to hypochondria and some of the incentive to stay healthy. By offering drug rehabilitation, it removes some of the costs of addiction. By increasing welfare payments for single mothers, it rewards family breakup. In paying welfare mothers for new babies, it encourages promiscuity. In offering Head Start, it removes the responsi-

bility for early training. All these programs are offered without discrimination between those who might need temporary help, and those who want to evade the requirements of civilized life.

In the natural order of liberty, on the other hand—where the government does not undermine the maturation process—everyone is pressured to act responsibly. If you have to bear the responsibility for sexual promiscuity, in possible disease, social opprobrium, and raising children without shifting the costs onto the taxpayer, you are more likely to follow the teachings of parents and church and reserve sex for marriage, or, when faced with an accidental pregnancy, do the right thing and marry.

Belief in a free society does not rely on a utopian view of human nature, or even on the idea that poverty can somehow magically disappear, even under laissez-faire. It is based, instead, on the confidence that a free society constructs institutions that reward acceptable behavior and punish unacceptable behavior—far better than any government and its social therapists.

Civil libertarians who believe that the poor have a "right" to welfare deny them the chance to be a part of this social structure, as do those who believe the poor must be controlled by government edict. Poor people, like all of us, should have their liberty respected. They must be able to make their own choices, even about having children, and they must bear the responsibility for those choices.

Thus, the answer to the Norplant controversy is to get the government out of welfare. ♦

Upcoming Institute Events

Austrian Economics Weekend
March 1992

University of Nevada, Las Vegas

Conference on the Federal Reserve
May 8-10, 1992
Jekyll Island, Georgia

The Ludwig von Mises University
July 4-11, 1992
Stanford, California

10th Anniversary Celebration
October 1992
New York City



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