PART I
ECONOMIC ISSUES

DRUGS AND POLITICS

A tourist in New York's Greenwich Village had his portrait sketched by a sidewalk artist, who charged him $100.

"That's expensive," the tourist said. "But it's a great sketch, so I'll pay it. But, really, it took you only five minutes."

"Twenty years and five minutes," the artist replied.

The same misconception of costs runs through the much more serious issue of the prices of medicine and government regulation of those prices. When a pill whose ingredients cost a quarter is sold for two dollars, that is an open invitation to demagogues to begin loudly denouncing the pharmaceutical drug company's "obscene" and "unconscionable" profits at the expense of the sick. But the people who are doing this are counting only the five minutes and ignoring the twenty years.

The physical ingredients of the medicine are its cheapest ingredients. The ingredient that costs millions of dollars—sometimes hundreds of millions—is the knowledge gained from years of research, and trial and error, which finally results in the creation of a new medicine. That is what the price of the pills has to cover, if we expect investors to continue to pour vast sums of money into drug companies that are trying to discover new cures for such diseases as cancer, AIDS and Alzheimer's.

Other companies, manufacturing generic equivalents, pay

only the costs of the physical ingredients, having copied the enormously expensive formula free of charge—legitimately after the patent has expired and not so legitimately in other countries, where patent laws are not taken as seriously as in the United States. The company that simply uses someone else's formula free of charge can sell the same pill for 35 cents and still make a profit.

Somebody has to pay the high costs of discovery or the development of new drugs will be slower and therefore more people will needlessly suffer and die. While allowing patent laws to be over-ridden by politicians allows some people to buy the drug at low prices, based on the low current costs of manufacturing the medicine, that just leaves the far greater overhead costs of creating these medicines to be paid by others.

Worst of all, it leaves the even higher costs of needless pain, suffering and premature death to be paid by those whose relief is delayed for years by policies like these, which slow down the development of new medicines to cure their afflictions.

The United States has been one of the few countries resisting political pressures to impose price controls on pharmaceutical drugs, or to water down the patent laws which allow the original discoverer of new drugs to have a monopoly for a fixed number of years, so as to recover the costs of discovery before other companies get to use their formula free of charge.

The United States also produces a wholly disproportionate share of all the new life-saving drugs in the world. But politicians ignore this connection. Other countries have scientists capable of developing new medicines, but the economics and politics of the situation discourage companies in those countries from making the huge investments made by American pharmaceutical companies under American patent law.

Unfortunately, the Bush administration has recently begun to cave in to the demagogues at home and abroad. After Congressional liberals like Ted Kennedy, Henry Waxman, and Charles Schumer began making noises about a need to get the drug Cipro cheaper because of the anthrax scare, the administration threatened to over-ride the patent for the drug unless the manufacturer supplied it at a cheaper rate.

The retail price of Cipro was $5 a pill and the government itself says that someone stricken with anthrax needs to take two pills a day for five days and cheaper antibiotics thereafter. Is $50 too much to pay to save your life? And is it worth jeopardizing a whole system that has made this country the leading creator of life-saving drugs, just to get the demagogues off the Bush administration's back politically?

The administration also caved at a recent international conference in Qatar, where foreign countries gained the right to set aside international patent agreements whenever they choose to decree a public health "emergency." This allows them a free ride on costly American research, at least until they kill the goose that lays the golden egg—new life-saving medicines in this case.

THE REAL REVOLUTIONARIES

The twentieth century was, among other things, a century of revolutions—not only bloody uprisings and military coups, but also revolutions in science, politics and in the way people live. However, as much as the political left loves to use words like "change" and "revolution" as if they had a monopoly or a copyright on them, the actual track record of the left pales in comparison with the social revolutions created by the free market.

No government of the left has done as much for the poor as capitalism has. Even when it comes to the redistribution of income, the left talks the talk but the free market walks the walk.

What do the poor most need? They need to stop being poor. And how can that be done, on a mass scale, except by an economy that creates vastly more wealth? Yet the political left has long had a remarkable lack of interest in how wealth is created. As far as they are concerned, wealth exists *somehow* and the only interesting question is how to redistribute it.

The history of the American economy in the twentieth century was an incredible story of the luxuries of the rich becoming commonplace among the masses and even the poor. When liberal and radical intellectuals speak of a period of "change," they almost never mention the 1920s, because it

was not an era of the kinds of political changes they favor. But it was a pivotal decade of change in the material well-being and expansion of the horizons of most Americans, including the poor.

It was during the 1920s that electricity, the automobile and radio reached the masses, when motion pictures came of age and began to talk. While technology and mass production spearheaded the changes of the 1920s, this was also a decade that saw a revolution in more efficient distribution systems through grocery and department store chains that brought the cost of many goods and services down within the reach of ordinary Americans.

All this added up to a social revolution—but it was not "change" as defined by the intelligentsia, because it happened independently of them and of the government, and was not part of any master plan or ideological crusade.

As late as 1930, most American homes did not have a refrigerator but, by the end of the decade, most did. By 1970, virtually all families living in poverty had refrigerators. By 1994, most American households below the poverty line had a microwave oven and a videocassette recorder—things that less than one percent of all American households had in 1971.

All of this went into raising the standard of living of the average American. It was not political rhetoric, mass rallies or poses of moral indignation that gave the people a better life. It was capitalism.

Even in the homeland of socialism, the Soviet Union, it was capitalists who created much of the industrialization for which the Communists took credit. The first new automobile factory built under the Communists was built by the Ford Motor Company. Germany's Krupp and I. G. Farben were also key builders of Soviet industry, along with DuPont, RCA, International Harvester and others from the capitalist world.

Even when it comes to the redistribution of wealth that is at the heart of the ideology of the left, the market does it better. Most American millionaires did not inherit their wealth, but created it themselves. As for the poor, imagine anyone so radical as to promise to move the bottom 20 percent of Americans out of that bracket within a decade and put more of them up in the top 20 percent than were left back where they were originally.

Yet this happens regularly and with no fanfare in the American economy. But even a big change in the distribution of income like this does not count with those who talk about income brackets and ignore the actual flesh-and-blood people who move in and out of those brackets. Most people who were in the bottom 20 percent in 1975 were in the top 20 percent at some point before 1992.

The poor will always be with us, so long as they are defined as the bottom 20 percent, even if yesterday's bottom 20 percent are now among "the rich," as such terms are defined by those with a stereotyped vision of a static world.

Dynamic income changes among people are concealed by talking about brackets, as if the same people stayed in those brackets. The left cannot accept the kind of income redistribution that does not fit their vision. These and other benefits of a free market will certainly never be called a "public service."

INDIA UNBOUND

There are few things more heartwarming than watching people rise out of poverty to a better life. When it is a whole nation in the process of doing so, it is especially inspiring. That is the theme of a marvelous new book titled *India Unbound* by Indian hi-tech entrepreneur Gurcharan Das.

In a well-blended combination of facts, history and personal experiences, the author spells out how and why India took so long after achieving independence from Britain in 1947 before its economy began to improve dramatically after the 1991 reforms that allowed more of a free market to operate. That was a decisive turning point, with businesses no longer being suffocated by some of the most pervasive and intrusive government controls in the world.

Before the reforms, Indian entrepreneurs could not make the most basic decisions about their own businesses without permission from an army of government bureaucrats. Decisions about hiring, firing (virtually impossible), expanding output or ordering raw material were all subject to the whims, the delays and the extortions of bribes by petty officials who knew little and cared less about the realities of business.

The Indian entrepreneur "has to bribe from twenty to forty functionaries if he is serious about doing business." Moreover, he must "grovel" before these petty tyrants who have been

armed with the power to say "yea" or "nay" to a sweeping range of business plans. Even some of India's biggest and most distinguished enterprises, the Tata industries, had more than a hundred proposals to start new businesses or expand old ones end up "in the wastebaskets of the bureaucrats."

Another great Indian industrial empire, that of the Birla family, was likewise refused the government permissions needed to expand. The net result was that they bought pulp in Canada, had it converted to fiber in Thailand, had the fiber converted to yarn in Indonesia and then had the yarn made into carpets in Belgium. All the while, India remained a very poor country in need of economic growth and the jobs and incomes that these operations could have provided.

At one time, it was a violation of the law to produce more output than you were authorized to produce by the government. A manufacturer of cold medicines was fearful that his sales had overshot the mark during a flu epidemic and had to have a lawyer spend months preparing a legal defense, in case he was hauled before a government commission.

Gurcharan Das is careful to point out that these and many other economically disastrous policies grew out of good intentions. Indian leaders from Jawaharlal Nehru to his daughter Indira Gandhi put their faith in the government-planned economy and distrusted both businesses and the consuming public. What they lacked in any serious knowledge of business or markets they made up in socialist dogma and smug self-righteousness.

When the head of the Tata industries tried to explain some facts of life to Nehru, the prime minister's response was: "Never talk to me about profit, Jeh, it is a dirty word."

Though the Indian statist leaders thought of themselves as looking out for the poor, their policies have been estimated to have held back economic development to the point where the

average Indian's income would have been hundreds of dollars a year greater without their restrictions. In a country with millions of very poor people, some suffering from malnutrition, the loss of a few hundred dollars in annual income meant far more than it would have meant to the average American.

Like so many socialistic policies around the world, those in India were not relaxed or ended because of better understanding but because of bitter experience. When these policies had the Indian government on the verge of bankruptcy, its leaders had no choice but to make fundamental changes in the economy, in order to qualify for help from the International Monetary Fund and the World Bank.

After the 1991 reforms freed Indian entrepreneurs from suffocating government controls, the economy took off. Growth rates reached new heights, Indian businesses expanded and foreign investments poured in. The kind of hi-tech success that Indians had achieved in Silicon Valley they now began to achieve in India.

Although this is a book about India, many of its lessons are universal—and have not yet been learned by American political, intellectual and media elites.

CAPITAL GAINS AND "TRICKLE DOWN"

Among the suggestions being made for getting the American economy moving up again is a reduction in the capital gains tax. But any such suggestion makes people on the left go ballistic. It is "trickle-down" economics, they cry.

Liberals claim that those who favor tax cuts and a free market want to help the rich first, hoping that the benefits they receive will eventually trickle down to the masses of ordinary people. But there has never been any school of economists who believed in a trickle-down theory. No such theory can be found in even the most voluminous and learned books on the history of economics. It is a straw man.

This straw man is not confined to the United States. A critic of India's change from a government-dominated economy to more free market activity in the 1990s accused those behind this change of having "blind faith in the 'trickle-down' theory of distributing the benefits of economic growth among different socio-economic groups in the country." But free-market economics is not about "distributing" anything to anybody. It is about letting people earn whatever they can from voluntary transactions with other people.

Those who imagine that profits first benefit business owners—and that benefits only belatedly trickle down to workers—have the sequence completely backwards. When an in-

vestment is made, whether to build a railroad or to open a new restaurant, the first money is spent hiring people to do the work. Without that, nothing happens. Money goes out first to pay expenses and then comes back as profits later—if at all. The high rate of failure of new businesses makes painfully clear that there is nothing inevitable about the money coming back.

Even with successful businesses, years can elapse between the initial investment and the return of earnings. From the time when an oil company begins spending money to explore for petroleum to the time when the first gasoline resulting from that exploration comes out of a pump at a filling station, a decade may have passed. In the meantime, all sorts of employees have been paid—geologists, engineers, refinery workers, truck drivers.

Nor is the oil industry unique. No one who begins publishing a newspaper expects to break even—much less make a profit—during the first year or two. But reporters and other members of the newspaper staff expect to be paid every payday, even while the paper shows only red ink on the bottom line.

In short, the sequence of payments is directly the opposite of what is assumed by those who talk about a "trickle-down" theory. As for capital gains, some countries don't tax capital gains at all. They tax a business' earnings, but not capital gains, which are harder to define and sometimes illusory.

The real effect of a reduction in the capital gains tax rate is that it opens the prospect—only the prospect—of greater future net profits. But that is enough to provide incentives for making current investments. Reductions in the capital gains tax rate tend to draw money out of tax shelters like municipal bonds and into creating jobs and productive capacity. That's the point!

As with all taxes, a distinction must be made between tax rates and tax revenues. Tax revenues went up while tax rates went down in the 1980s. Similarly in the 1960s and the 1920s. That is because incomes rose more than tax rates fell. But still it will be claimed that we cannot "afford" to cut tax rates because it would create deficits. Spending creates deficits—and it is big spenders who fight hardest against cutting tax rates.

It is not faith but empirical evidence that is overwhelming on the actual track record of tax cuts and free markets. By the 1980s, this mounting evidence convinced even left-wing governments in various parts of the world to cut back government operations and sell government-owned enterprises to private industry. Faith had nothing to do with it.

In India, in the decade since the 1991 economic reforms which were condemned as "blind faith," the country's economic growth rate has soared. It has been estimated that the real blind faith—in government planning—had cost the average Indian hundreds of dollars a year in income during the decades when socialist dogma ruled. In a poor country like India, this was income they could not afford to miss. Even in a prosperous country like the United States, there is no need to forego economic benefits for the sake of a political phrase.

NO SENSE OF PROPORTION

Mathematicians use the term "rational numbers" for numbers that can form a ratio. By this definition, there is a lot of irrationality in California, where many people seem incapable of forming a ratio or proportion between different things.

California's electricity crisis is a result of years of refusing to have any sense of proportion between the desirability of environmental goals and the desirability of having electricity. Yet apparently the state's politicians have learned nothing from any of this.

Having provoked an electricity crisis and a financial crisis by imposing impossible conditions on public utilities, the California government is now imposing similarly irrational conditions on the automobile industry by requiring them to produce a certain quota of electric cars for sale in the state, as a precondition to their selling any other cars in California.

The purpose of the electric cars is to reduce the air pollution created by cars that burn gasoline. Obviously, no one is in favor of polluted air, but the question is whether the desirable goal of reducing pollution is to be pursued in utter disregard of other desirable things.

Electric cars may be fun at amusement parks, where they don't have to go very far or very fast. But if the consuming public wanted electric cars for regular use, Detroit would be

manufacturing them by the millions. Only people infatuated with their own wonderful specialness would think that their job is to coerce both the manufacturers and the consuming public into something that neither of them wants.

California seems to have more than its fair share of self-infatuated people proclaiming utopian notions. Worse yet, such people are indulged by the media, the political system and the courts, while the enormous costs they create are quietly loaded onto unsuspecting consumers and taxpayers.

Somebody is going to have to pay for these electric cars that the public does not want. State agencies can buy some of them with the taxpayers' money. Some private individuals and organizations may be subjected to pressure from the state government to buy them. And some electric cars may just sit on dealers' lots or in storage, gathering dust. But they are still all going to have to be paid for by somebody because there is no free lunch.

Maybe those who imposed these new requirements think that the automobile companies can be forced to absorb the losses. Imposing costs on people out of state is a ploy that has been tried before with electricity. But apparently some people never learn.

Nothing is easier than glib enthusiasm for the benefits of electric cars—and some of those benefits may even be real. But there is still the need to have a sense of proportion, because there are other benefits that will have to be sacrificed and other costs that will have to be paid.

Electric automobile engines are not powerful enough to move full-size cars at any reasonable speed, so that means people have to drive around in flimsy vehicles that can easily become death traps in an accident. Make no mistake about it, air pollution increases the incidence of fatal diseases. But will more people die from that than from traffic deaths in flimsy

cars? People who are crusading for electric cars are not interested in that ratio.

Cars running on electricity may create no air pollution themselves, but the electricity has to come from somewhere to charge and re-charge the batteries that run these cars. What difference does it make if the car itself creates no pollution but the pollution occurs at an electric power plant, miles away, that is the ultimate source of the energy that moves the car?

Why doesn't the public want to buy electric cars? Because in real life you have to be able to get where you want to go, in some reasonable time, whether or not your destination is within the narrow range of an electric car's batteries. And you want to be able to turn around and come back when you are ready, not have to wait for hours to re-charge your batteries for the return trip.

You may not get there at all if you are oozing down a highway in a fragile little vehicle that is out of sync with the fast-moving heavy traffic around you. But none of this matters to people who are not in the habit of weighing one thing against another. Nor do such people want to allow other people to weigh one thing against another for themselves, rather than have their choices dictated from on high. No sense of proportion.

HEADLINE NEWS

The obvious continues to make headlines in California. "Federal price limits backfire" read the big front-page headline in the *San Francisco Chronicle*. These price limits are the federally imposed "caps" on electricity prices that California Governor Gray Davis has been clamoring for, backed up by Congressional Democrats.

"Some generators withhold power rather than abide by rate caps" the news story said. Where there are high costs of generating or transmitting electricity, the price caps in western states can make selling electricity to these states unprofitable or even create losses for the electricity suppliers.

Although officials in both California and Nevada had urged the Federal Energy Regulatory Commission to impose price controls on electricity, they now concluded that "the newly imposed limits have had the unintended consequence of increasing a threat of blackouts in the two states." In other words, people supply less when you reduce the price they will be paid. This news is literally thousands of years old.

People withheld supplies when price controls were imposed in the days of the Roman Empire. George Washington's troops nearly starved at Valley Forge when price controls were imposed on food. During the French revolution, there were likewise price controls on food, with the result that "as soon

as we fixed the price of wheat and rye we saw no more of those grains."

When President Nixon imposed controls on meat prices in 1973, much American cattle began to be exported, mostly to Canada, rather than being supplied to the U.S. market. Price controls on gasoline had motorists waiting in long lines at filling stations, sometimes for hours. But there have been no such gas lines for the past 20 years, since Ronald Reagan got rid of these price controls as one of his first acts after becoming president in 1981.

Price controls have had the same effect around the world, for centuries on end, among people of every race, color and creed, and under governments ranging from the most democratic to the most totalitarian. Why then is everyone so surprised that price controls on electricity in the western states seem to be reducing the supply of electricity there, creating rolling blackouts in Nevada and threatening more of the same in California?

Part of the reason—aside from widespread ignorance of both economics and history—is that a very successful political propaganda campaign has depicted opposition to price controls as being based on nothing but "ideology" or "theory." These words were repeated endlessly in the media by Democrats in California and Washington, as they sought to pressure the Federal Energy Regulatory Commission to impose price controls, or at least embarrass President Bush for opposing such controls.

Far from being a theory or an ideology, the effects of price controls on supply have been confirmed by facts as consistently as anything outside the realm of pure science. What the attempt to reduce this to mere ideology is saying is that there couldn't possibly be any real reason to be against price controls, unless you were just a lackey for the power companies.

This whole political game has been played before—and with disastrous effects for the public. One of the reasons price controls on oil were not repealed when other price controls were ended back in the 1970s was that a political propaganda campaign had demonized oil companies as the cause of the shortage of gasoline.

All sorts of charges and rumors were spread about the nefarious machinations of oil companies as the cause of all our troubles. Extensive government and private investigations failed to substantiate any of these charges and rumors. Nevertheless, the smear stuck and no politician wanted to be seen as caving in to Big Oil by ending price controls on petroleum.

In other words, a wholly needless problem of shortages was created and sustained by the demonizing of those who produced the product that was needed. That is exactly what is now happening with electricity.

Scarcely a day goes by without California Governor Gray Davis making sweeping accusations against electricity suppliers—“robber barons” he calls them—and the polls show that these accusations are working. California’s attorney general is threatening lawsuits and criminal indictments against power companies. All this is great political theater but none of this will keep the lights on or the machinery of industry running.

WARRIOR IN A 200-YEAR WAR

The death of Julian Simon was a special loss because he was one of those people who took on the thankless task of talking sense on a subject where nonsense is all the rage. A professor of economics at the University of Maryland, Julian Simon wrote fact-filled books about population—all of them exposing the fallacies of those who were promoting "overpopulation" hysteria.

Ironically, Professor Simon's death occurred during the 200th anniversary of Malthus' *Essay on the Principle of Population* which started the hysteria that is still with us today, despite two centuries of mounting evidence against it. Like so many other theories that can survive tons of contrary evidence, overpopulation theory relies on slippery definitions and a constituency that needs a mission more than it wants facts.

What Malthus said two centuries ago was that human beings have the potential to increase faster than the food needed to feed them. No one doubted this—then or now. From this he made the fatal leap across a chasm of logic to say that there was a real danger that people would in fact grow so fast as to create a problem of feeding them.

The truism that the capacity to produce food limits the size of the sustainable population does not mean that population

is anywhere near those limits. No automobile can drive faster than the power of its engine will permit, but you cannot explain the actual speeds of cars on roads and highways by those limits, because only an idiot drives at those limits.

Julian Simon set out to explain what happened to real population in the real world, not what happens in abstract models or popular hysteria. In the real world, as he demonstrated with masses of facts and in-depth analysis, we are nowhere near to running low on food or natural resources.

Professor Simon made a famous bet with the leading hysteria-monger of our time, Paul Ehrlich of Stanford University. Simon had offered to bet anybody that any set of natural resources that they claimed were running low would in fact be cheaper in the future than today. Professor Ehrlich took him up on it. Simon allowed Ehrlich to pick which resources and which period of time.

Ehrlich and his fellow hysterics chose a bundle of ten natural resources and a period of ten years. At the end of the decade, not only was the real cost of that bundle lower than at the beginning, every single natural resource that the Ehrlich camp had picked had a lower real cost than when the decade began.

If we were really running low on these resources, they would be getting progressively more expensive, instead of progressively cheaper. This is elementary supply-and-demand economics. But those addicted to overpopulation hysteria are no more interested in economics than they are in evidence.

What overpopulation theory provides is far more emotionally satisfying than facts, logic or economics. It is one of a whole family of theories which depict other people as so dangerously thoughtless that imposing the superior wisdom and virtue of some anointed social missionaries is all that can save us from disaster.

This vision inspired the eugenics movement in the early decades of this century, the recycling movement today and innumerable other heady crusades in between. Contrary facts mean absolutely nothing to the true believers. Those who insist on talking about those contrary facts encounter only hostility and demonization.

Julian Simon understood that. In a letter to me a couple of years ago, he mentioned a certain Nobel Prize-winning economist who had said to him that "even with all his prestige he would not say that population growth might well be a good thing because he was afraid he might lose credibility." Such is the power of intimidation in our time.

"Yes, one can always argue that such prudence is wise. But we all know the consequences of such 'wise' choices," Simon wrote. It is a society where strident hysteria drowns out truth and where our policies are based on headstrong nonsense, loudly shouted.

With a full understanding of the opposition and smears he would encounter, Julian Simon nevertheless wrote *The Economics of Population Growth*, *Population Matters* and—his best-known book—*The Ultimate Resource*. To him, the ultimate resource was human intelligence.

We should also add, in honor of Julian Simon, the courage to use that intelligence.

THE ROLE OF THE RICH

A recent catalogue from the giant second-hand camera dealer KEH listed a Canon camera made for the Japanese navy during World War II. This model is described as one of only 15 such cameras made and as being still in excellent condition. Its price is $40,000.

Most of us who shop for second-hand camera equipment aren't planning to pay 40 grand. But clearly there are some who are rich enough and nostalgic enough to pay a hundred times more than is necessary to buy a camera of comparable photographic quality today.

Those on the political left, for whom indignation is a way of life, are deeply offended by such frivolous expenditures by the rich. Congressman Dick Gephardt or Congressman David Bonior could no doubt produce several sermonettes on the subject. But the great Supreme Court justice Oliver Wendell Holmes said that the real cost of the rich to the rest of society is what they consume. How much is it costing the rest of us that some old-money heir or heiress, or some new Silicon Valley millionaire in his twenties, is splurging on this half-century-old camera that practically nobody else wants?

Suppose instead that the rich wanted the same things that everybody else wanted. What if Bill Gates developed a fetish for meat and potatoes, and spent ten or twenty billion dollars

collecting vast amounts of meat and potatoes in refrigerated warehouses? This would deprive many working families across America of food and drive up the price to others.

The more far out and off-the-wall the purchases of the rich are, the less anybody else is deprived. When some rare stamp or antique piece of furniture is auctioned off for a small fortune at Sotheby's, it is no skin off anybody else's nose. To me, antiques are just old furniture and a stamp that won't get my letter where it is going is just a little piece of paper with some glue on it.

By definition, the rich can take all the serious necessities of life for granted. In fact, so can millions of other Americans who are not rich. What is left for the rich to want? Stuff that gives them a sense of specialness or distinction.

Vanity is not the most attractive of human traits, but it is not the most harmful either. Nor is vanity confined to the rich. Young slum hoodlums who fight—or even kill—other kids to get their designer clothes or sneakers are doing the same thing, at a lot higher cost to others.

There was a time when the poor stole bread to feed their children. You could understand that. But today, when riots and looting sweep through some slum, food is left unmolested while the looters—supposedly "enraged" by some injustice—can be seen happily carrying off TV sets, fancy clothes and the like.

Ironically, what the rich are often praised for is likely to do more harm than what they are condemned for. Donating money to left-wing causes brings automatic approbation in the media, in academia and wherever else the intelligentsia hang out.

Buy up land and donate it for "open space" and an idle heir or heiress will be forgiven for all the money that some ancestor of theirs earned by providing goods and services to

millions. But this is much more like buying up meat and potatoes than it is like blowing 40 grand on an old camera.

The less land is available to build on, the more people are going to be crowded in the remaining land that is available—and the higher rents are going to be on that land. Should people packed into slums be grateful that the actions of the rich are driving up their rents and preventing them from getting a little elbow room in what the anointed like to call "urban sprawl"?

Then there are those rich people who bankrolled all sorts of Communist-front and fellow-traveler movements during the Cold War. How many people in the Gulags do you suppose felt the same glow of appreciation for their open mindedness and moral equivalence that was felt in Hollywood or Martha's Vineyard?

Some rich Silicon Valley entrepreneurs like to "give back" by literally serving food to the homeless. In other words, they are showing their gratitude to American society by subsidizing the lifestyle of people who refuse to work, in an economy with millions of unfilled jobs, and who carry out all sorts of antisocial or even criminal behavior on the streets.

All in all, the vanities and vices of the rich may do far less harm than their supposed virtues. Idle self-indulgence may not be pretty, but if it keeps the rich off the streets and out of mischief, so be it.

PERENNIAL ECONOMIC FALLACIES

Every time some new income statistics come out, two predictable fallacies follow in their wake. The first is that the rich are getting richer, while the poor are falling behind. The second is that the real income of American families has not risen significantly for years.

These fallacies return as regularly as the swallows returning to Capistrano, though not nearly as gracefully. A typical headline in the *New York Times* proclaims: "In A Time of Plenty, The Poor Are Still Poor." Yet study after study has shown that "the poor" do not remain poor in contemporary America.

An absolute majority of the people who were in the bottom 20 percent in 1975 have also been in the top 20 percent at some time since then. Most Americans don't stay put in any income bracket. At different times, they are both "rich" and "poor"—as these terms are recklessly thrown around in the media. Most of those who are called "the rich" are just middle-class people whose taxes the politicians avoid cutting by giving them that name.

There are of course some people who remain permanently in the bottom 20 percent. But such people constitute less than one percent of the American population, according to data published by the Federal Reserve Bank of Dallas in its 1995 annual report. Perhaps the intelligentsia and the politicians

have been too busy waxing indignant to be bothered by anything so mundane as facts.

Alarmists are not talking about real flesh and blood people. They are talking about abstract categories like the top or bottom 10 percent or 20 percent of families or households. So long as all incomes are not identical, there will always be top and bottom 10 percents or 20 percents or any other percents. But these abstract categories do not contain the same people over time.

Households do not contain the same numbers of people, even at a given time. The bottom 20 percent of households contains 39 million people, while the top 20 percent contains 64 million. Comparing households is comparing apples and oranges.

If you are serious about considering the well-being of flesh and blood human beings, then you can talk about their real income per capita. But alarmists avoid that like the plague, because it would expose their little game for the fraud that it is.

Real income per capita has risen 50 percent over the same span of time when household income has remained virtually unchanged. How is this possible? Because households are getting smaller. The very fact that there are higher incomes enables more people to afford to go out and set up their own independent households.

Behind both the statistics on inequality that are spotlighted and the statistics on ever-changing personal incomes that are ignored is the simple fact that people just starting out in their careers usually do not make as much money as they will later on, after they have had years of experience.

Who should be surprised that 60-year-olds have higher incomes and more wealth than 30-year-olds? Moreover, that was also true 30 years ago, when today's 60-year-olds were just

30. But these are not different classes of people. They are the same people at different stages of their lives.

At some times and places, there have been whole classes of people who lived permanently in poverty or in luxury. But, in the United States today, the percentage of Americans who fit either description does not reach beyond single digits.

It is one thing to be concerned about the fate of flesh and blood human beings. It is something very different to create alarms about statistical relationships between abstract categories.

Despite desperate efforts of activists to keep "hunger in America" alive as an issue by manipulating numbers, actual examinations of flesh and blood people show no nutritional differences between people in different income brackets. In contrast to the gaunt and undernourished poor of other times and places, Americans in the lower income brackets today are slightly more likely to be overweight than is the rest of the population.

The magnitude of statistical differences may tell very little about the condition of human beings. A two-to-one difference in the amount of food available would be very painful if it meant that those on the short end did not have enough to eat. But a thousand-to-one difference in price between wearing a Rolex and wearing a Timex is something that can be left to the alarmists—especially since both watches tell time with about the same accuracy. And both are a lot more accurate than "income disparity" hysteria.

SWEATSHOPS AT HOME AND ABROAD

It is truly ironic that people at colleges and universities across the country have been organizing to protest sweatshop labor in the Third World, when the greatest examples of sweatshop labor in America are on their own campuses.

Where else can a nationwide cartel work people for no money at all, while collecting millions of dollars from the fruits of their labor? That cartel is the National Collegiate Athletic Association (NCAA) and the people whose work brings in millions at the gate are the athletes who play on college teams.

In big-time college football and basketball, it is not uncommon for the coach to make more money than the college or university president—sometimes several times what the academic chief executive makes. But if any money finds its way into the hands of the players who put their bodies on the line, that is called a “scandal.”

One football player who put his body on the line and is now paralyzed as a result of an injury sustained during a game, Kent Waldrup, Jr., of Texas Christian University, was recently denied any right to disability benefits from the university by an appellate court because he was not an “employee.”

The academic aspect of campus life is not a lot better, as far as sweatshop labor is concerned. Teaching assistants across the country are joining labor unions to try to get better pay

for their work. Parents who pay megabucks tuition for their children to go to big-name colleges and universities may not realize that their offspring are all too often being taught by no-name teaching assistants who are paid a pittance, rather than by the big-name professors who give the institution its aura and collect six-figure salaries.

Teaching assistants do not simply assist with teaching. They teach many of the courses all by themselves. In some departments, more classes are taught by TAs than by professors. These include some of the top-rated universities in the country.

With both college athletes and TAs, the claim is made that they are being compensated by getting an education. Only for the TAs is that likely to be true in most cases. Big-time football and basketball are full-time jobs. Athletes have to go through the motions of getting an education, for the sake of appearances and eligibility to play. But those who actually get a degree—much less an education—are the exceptions, rather than the rule.

Teaching assistants are usually graduate students who are working toward their Master's degrees or their Ph.D.s, while taking on the job of teaching undergraduate courses that their professors don't want to be bothered teaching. In a big-name university, anyone taking introductory courses in math or English is very unlikely to see a member of the faculty standing in front of the class.

Graduate students in general are very vulnerable, since their first opportunities in the professional careers ahead of them depend on the recommendations of their professors, some of whom have exploited that dependency unconscionably. Some professors have stolen their graduate students' ideas and published them as their own. Others have exploited their graduate students sexually.

One professor at Stanford was accused of having sexually molested the son of one of his graduate students and committed suicide shortly thereafter. Most, however, pay no such price—or any price at all. Even the accused molester had a medal struck in his honor after his death.

If the morally anointed on campus want to protest exploitation, they need not look overseas—or even beyond their own ivy-covered buildings.

As for the people in the Third World, jobs with American companies operating there are likely to be among the best jobs available, even if these jobs don't pay as much as they pay in the United States. Since the workers are unlikely to produce as much output per hour as American workers, pressuring companies to pay American wages means that fewer Third World workers will have jobs at all.

If the real purpose of all the uproar about sweatshop labor in the Third World is to allow college students and professors to feel morally one-up on businesses that are providing much-needed jobs in poor countries, then it accomplishes that purpose. But it may accomplish nothing else, except perhaps to demonstrate yet again academic hypocrisy.

SANITY IN SAN FRANCISCO

Congratulations are in order for the *San Francisco Weekly*, for an informative article that introduces sanity into a subject where insanity is the norm—namely, rent control in San Francisco.

What has happened under stringent rent control laws in the city by the bay is what has happened in virtually every other city around the world where such laws have been passed. But it will still be news to rent control advocates, who seldom bother to get the facts.

According to the *San Francisco Weekly*, new construction of multifamily housing dropped by 32 percent within a decade after the city's rent control law was passed in 1979. Over the past ten years, the number of rental units in the city has declined absolutely by 7,500. The vacancy rate is below one percent. Nor has rent control meant low rents. The average rent for a one-bedroom apartment in San Francisco is nearly $2,000 a month.

None of this is unique to San Francisco. A study of 16 cities by William Tucker of the Cato Institute showed "that the advertised rents of available apartments in rent-regulated cities are dramatically higher than they are in cities without rent control." In view of this, it is not surprising that he also found homelessness more prevalent in cities with rent control.

How can this be, when the whole purpose of rent control is to keep rents down? First of all, the purpose of any policy tells you absolutely nothing about what will actually happen under that policy. Too many disastrous laws get passed because those who pass them win political points for their good intentions and nobody bothers to check up later to see what actually happened.

The San Francisco Board of Supervisors has recently commissioned the first official study ever done of the effects of rent control in the city. Imagine! The first rent control law was passed in 1979 and has been amended more than 50 times in the two decades since then—usually tightening the controls—but nobody in government has yet bothered to find out what the actual effect has been.

Politics is not about empirical realities, but about popular images. So long as the image of rent control is good, it wins votes at election time—and that is what it is all about, as far as politicians are concerned. Meanwhile, there is a whole movement of rent-control activists and tenants' rights advocates who say things like, "Housing is not a commodity." Mindless mantras like that make them look and feel like the morally anointed, and apparently that is good enough for them. Who needs facts when you have myths that serve your purposes?

The biggest myth is that rent control helps the poor. It does help those poor people who happen to have an apartment when rent control laws are passed—but it also helps the affluent and even the rich who happen to be on the inside looking out. However, as the housing supply dries up, who gets left out? The homeless people on the streets are certainly not the rich.

Studies in both Cambridge, Massachusetts and Berkeley, California showed that "rent-controlled apartments were concentrated among highly educated professionals." In New

York, people living in rent-controlled apartments have included the president of the New York Stock Exchange and even Hollywood stars who keep such apartments to use when they happen to be in town.

San Francisco's rent-control law, like those in other cities, was passed as a "temporary" measure to deal with some immediate crisis—in this case, the runaway inflation of the late 1970s. A cynic once said that there is nothing more permanent than a temporary government policy. Rent control laws were also passed as "temporary" measures in London and Paris during the First World War—and remained in force on past the Second World War.

Since there are always more tenants than landlords, and more people who don't understand economics than people who do, it is nearly impossible to get the voters in a community with rent control to vote it out. However, many state legislatures across the country have taken that decision out of local hands by passing laws forbidding cities and towns from having rent control. When rent control was gotten rid of this way in Massachusetts, new housing began to be built in formerly rent-controlled communities for the first time in decades.

It can be done. But it is unlikely to be done in San Francisco. Nor is the liberal state legislature likely to act. There is in fact a measure on this year's ballot to tighten rent control in San Francisco some more.

THE END OF MONTGOMERY WARD

The passing of a once-great business is often a time for nostalgia and regret, so the announced closing down of Montgomery Ward has provoked much media comment along these lines. But both the rise and the fall of Montgomery Ward illustrate the dynamic adjustments of a free market economy and the prosperity that it makes possible.

Although most people today think of Montgomery Ward as a chain of department stores, the company was one of the dominant retailers in the country for more than half a century before it opened its first store. It began as a mail-order house in 1872, when the United States was a rural country, with very high costs of delivering goods to a widely scattered population. Neither trucks nor automobiles nor airplanes had yet arrived on the scene, so transportation costs added greatly to the cost of getting merchandise to small general stores in isolated communities.

Montgomery Ward mailed its merchandise, lowering delivery costs by using the most efficient transportation available at the time—the railroad—and the only nationwide delivery service, the U.S. mails. Railroad tracks ran right through the huge Montgomery Ward warehouse in Chicago. The net result was that it could charge lower prices than others who

used more costly methods of transportation, enabling more Americans to afford more things.

But nothing stays the same. Montgomery Ward was the largest retailer in the world in the 19th century, but that was destined to change because of a young railroad agent who sold watches on the side. His name was Richard Sears.

The company that Sears set up also grew into a mail-order house—one that eventually surpassed Montgomery Ward. Meanwhile, the country itself was changing. By 1920, there were for the first time more Americans living in urban areas than in rural areas. That changed the whole economics of retailing.

Now the cheapest way to deliver merchandise to many Americans was by setting up chains of stores where they lived. But neither Sears nor Montgomery Ward had any stores—nor any desire to build stores. They had been highly successful for decades in the mail-order business. Why change? When an executive at Montgomery Ward suggested to the head man that they start opening stores to supplement their mail-order business, he was fired for his trouble.

The greatness of a free-market economy is that it does not depend upon the wisdom of those who happen to be on top at the moment. The rich and complacent men who ran Montgomery Ward and Sears were destined to be forced into change by a new man named James Cash Penney, born and raised in poverty.

Penney's first experience as a retailer came as a one-third owner of a small store in a little town in Wyoming. Yet his ideas on retailing changed the whole industry. By 1920, there were 300 J. C. Penney stores—prospering, growing and taking business away from Sears and Montgomery Ward, both of which began losing millions of dollars. Only then did Sears begin to listen to the executive who had been fired from

Montgomery Ward and start opening its own stores, saving the company from the brink of bankruptcy.

Montgomery Ward then belatedly followed suit. The rich men who ran these two giant mail-order houses realized that they would not be rich much longer if they kept losing millions of dollars a year.

In the years after the Second World War, as the country grew more prosperous and people began moving to the suburbs, some Montgomery Ward executives suggested to the head man that they should start building stores in suburban shopping malls. They were fired for their trouble.

The net result was that Sears hit the shopping malls first and Montgomery Ward never caught up. Meanwhile, a young clerk in a J. C. Penney store—a man named Sam Walton—began learning retailing from the ground up. Later, he put his knowledge and insights to work in his own stores, which would eventually become the Wal-Mart chain, with sales larger than those of Sears and J. C. Penney combined.

Montgomery Ward once made a great contribution to the rising standard of living of ordinary Americans. But the continued prosperity of Americans eventually required that it be replaced by new businesses, better adapted to new conditions. Those who complain that some are “left behind” amid growing prosperity do not understand that leaving some behind is the way the country moves ahead.

"SAVING" SOCIAL SECURITY

Nothing seems so insecure as Social Security. However, before we start "saving" Social Security, we need to stop and think about why it needs saving in the first place. Then maybe we can avoid making the same mistakes all over again.

Some people blame the problem on the large numbers of "baby boomers" who will be retiring in the next few decades. But why don't we hear about private annuities that are worried about the number of baby boomers who will be retiring?

Social Security's problems go much deeper than the size of the generation that is going to be retiring. In fact, Social Security's problems go all the way back to the beginning—to the way it was set up, to the lies that politicians told about it and to the misconceptions and political irresponsibility that have now come home to roost.

Private insurance companies aren't panicked about the annuities they are going to have to pay to baby boomers because insurance companies operate in an entirely different way from Social Security. Insurance companies take their customers' premiums and invest them to create real wealth. Later, the earnings from that wealth can be used to pay annuities or life insurance benefits whenever they become due.

For example, if an insurance company uses its customers' premiums to build an apartment complex, then the rents

coming in from those who live in the apartments can be used to pay the annuities or insurance benefits owed to those whose premiums built the buildings. The size of the previous generation or the next generation doesn't matter.

The reason it matters under Social Security is that there has never been any real wealth created. The government has simply been robbing Peter to pay Paul. This worked great when the baby boomers were paying into the system and their money was being used to pay benefits to a much smaller generation that was retired.

Now it has become obvious to everyone that this game will not work any more when the huge baby boomer generation itself retires. There will not be enough people working to pay them all the benefits they were promised, unless Social Security taxes are raised by huge amounts. Otherwise, the government will have to welch on its commitments to the retirees.

The biggest lie about Social Security is that it is some kind of "insurance." But, unlike insurance premiums, Social Security taxes create no wealth. They are spent when they get to Washington, just like any other taxes. Paper transactions create the illusion of a Social Security "fund," but there is no corresponding real wealth created—no factories, farms or railroads.

The basic principle of Social Security is the same as that behind illegal pyramid schemes run by con men. The first people to put their money into pyramid schemes get repaid handsomely from the money received from others who join later. That is what attracts still more suckers and enables the con men to rip them off.

Since the first people to join the Social Security system were from the relatively small generation of the 1930s, their later retirement benefits were easily paid with the money received from the much larger baby boom generation. So long

as the pyramid keeps expanding, things are great, but eventually the pyramid stops expanding and those who joined last get left holding the bag.

That is why pyramid schemes are illegal and that is why Social Security is now in trouble. It is not because of some demographic fluke. It was a demographic fluke that kept it from collapsing before now.

It was the deceptions and irresponsibility of politicians that got us into this mess. If you think the way to get out of it is to let politicians continue to guide Social Security in the future, then you have missed the point completely.

Investing the public's retirement money in the creation of real wealth is an essential part of any permanent fix. But, if that means letting politicians throw their weight around in the stock market, then this is truly putting the fox in charge of the hen house.

There are all sorts of sound financial institutions through which ordinary Americans can put their retirement money into the creation of real wealth, without having to pick individual stocks themselves. The time is long overdue to let them do it. The whole history of Social Security shows how important it is to keep politicians' hands off that money.

SOCIAL SECURITY VS. PRIVATIZATION

According to the unanimous preliminary report of the special commission appointed to look into Social Security, the amount of money coming into the system will be insufficient to pay out what was promised by 2016. By 2030, the choice will be to reduce Social Security benefits by about one-fourth or raise payroll taxes by about one-third. After that it gets worse.

Liberal Democrats, who have always been the biggest supporters of Social Security, have attacked the commission's conclusions. Congressman Richard Gephardt, for example, has denounced the report as "scare tactics" and said that the Social Security system faces no problems until its trust fund runs out in 2038.

When the money going out exceeds the money coming in, you are in trouble—and that happens in 2016. Those who try to push the fatal date off to 2038 are counting the money that Social Security has in its so-called trust fund. However, this "trust fund" exists only as a legal technicality, not as an economic reality.

When your Social Security taxes get to Washington, they are spent—right then and there. What preserves the illusion of a "trust fund" is that the Social Security system is given government bonds in exchange for the money that Congress

takes and spends. But, no matter what kind of accounting sleight-of-hand you use, you cannot spend and save the same money.

Those bonds in the Social Security "trust fund" represent no tangible assets—not houses, not factories, not cars, not trains. They are promises that can be kept only by taxing future taxpayers.

What if the bonds in the Social Security "trust fund" had never existed? Economically, the situation would be exactly what it is now. After 2016, the government would have to either raise additional taxes or lower the benefits. The bonds serve only to fool the gullible or the uninformed.

The crucial difference between a 100 percent government-run retirement system like Social Security and one in which individuals can invest at least part of their own retirement money in the market is that the market represents real things. Private investment creates the enterprises and industries which generate real wealth, not just paper promises.

When you own a share of a company that is building houses, cars or computers, then your money is creating a larger real wealth—for the country and for yourself—than if Washington politicians were spending your Social Security taxes as fast as they reach the Beltway.

Representative Barbara Lee of Oakland is typical of Congressional Democrats in opposing the idea that younger workers should be allowed to invest part of their retirement money in the market, rather than in Social Security. She said: "Social Security is an insurance program, it's not an investment program. And no way should we want workers to have their benefits put at risk and put them at the whims of the stock market."

This is classic liberalism, starting with an utter ignorance or total disregard of economics. An "insurance program" is

not something different from "an investment program." Real insurance companies invest the premiums they receive, precisely in order to have the money available to be able to pay off annuities or insurance claims when these become due.

But Representative Lee is half right: Social Security is not an investment program. People like Representative Lee can spend the Social Security money as fast as it gets to Washington, without investing anything to pay off future retirees. An insurance company executive who did that could find himself behind the walls of a federal prison. Barbara Lee, however, is only likely to find herself re-elected, as a reward for handing out goodies bought with the money that workers think is being put aside for their pensions.

You can see why liberal Congressmen don't want to see any of the trillions of dollars in Social Security pass out of their control. You can also see the arrogance of liberals who say that they don't want "workers to have their benefits put at risk." Nobody is going to invest those workers' money in the private sector except those workers themselves.

If workers prefer to invest in mutual funds to taking their chances with a Social Security system that may never pay them back what they paid in, who are liberals to tell them that they don't have a right to do that with their own money? The so-called "whims of the stock market" are nothing compared to the whims of politicians.

MINIMUM JOURNALISM

A front-page story about minimum wages in the *Wall Street Journal* illustrates what is wrong with contemporary journalism as much as it illustrates anything about the minimum wage law. The first nine paragraphs deal with one individual who is wholly atypical of people earning the minimum wage. She is a 46-year-old single mother who works full-time.

Way back on page 10, we learn from a small chart that just over half the people earning the minimum wage are from 16 to 24 years of age. Just over half of the minimum wage earners are working part-time. Nevertheless, the atypical middle-aged single mother is now brought back into the story again and covered for an additional 13 paragraphs on an inside page.

Three out of four pictures of people under the heading "The Faces of Low-Wage Work" are women over 40, including one who is 76.

This is clever propaganda, but it is lousy journalism. People don't buy a newspaper in order to be deceived.

While the *Wall Street Journal* has one of the most intelligent editorial pages anywhere, some of its news stories on social issues—as distinguished from financial issues—are too often examples of the kind of mushy and even biased journalism that gives political correctness a bad name.

The politically correct party line on minimum wages is

that people cannot afford to raise their families on low pay, so the government has to force employers to provide "a living wage" for families. But the vast majority of people making minimum wages are youngsters just beginning their careers. They are not going to be flipping hamburgers or sweeping floors all their lives. Most have better sense than to have children that they cannot feed and house.

Yet the main focus of this long article is on a small minority who have a "minimum wage career." Our atypical middle-aged single mother is invoked once again: "In Ms. Williams' case, practically everyone she knows has been mired in such occupations their whole working lives." Is it supposed to be news that birds of a feather flock together?

Are we supposed to base national policy on one woman's experience? If we wanted to watch Oprah Winfrey, would we be reading the *Wall Street Journal*?

What about those minimum wage earners who are just passing through that income bracket on their way up? Most of the people in the bottom 20 percent of the income distribution—"the poor"—are also in the top 20 percent at some other point in their lives, when they are now counted among "the rich." Usually they are not poor the first time nor rich the second time, but such is the state of political rhetoric.

The reality of what happens to people over time gets far less attention than one middle-aged single mother working at a minimum wage job—and, incidentally, receiving government subsidies.

The minimum wage law is very cleverly misnamed. The real minimum wage is zero—and that is what many inexperienced and low-skilled people receive as a result of legislation that makes it illegal to pay them what they are currently worth to an employer.

Most economists have long recognized that minimum

wage laws increase unemployment among the least skilled, least experienced, and minority workers. With a little experience, these workers are likely to be worth more. But they cannot move up the ladder if they can't get on the ladder.

That is the real tragedy of the real minimum wage—zero. It is not just the money that these young people miss. It is the experience that can turn out to be far more valuable to them than the first paychecks they take home.

This is especially tragic in the Third World, where multinational corporations may be pressured into setting wages well above what the local labor market conditions would justify. This pressure often comes from self-righteous people back home who mount shrill demonstrations in the mistaken belief that they are helping poor people overseas.

Half a century ago, Professor Peter Bauer of the London School of Economics pointed out that "a striking feature of many under-developed countries is that money wages are maintained at high levels" while "large numbers are seeking but unable to find work." These people can least afford to get the minimum wage of zero, just so that their would-be saviors can feel noble, or so that labor unions in Europe or America can price them out of a job, in order to protect their own members' jobs.

MERIT AND MONEY

Some people may have found it an inspiring example of social conscience when various super-rich people, such as the Rockefellers, came out publicly against repealing the taxes that the federal government levies against the property left by people who have died. But it is a lot less than inspiring when you look at it in terms of how much damage death taxes do to others and how little damage such taxes do to the super-rich.

When you have hundreds of millions of dollars—or tens of billions of dollars, in the case of Bill Gates—you are never going to be able to spend it all on your own lifestyle in your own lifetime. So this wonderful-sounding defense of estate taxes will cost the super-rich nothing in their own lives. Moreover, even if the government were to confiscate three-quarters of their wealth upon their death, their heirs would still never have to work a day in their lives, because the remainder would still be so huge.

It is a very different story for an ordinary farmer or storekeeper or someone who owns a little automobile repair shop. What happens to what he has worked for and saved over a lifetime can make a huge difference to his widow and his orphaned children. By what right should what he has already paid taxes on be taxed yet again at a time when his family has just lost its breadwinner?

Or do right and wrong no longer matter? Can we just say magic words like "social justice" and start confiscating? That has been tried in a number of countries—and its consequences have ranged from counterproductive to catastrophic.

Forcing viable businesses out of business because the heirs cannot pay the estate taxes without selling off the assets is a loss to the country, as well as an unjust burden on the individuals concerned. Moreover, people have foresight and one of the reasons they work and sacrifice is to see that those who are dependent on them will be taken care of after they are gone. Destroying or undermining that incentive is sabotaging a virtue that is as important morally and politically as it is economically.

Those who want a society where everyone depends on government for their needs may be happy to see yet another blow struck against self-reliance. But no one else should be.

Talk about how various people have been "winners" in "the lottery of life" or have things that others don't have just because they "happen to have money" is part of the delegitimizing of property as a prelude to seizing it.

Luck certainly plays a very large role in all our lives. But we need to be very clear about what that role is. Very few people just "happen" to have money. Typically, they have it because their fellow human beings have voluntarily paid them for providing some goods or services, which are valued more than the money that is paid for them. It is not a zero-sum game. Both sides are better off because of it—and the whole society is better off when such transactions take place freely among free and independent people.

Who can better decide the value of the goods and services that someone has produced than the people who actually use those goods and services—and pay for them with their own hard-earned money?

Luck may well have played a role in enabling some people to provide valuable goods and services. Others might have been able to do the same if they had been raised by better parents, taught in better schools or chanced upon someone who pointed them in the right direction. But you are not going to change that by confiscating the fruits of productivity. All you are likely to do is reduce that productivity and undermine the virtues and attitudes that create prosperity and make a free society possible.

There seems to be some notion around that only purely individual merit can justify differences in income and wealth. But we are all huge beneficiaries of good fortune that we do not deserve. By what merit do we deserve to be living more than twice as long as the cave man and in greater safety, comfort, health and prosperity? We just happen to have been born in the right place at the right time. As Hamlet said, give every man what he deserves and who would escape a whipping?

The question is not what anybody deserves. The question is who is to take on the God-like role of deciding what everybody else deserves. You can talk about “social justice” all you want. But what death taxes boil down to is letting politicians take money from widows and orphans to pay for goodies that they will hand out to others, in order to buy votes to get re-elected. That is not social justice or any other kind of justice.