

Who will be the most free in the year 2000?

# Brave new worlds



In the year 2000, will people living in the Soviet Union be freer than people living in the United States? It is an outlandish thought, but recent events, both in the U.S. and in the U.S.S.R., suggest it may be possible.

"Freer" isn't the same as "richer." Ten years from now Americans will still be far richer.

Americans will still own more cars and more television sets, and enjoy more vacations. Soviets in the year 2000 will be poorer, work longer hours, and earn far less pay.

A country's wealth is an unreliable measure of the freedom enjoyed by its citizens. Wealth is, however, a fairly reliable measure of past freedoms. Free people are enormously productive. But a country's wealth-creating institutions can survive for generations even as freedoms gradually disappear. The Roman Empire, for example, prospered for centuries with the legal and economic foundations created by the earlier Republic.

America has been among the freest countries in the world for 200 years (but less than 100 years for black Americans). We are far richer now than Americans were 200, 100, or 75 years ago, but do we have as much freedom?

"Freedom" is a tricky word. It is a word well worth tracking down in a dictionary. The Merriam-Webster pocket dictionary first defines freedom as "the quality or state of being free: independence." Checking "free," we find: "1. having liberty." And the definition for "liberty" is: "1. freedom."

So freedom means liberty and

liberty means freedom. Great. The word "independence" was used in the definition of freedom, and "independence" is defined as: "the quality or state of being independent: freedom." So freedom means independence and independence means freedom. Terrific!

More helpful is Merriam-Webster's second definition of "free:" "not controlled by others: independent." Finally something substantial enters the scene. "Independent," happily, is not defined as "being free" or "having liberty." Instead, the first definition is: "self-governing."

So even a pocket dictionary leads (eventually) to the insight that freedom means freedom from the control of others. To be free is to be independent, which in turn is to be self-governing. Rose Wilder Lane, author of *The Discovery of Freedom*, said that freedom is self-control, nothing more, nothing less.

We are free to the extent that we govern or control our own lives, and to the extent we are free from the government or control of others. But how can we be completely free from government by others? The solution is in the notion that we should have "a government of laws, not men." A government of laws can insulate people from the direct control of others. Discovering the proper laws is therefore the key challenge.

## A new Russian revolution

The Soviet parliament and presidency are trying to answer this challenge by developing legal institutions that will free Soviet citizens from the control of others (particularly communist party leaders).

Law professor Anatoly Sobchak is at the forefront of this process and is seen by millions of Soviet citizens in televised parliamentary

debates. Sobchak is considered the Soviet parliament's leading legal authority, and also, according to the *New York Times* "the most influential of the country's radical reformers—apostles of free markets, private property and competing political parties." (November 26, 1989, p. 3).

If the radical reforms recently proposed by Soviet economists Nikolai Petrakov and Leonid I. Abalkin succeed, citizens of the Soviet republics may very well have more control over their lives than will Americans in the year 2000. In

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*Econ Update* is published nine times a year by Economics in Argumentation, an educational program of the Reason Foundation. To subscribe to *Econ Update*, send \$12.00 to the Reason Foundation, 2716 Ocean Park Blvd., Ste. 1062, Santa Monica, CA 90405. (213) 392-0443. To subscribe to *Reason* magazine, send \$15.95 to Reason.

December, Soviet president Mikhail Gorbachev appointed Nikolai Petrakov as his personal advisor on economics. Petrakov, who is described by the *New York Times* as "a kind of Russian Milton Friedman," recently announced plans for the Soviet Union to take the Polish cold-turkey plunge to a free-market economic system (March 25, 1990, p. E3).

Leonid Abalkin is Deputy Prime Minister and heads the new State Commission on Economic Reform. "The Soviet Government now has two good economists in positions of authority," notes Ed Hewett of the Brookings Institution, "where a year ago there were none."

Abalkin proposes to sell three-quarters of state-owned assets to the private sector, and wants ownership rights traded on a new stockmarket. Petrakov has "spent hours, sometimes entire days, with Mr. Gorbachev, devising comprehensive changes, with the intention of introducing them quickly..." notes Hewett who predicts a stream of decrees by early summer abolishing state control over industries, and converting them into joint-stock companies.

The birth of economic freedom in the Soviet Union may be derailed or delayed by conflicts with Lithuania and other republics that are trying to secede from the U.S.S.R. But if Petrakov and Abalkin are able to pull off these radical reforms, the Soviet people will be jolted toward freedom. Individual people, for the first time in Russian history, will not be controlled by others and thereby qualify as free people.

For those in Lithuania, Estonia, and Latvia, such reforms may be the only way to recover the freedoms they enjoyed before being subjugated by the U.S.S.R. after World War II.

### **From planning to poverty to revolution**

Economic poverty will force political liberation in the Soviet Union, just as it has in Eastern Europe.

The Soviet command economy impoverished people by preventing them from working together efficiently. Central planning cannot motivate and coordinate the daily activities of the 250 million or so Soviet producers and consumers. (See box)

In a market economy, prices and the efficient allocation of resources emerge from voluntary exchange. A planned economy depends on those at the top controlling the lives of those at the bottom through layers of economic plans. But the planners at the top are never able to gather the information needed to run their plans. Market economies rely on very different institutions to generate information and to guide and coordinate behavior.

Market economies do have islands of control within their economies. These islands of control (sometimes called "islands of socialism") are companies and corporations. Companies vary in the degree to which they try to control employees' lives. The key constraint on company managers is the employee's option to quit. So even the "control by others" employees can feel subjected to within a company is ultimately voluntary—that employees can choose to work for

themselves, or for other firms.

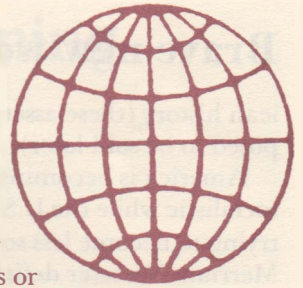
Market systems rely on the actions of free people either as individuals or in voluntary associations (companies). Prices provide the information while property rights and profit potential provide the incentives.

Without information, and without incentives, the Soviets have gotten poorer year by year. Only with economic collapse looming has Gorbachev agreed to follow his economists' advice and try to establish a free market economy.

### **A quiet revolution in America?**

No such economic collapse looms in America, so political leaders here are generally ignoring the advice of their economists. Instead of lowering taxes, repealing regulations, and privatizing state assets, the momentum here is for higher taxes, redoubled regulations, and the nationalization of assets. The savings and loan "bail-out," for example, has already become the largest nationalization of private property and assets in Amer-

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## **Economics, motivation, & wealth**

Anatoly Sobchak is blunt about the connection between free enterprise, motivation, and wealth. In talks to Soviet factory-workers that make up his blue-collar constituency, Sobchak explains that American workers live better because they work harder. And they are motivated to work harder because capitalism rewards productive workers and punishes lazy ones.

Says Sobchak, "Our demagogic slogans about equality have made our people lose their love for work." Though fiercely attacked by unions, Sobchak is extremely popular among blue-collar workers. (*New York Times*, November 26, 1990, p. 3)

The socialist story is much the same in East Germany, where the typical workday, according to the *Times*, "begins to wind down at noon although it is officially eight hours long. Many employees do not return from lunch. Others wander off during the afternoon to shop, run errands or join the lunch-time dropouts for beer and cards in a tavern. Absenteeism is rampant and goes virtually unpunished." Friedrich Ebeling of East Germany's Democratic Awakening Party concludes "We had a society where the industrious were exploited by the lazy" (April 4, 1990, p. 1).

ican history (these assets are supposed to be sold later).

America is becoming more socialistic while the U.S.S.R. is trying to become less socialistic. Merriam-Webster defines socialism as "a theory of social organization based on government ownership, management, or control of the means of production and the distribution and exchange of goods." Any measure of socialism should count not only what the government owns outright, but also what it controls through legislation, regulation, taxation, and spending.

Consider first government spending. The Soviet government is estimated to account for 92 percent of all domestic spending. In the United States, federal, state and local spending is said to have made up 37 percent of all domestic spending in 1987.

By this measure of government control, if the next decade brings a 55 percent change through any combination of increased U.S. government spending and decreased Soviet spending, Soviet citizens would pass Americans. But, other measures suggest Americans may not have that much of a lead.

Peter Brimelow notes that regulations are also a form of government control over the economy. Two measures of the quantity of regulation are the number of pages published in the Federal Register (which lists new regulations), and the billions of dollars spent on regulatory agencies. A study by the Center for the Study of American Business shows

"Middle class families... face marginal tax rates of roughly 40 percent... For most of history a 40 percent rate on the middle class would have been considered an unconscionable tyranny." Lawrence Lindsey, *The Growth Experiment*, Basic Books, 1990, p. 228

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that yearly pages in the Federal Register have grown from 3,000 in 1936 to 50,000 in 1989. Administrative costs for regulation have grown from \$3 billion in 1970 to \$5.5 billion in 1989. (see *Forbes* December 11, 1989, p. 80).

Though harder to measure, the amount of time and money private citizens and companies spend to comply with federal regulations has also grown, and would raise the "control by others" percentage for an American freedom index.

#### The power to tax

The flip side of government spending is taxation. Government has no money of its own to spend, so for every program it wishes to operate, it must first tax the necessary dollars away from citizens. Significant tax changes— and probably increases— are now being debated in Congress. The debate concentrates on which reforms can bring in the most tax revenue, and which reforms do the most to help (or the least to hurt) economic growth.

Any tax increases will increase the number of hours each year that Americans work for the government. "Tax freedom day" is projected for some day in May this year— on that day the average American can keep his pay rather than paying it in federal, state, and local taxes. In effect, the fruits of our labor from January until May are controlled by others.

Beneath the current tax policy debates are two layers of value issues. The first is the issue of social control. Taxes do more than just raise revenue for government programs. In recent years, the state and federal tax codes have accumulated exemptions and deductions

for a wide variety of activities and investments. Federal and state congressmen, under pressure from lobbyists, are using the tax code to control taxpayer behavior.

Chief Justice John Marshall, in *McCulloch v. Maryland*, said, "The power to tax involves the power to destroy." Lawrence Lindsey, in his new book *The Growth Experiment*, notes, "Typically we think of [the potential of taxes to alter taxpayer behavior] as occurring at a very high rate of tax, but this need not be the case. Marshall's famous dictum from *McCulloch vs. Maryland* refer[red] to a tax rate of only about two percent..." (Basic Books, 1990, p. 17).

#### What is the philosophy behind taxation?

The second taxation issue is the whole philosophical justification of modern taxes. Why do we have taxes? Are "progressive" taxes better than flat taxes? Are income taxes, property taxes, excise taxes and sales taxes all based on the same values?

College public finance texts teach future tax engineers that good taxes are those that best accommodate one's ability to pay them. The income tax is called "progressive," because higher income earners pay progressively higher tax rates.

One rationale for progressive tax rates is practicality. Jesse James' explanation of why he robbed banks was similarly practical: that is where the money is. Tax collectors are more likely to collect taxes from those who have money than from those who do not.

A justification of "ability to pay" tax policies is in the phrase: "From each according to his ability, to each according to his need." This philosophy of society is brought to life George Orwell's famous book *Animal Farm*.

Many government officials favor  
**Continued next page**

# Acid rain, carcinogens, and global warming

## Here's the power, but where's the beef?

Proposed Clean Air legislation includes the requirement that "every industrial enterprise in the country (and even many commercial ones such as dry cleaners and gas stations) must receive a federal operating permit. Unless EPA says yes, the plant cannot operate; it cannot modify its operations; and it cannot deviate from its permitted process. EPA can revoke the permit, modify the permit, demand particular research and development expenditures, require process changes, and so on. The demands are not even limited to cleaning the air..." (Francis Blake, "Does Washington know best?" *The American Enterprise*, March/April, 1990, p. 6).

These pending EPA powers ride in on the crest of intense media coverage of global warming, acid rain, and toxic chemicals. Three recent scientific studies indicate this crisis atmosphere is unjustified.

A new 10-year \$500 million study by the National Acid Precipitation Assessment Program (NAPAP) concludes acid rain causes little damage ("Worst fears on acid rain unrealized," *New York Times*, February 20, 1990, p. B5). The interim version of this report, completed in 1987 (after only \$300 million had been spent) concluded that acid rain was not causing any damage to crops or forests, and that far fewer lakes and streams were acidic than the EPA had thought. In fact, the interim study was unable to document any statistically significant correlation between acid rain and acid lakes (Warren Brookes, "The continuing mythology about acid rain," *Human Events*, September 2, 1989, p. 12).

Apparently, this conclusion was unacceptable, so NAPAP director Lawrence Kulp was replaced and a new director, James Mahoney, was told to rewrite the report and, according to Warren Brookes, repudiate its findings. The rewritten study says some 1,200 lakes have become fully acidic, which is still only four percent of lakes expected by EPA.

A study by Robert J. Scheuplein, Director of the Office of Toxicological Sciences in the Food and Drug Administration, found that worries about pesticides, additives and other chemical contaminations of food and water are "largely bogus." The study's statistical analysis found that natural carcinogens in the food we eat accounts for 98.8 percent of the chance of getting cancer, spices add .98 percent, additives .2 percent, pesticides .01 percent, and animal drugs .01 percent (*Seattle Post-Intelligencer*, February 20, 1990, p. 1).

Plants produce natural pesticides to ward off other species (including man). We consume hundreds to thousands of times more of these natural pesticides and various natural carcinogens (like fat) each year than we do man-made pesticides and carcinogens. Studies by Dr. Bruce Ames of the University of California at Berkeley and others support Scheuplein's findings.

Finally, on the global warming front, the *New York Times* reports that satellites can't find any trace of it (March 30, 1990, p. A8). A study of data collected by weather satellites through the 1980s, published in the journal *Science*, concludes: "We found that the earth's atmosphere goes through fairly large year-to-year changes in temperature and over that ten-year period we saw no long-term warming or cooling trend." ★

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## Brave new worlds, continued

making the income tax more progressive because it would better fit the ability-to-pay tax philosophy. Similarly, many call for higher welfare benefits and expanded social programs because they better fit the according-to-need benefit philosophy.

Are ability-to-pay tax policies and according-to-need welfare

policies just? Is it fair for one person to pay \$10,000 per year in income taxes while another pays \$5,000? Why should someone who holds down two full-time jobs, for example, be forced to pay higher taxes (and higher tax rates) than someone who chooses to work less?

The reason is probably a combination of the Jesse James justifica-

tion and the moral force of the phrase: "from each according to his ability, to each according to his need." In the interests of encouraging research, the first student to write *Econ Update* with the original source for ability-to-pay/according-to-need phrase will get \$50 (even if it turns out you don't need the money). ★