The Communist Road to Self-Enslavement

by Karl R. Popper

No theoretician contributed as much to the downfall of communism—or socialism—as did Friedrich August von Hayek. He did so nowhere more forcefully than in his small book The Road to Serfdom, first published in 1944, when the end of the Second World War was in sight. He followed it up with many excellent works—books as well as articles. The most important of these were The Constitution of Liberty, published in 1960, and the three volumes of Law, Legislation and Liberty, published between 1973 and 1979. When he was 89, he published, supported by W. W. Bartley, a most successful book, The Fatal Conceit (1989). These books form an extraordinary series of scholarly works that, at the same time, are hammer blows against totalitarianism. They contributed much to the fall of Khrushchev’s Berlin Wall and of Stalin’s Iron Curtain.

But Hayek did not confine himself to writing these politically so amazingly powerful works. Although a great scholar and distinguished gentleman, rather reserved in his way of living, thinking, and teaching, and averse to taking political action, he founded, shortly after the Second World War, the Mont Pèlerin Society. Its function was to provide a balance to the countless intellectuals who opted for socialism. Hayek felt that more had to be done than writing papers and books. So he founded a society of scholars and practical economists who were opposed to the fashionable socialist trend of the majority of intellectuals who believed in a socialist future. The society was founded in Switzerland in 1947 on Mont Pèlerin, on the southern shores of Lake Geneva. I had the honor of being invited by Hayek to be one of the founder-members. Among the surviving founders are Milton Friedman and Aaron Director. This society still exists; and for many years it has exerted a considerable influence within the ranks of the intellectuals, especially the economists. Its first and perhaps greatest achievement was, I feel, to encourage those who were fighting the then overwhelming authority of John Maynard Keynes and his school. However, not being an economist myself, I am probably not competent to assess the historical influence of the Mont Pèlerin Society. This is a task—I think an important task—for future historians of economic doctrines and economic policies. Yet having been for many years a member of the London School of Economics, I could experience the growing undermining of leftist teaching which, in the first few years after the war, had been immensely powerful.

(Cont. on p. 10)
Hayek, Brookes, and the Fatal Conceit of Socialism

Hayek and Brookes knew that the statisticians, the socialists, the redistributionists never understand the subjective nature of economic progress. They think of wealth as material, not if it is as it is. Intellectuals can be a fact in fact an intellectual. It lacks something spiritual. 

The redistributionists see the material wealth of some and want to forcibly give it to others, not recognizing that in doing so they will eventually make it worse, not better. 

The redistributionists see the material wealth of some and want to forcibly give it to others, not recognizing that in doing so they will eventually make it worse, not better. 

Then they wonder why their TV sets explode. 

The irony of which Hayek and Brookes were keenly aware, is that statism fails to deliver material progress precisely because materialism myopically focuses on liberty. 

On the other hand, does deliver material propery precisely because it pays no attention to material things at all. It focuses on the idea of human freedom. 

In a free society resources are directed to the individual, subjective values of millions of people. In a statist society resources are directed by bureaucrats who invariably suffer the Hayekian “fatal conceit.” 

The idea of human freedom literally transcends what those with a governmental mentality perceive as inherent material limits facing society. 

During the last twenty years the statisticians were predicting $20 a barrel for oil, but the freedom of entrepreneurs to find ways to increase energy efficiency has meant that oil is cheaper today in real terms than ever before. 

You may be aware of the best that Julian Simon, a Cato adjunct scholar, made with the noted environmentalist Paul Ehrlich about whether a list of commodities would cost more or less in real terms over a five-year period. Ehrlich, who looks at the market in an agnostic way, was sure that something had to be wrong. How could scarce resources not go up in price over time? Simon, who understands the idea of human freedom, won the bet. 

It’s easy to get discouraged as we listen to calls for industrial policies, protectionism, income redistribution, and various other reflections of the materialist paradigm, as seeming the only way to keep the economy moving. 

And Hayek wrote in The Constitution of Liberty that the growth of knowledge is of such special importance because, while the material resources will always remain scarce, the uses of new knowledge are unrestricted. It is through this free gift of the knowledge economy, and by the experiments of some members of society that general progress is made possible.

—Edward H. Crane

Ex-Communist Nations Need Sound Money, It’s Agreed; Currency Boards, Gold-Backed Ruble, or Free Banking?

stable money is fundamental to the successful passage from socialism to capitalism. That was the consensus of the international group of market liberals who met in March at the Cato Institute’s 10th Annual Monetary Conference, “Money in Transition: From Plan to Market.” The two-day Washington conference, directed by James Dorn, vice president for academic affairs, featured monetary experts and policymakers from several countries, including Russia, Ukraine, and Czechoslovakia. 

A high point of the conference was the luncheon speech by Vaclav Klaus, finance minister of Czechoslovakia. Klaus spoke about the difficulties of making the transition to a market economy and the need to stabilize the economy. 

Savchenko discussed the problems of a separate currency for Ukraine. Bogomolov and Petrovskiy addressed the need for privatization and monetary stabilization to avoid hyperinflation. Bogomolov said hyperinflation could be prevented by quickly privatizing housing and capital assets and by anchoring the ruble to a commodity-backed parallel currency (chervonets) that would be freely convertible into hard currencies.

Other methods of transition were proposed by various speakers. Steve Hanke of Johns Hopkins University presented his and Kurt Schulz’s widely discussed proposal for a currency board, under which the ruble or new currency units in the former Soviet republics would be fully backed by a Western currency. Alan Reynolds of the Hudson Institute proposed a gold-backed ruble similar to, if not exactly like, the one introduced by Mikhail Gorbachev in 1992.

Malcolm S. Forbes, Jr., editor-in-chief of Forbes, opened the conference with a discussion of money and the market.

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Cato Policy Report

Tenth Annual Monetary Conference

Ex-Communist Nations Need Sound Money, It’s Agreed; Currency Boards, Gold-Backed Ruble, or Free Banking?

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Senior Editor
Distinguished Senior Fellow
Senior Fellow
Senior Fellow
Senior Fellow
Helping to Save At-Risk Youth

Mexico, Haiti, and South Africa Are Subjects of Forums

Cato Events

February 17: A Policy Forum examined "The Constitutional Future of South Africa" with talks by four speakers: George B. N. Ayittey of American University, author of forthcoming Cato book, Africa Betrayed; Walter E. Williams of George Mason University, author of South Africa’s War against Capitalism; Cato chairman William A. Niskanen; and Mangosuthu Gatsa Buthelezi, chief minister, KwaZulu Legislative Assembly. They discussed the importance of private property, free markets, and limited constitutional democracy.

February 18: Cato adjunct scholar Richard S. Epstein, professor of law at the University of Chicago, and John Chervenka, chief counsel to the National Audubon Society, debated the question "Are Protections for Environmental Protection Good for Environmental Protection? Lucas v. South Carolina Coastal Council" at a special Policy Forum. Epstein argued that the government authority that seeks to bar a South Carolina resident from building a dock had not shown that its plans were dangerous to anyone; thus the regulation is a "taking" and therefore not permitted under the Fifth Amendment. Chervenka responded that the prohibition on Lucas’s building on his property was not a taking but an abatement of threatening behavior and therefore requires no compensation.

February 27: "The Haitian Boat People: Should America Re-Open the Gates?" was the issue debated at a Policy Forum. Rep. Bill McCollum (R-Fla.) said that most of the boat people are economic, not political, refugees and thus do not qualify for asylum. He warned that allowing the Haitians to stay would be inviting more to come to the United States. Wade Henderson, Washington director of the NAACP, countered that there is evidence that refugees are being persecuted by an oppressive regime and that the U.S. government is denying the boat people due process. He said the administration's asylum policy reflects a double standard and suggested that the Haitians are being turned back because they are black.

February 28: A Policy Forum addressed "Predatory Pricing: Where’s the Beef?" Cato adjunct scholar Thomas J. DiLorenzo, an economics professor at the University of Tennessee at Chattanooga, argued that there is no need for legislation to protect independent gasoline dealers against predatory pricing by major oil companies because such pricing is irrational. DiLorenzo said no business would commit to a strategy of cutting prices and losing money for an indefinite period in hopes of driving out competitors and later being able to raise prices to monopoly levels. He added that since competition is a rivalry, selling below cost is a normal practice that historically has not led to monopoly. Phil Chisolm of the Petroleum Marketers Association of America argued that independent retailers below cost prices and charged the independents more. He conceded that there was no predatory pricing and no need to protect independent retailers emerging from that pricing policy.

March 5-6: Monetary experts from around the world participated in Cato’s 10th Annual Monetary Conference.

Money in Transition: From Plan to Market." Speakers included Vlaclav Klaus, finance minister of Czechoslovakia; Malcolm S. Forbes, Jr., editor-in-chief of Forbes; Paul Craig Roberts of the Center for Strategic and International Studies; Wayne Angell, a member of the Federal Reserve Board of Governors; Nikolai Petrov, an economic adviser to former Soviet president Mikhail Gorbachev; Oleksander V. Savchenko, former of the National Bank of Ukraine; Olga Bogomolov of the Institute of International Economic and Political Studies (Russia); Pedro Schwartz of the National Economic Research Associates (Spain); and Annelise Anderson and Judy Shelton, both of the Hoover Institution. The papers focused on methods of moving from a state-controlled monetary system to a market-based monetary system.

March 12: A Policy Forum examined "The United States and Mexico: International Competitiveness and Free Trade." Roberto Salinas-Leon, academic director of Mexico’s Center for Free Enterprise Research, gave a glowing report on the liberalization and privatization of the Mexican economy, but he lamented Mexico’s dependence on foreign aid to finance the so-called strategic state-run sectors of its economy. He advocated a switch from aid to trade. James Bovard, Cato associate policy analyst and author of The Fair Trade Fraud, criticized the pervasive protectionism of the United States and emphasized the harm U.S. trade barriers cause Mexican producers.

March 23: A Policy Forum explored the question "Should Government Ruse to Regulate Credit Information?" Daniel Klein, assistant professor of economics at the University of California at Irvine, argued that proposed regulations on credit bureaus, ostensibly to protect consumers’ privacy, ignore the legitimate role of credit bureaus. By driving up the bureaus’ costs and compromising the completeness of credit records, the new regulations would particularly hurt consumers with the weakest credit standing. Klein also pointed out that bureaus and creditors have an interest in accuracy. Ed Mierzwinski of the U.S. Public Interest Research Group defended the regulations on the grounds that credit reports are full of errors and current law forbids consumers’ suing credit bureaus for damage caused by erroneous reports.

March 25: "Teaching Entrepreneurship to At-Risk Youth" was the topic of a Policy Forum. Steve Mariotti, president of the National Foundation for Teaching Entrepreneurship, explained his program that teaches inner-city students how to start their own businesses. The program, highlighted twice on "ABC News," has helped students develop self-esteem and key skills and kept them from turning to crime.

March 29: A Cato conference was held on "The New World Order and Its Alternatives: America’s Role in the 1990s." Among the speakers who proposed options for America foreign policy in the post-Cold War era were Sen. Charles Grassley (R-Iowa); Cato senior fellow Roger Hukow; Richard Rosemarie of UCLA; Owen Harries, editor of National Interest; Joseph S. Nye, Jr., of the Kennedy School of International Affairs; Jenonne Walker of the Carnegie Endowment for International Peace; Earl Ravelow of Georgetown University; Ben Wattenberg of the American Enterprise Institute; Leonard Liggio of the Institute for Humane Studies; and Ted Galen Carpenter, Cato’s director of foreign policy studies.

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Rep. Bill McCollum (left) and Wade Henderson, Washington director of the NAACP, debate whether Haitian immigrants should be sent back.

Oleksander Savchenko of the Central Bank of Ukraine and Nikolai Petrov, former economic adviser to Mikhail Gorbachev, were among the international policymakers discussing monetary aspects of the transition to a market economy at Cato’s Tenth Annual Monetary Conference.
Property Rights and Environmental Protection

In December 1986 David H. Lucas purchased two undeveloped waterfront lots, suite and coal, in the small city of Palms, on the Isle of Palms, South Carolina. Lucas's intention was to build one home to sell and a second as his own residence. In 1988, after Hurricane Hugo, South Carolina passed the Beachfront Management Act, which prohibited all new construction beyond certain setback lines and thereby rendered Lucas's property essentially useless in any way it had intended. The trial court found that the BMA constituted a "taking" and awarded Lucas compensation. The South Carolina Supreme Court reversed that decision, and Lucas appealed to the U.S. Supreme Court, which will soon decide whether government must compensate property owners under the Fifth Amendment's takings clause when it forbids them to develop their land. On February 18, 1992, the Cato Institute sponsored a debate, "Are Property Rights Opposed to Environmental Protection? Lucas v. South Carolina Coast-AL Council," between Cato adjunct scholar Richard Epstein, James Parker Hall Distinquished Professor of Law at the University of Chicago and author of Takings: Private Property and the Power of Eminent Domain, and John Echeverria, Director of the Environmental & Natural Resources Law Program at the University of Virginia. Excerpts from the debate follow.

Richard Epstein: If you understand exactly what a comprehensive system of property rights is, you would say that there is no opposition between property rights and environmentalism, but you also say that property rights and environmental claims are mutually supportive when correctly understood. Even though we recognize zones of autonomy, there have to be some limitations on what property owners can do with their own. It is in those limitations, I think, that one finds the effective reconciliation of property rights and environmentalism.

The common law of nuisance, which developed over time to police disputes between property owners, is best understood as a mechanism designed to arbitrate and reconcile disputes so as to maximize the value of each person's respective property holdings. The moment one starts to deviate from that understanding, there may be excrescences in one direction or the other. If landowners, for example, are entitled to pollute their land, the ramifications that relatively small in value will be allowed to continue even though they cause enormous harms to other individuals. And if a system of land use restrictions is imposed as a matter of positive law when there are no such externalities, relatively trivial gains will be exacted at the cost of enormous private losses. The system must maximize the value of inconsistent claims under general rules.

The eminent domain clause of the Fifth Amendment says, "Nor shall private property be taken for public use without just compensation." It says nothing of the justifications for governments' assuming control of property without compensating the owners—an activity that goes under the heading of police power. Therefore, to understand Lucas, we must first ask what kinds of activities engaged in by government do constitute a taking, that is, do move into the sphere of protected liberties. We must also ask whether we can find some kind of public justification for the restrictions thus imposed.

On the first issue, it is quite clear that the common law did not draw a distinction between the two kinds of activity. The common law insists on drawing the modern claim that there is a vast distance between police power and regulatory power, a distance that is imputed to the idea of a mere regulation or restriction of use. That contemporary distinction is de lauded as a method of protection for individual interests that look closely at anything government does if it leaves a person in bare possession of his property.

In effect, the position of the environmentalists on this issue is, "We will allow you to use the lake as long as you don't pollute it for our particular benefit." But exclusive possession of property is not an end in itself. The reason you want exclusive possession is to be able to use your property and, if you can't make good use of it, you'd like to be able to sell or trade it to somebody else. The modern law essentially says that all those use and disposition decisions are subject to public veto. We've really written in a lot of restrictions, but the point is, Chiefly, it encourages a massive amount of irresponsible behavior on the part of government. So if we don't want that, then we'd better have a constitutional restraint on it. If the modern law, then, would it ever bother to assume the enormous burden of occupying land and an enormous burden of building and land in the helpless fields of a neighbor? The answer is no more or less than there has been in the past.

The original statute made very little if any reference whatsoever to the problem of the kind of restriction that governments could impose on the full market value. Thus, we assume government regulations pushing further and further, regardless of private losses, which will never be relected on the public ledgers—precisely the situation we face today.

We have in Lucas a change in value brought about, not because people don't want to live on the beach anymore, but because they are prohibited from using their land in the ordinary fashion. So we have to ask, what kinds of public benefits could justify that private loss? Nobody on the Isle of Palms or anywhere else along the Carolina coast regards the restrictions in question as benefiting the public. We know that because before the regulation was imposed, land values were very high and appreciating rapidly; after the regulation was imposed, everybody who was subject to it was wiped out. We have to look for the explanation of the statute that caused it, not in the government's interest, but in external third-party interests who will gain something, although far less than the cost. In the usual case, when we take property for public use, we want to make sure that we can come to a fair deal with the parties who are the burden on the affected parties, but that consideration is rightly discarded when we can say to a particular fellow that we're concentrating losses on him because he has done something of great danger. That's not the type of protection that you have to think about Mr. Lucas's one-family house sitting on the beachfront and find in it the kind of terror that might be associated with heavy explosions or ongoing, menacing pollution.

Can we do it? I think the question almost answers itself. There is no way that we can get within a thousand miles of a concept of compensation in this particular case. There is no immediate threat of erosion. We're told with great confidence that some kind of solution to the problem of serious external harms. Can we get an injunction on the grounds that there's a threat of some kind of erosion? We come to the fact that the building and land in the helpless fields of a neighbor? The question again more or less the same.

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most clear is that the regulation at is
issue here is specifically tailored to ad-
dress a public-hazard problem.
My final point, and perhaps the most
important, is that the statute specific-
ally provided that Mr. Lucas, if he be-
lieved the line drawn pursuant to the
legislative scheme was unfair, could pres-
ent evidence to the coastal council and
explain his property, or was it drawn at a
different point. He never took advantage of
that op-
portunity. I, John C. Goodman and Gerald
L. Musgrave, propose that con-
sumers be restored to their natural role
in the market for medical care.
Government, through Medicare and
Medicaid, buys close to half the health
care provided in America today, the
authors write. Most of the other half is
paid for by insurance companies,
through policies purchased by third
parties, because the tax laws encourage
people to rely on first-dollar health cov-
erage from their employers. Goodman
and Musgrave explain that when health
care appears to be free or very cheap,
people buy more than they would if they
were paying the full cost. The resulting
casual attitude toward shop-
nership for health care, which drives up
insurance premiums, which creates hardships for
businesses that sell health care
insurance. That spurious
eventually harms all users of health
care, but the process is so
complicated that it is hard to
see the damages with their buying habits.

Goodman and Musgrave's solution is to
restore responsibility and ownership to
individual consumers. If consumers
are allowed to deduct the cost of insur-
ance, they will have a stake in finding
the best insurance value. And insurers
can compete vigorously to provide it. Most
consumers will discover that high-
deductible insurance is a far better buy
than low-deductible policies because the cost of having small claims exceeds the benefits. To cover routine medical
treatment, Goodman and Musgrave pro-
pose that consumers be free to set up
tax-free medical savings accounts. Since
the money in those accounts would be
the property of individuals, they would
have an incentive to spend wisely on health
care. The money not spent would accumulate tax-free interest and
be used for health care and other needs during retirement.

The authors also propose solutions
to the problems related to cost contain-
mist, malpractice, preventive care,
long-term care, mandated benefits, and
organ transplants. "Play or pay" government schemes and full-blown national health insur-
ance would only aggravate the problems of the current system, the
authors write. Goodman and Musgrave's message is that just as government plant-
ing failed so spectacularly in the com-
mon world, so it will fail—indeed,
already has failed—in America's health care
system. They write that their pro-
posals would result in a competitive
and innovative system of private med-
ical care.

* Patient Power is available from the
Cato Institute for $16.95 in paperback,
$25.95 in cloth.
The acceptance of lies as the universal intellectual currency drives out truth—just as bad money drives out good money.

lure and attempted refutation. I  

pected, Mises, who was much older, 

 too far to begin a confrontation with him. He often talked to me, but he 

resented that there was some com- 

and he knew that I had accepted 

roems that I greatly admired him for 

he made it clear, by hints, that I was a dangerous person—al-

might have by now mentioned to several people the fact of 

my disagreement, without entering into 

cal debates.

An Empire Ruled by Lies

I now wish to go one step beyond those days and to formulate the thesis 
of this paper. It is this. The demise of the Soviet Union can be 

thereby pointing out its fundamental con- 

and it admitted him greatly. I wish to 

me were aware of a strong opposition 

between our views in the field of the 

munity: Capitalism is the only 

I think that Mises saw in me a 

dangerous opponent—perhaps one who 

had already reached an agreement of 

his greatest pupils, Hayek. Mises’ methodology was, to put it 

brutally, a case of methodological an-

claim absolutely certain truth for 

the principles of economic science. 

My methodology was objectivist, and 

led to the view that science is fallible 

and grows by the method of self-criticism and 

the recognition of error. If we attempt 

elaborately, by the method of conjec- 

that deploys those who live un-

der such circumstances of a part of their 

humanity: of their intellectual respon-

sibility. First, they cannot pro-

the structure that they should; then, 

they cannot, nor do they wish to be 

helped in any way. Under Stalin, this 

afflicted everybody, even those highest 

in the party’s hierarchy. Under 

one thinking, all non-thinking, 

at least within the hierarchy, concentrated 

the power. A policy of terror has 

not a very open one—was painted in 

Khrushchev’s mammoth speech (re-

leased by the U.S. Department of State 

on June 4, 1956) ending with: “Long 

live the victorious banner of our party—

long live the glorious years of the 

peaceful era in our fraternal socialist 

people in all ages of our heroic 

Khrushchev got a chance to do it. 

The attempt was Andrei Sakharov’s Big Bomb.

The attempt to institute a socialist economy can be 

done by force, by terror, by political 
enslavement.

Sakharov was then 39 years old, and he 

had spent many years, and had 

achieved a significant reputation, for 

the destruction of a nuclear bomb which 

would be far more powerful than any 

American bomb. In the autumn of 1961 he 

succeeded: a test of his big bomb was 

positive. The bomb was, as he wrote, 

“several thousand times more powerful 

than the bomb dropped on Hiroshima.” 

Only consider what this means: Hiro-

shima was only a test bomb. More 

than 340,000 inhabitants. Does 

several thousand times more powerful 

meant that a densely built up district of 

340 million or more could be devastated 

by one bomb? Far more than there are 

inhabitants in the United States? Prob-

ably not: there are nowhere in the world 

such districts. At any rate, any existing 

densely built up district in the world 

can be completely devastated by one 

such bomb.

We should take it as a warning of 

what an ideology can achieve. Obvi-

ously, the danger is not yet over. 

We need intellectual responsibility to see 

us through.

The Rule of Law

As far as the republics of the former 

Soviet Union, the theme of economic planning by the state 

(insofar as the state exists) can help. The
**New World Order** Conference

Scholars Debate Post–Cold War Foreign Policy: Global Democracy Crusade or Strategic Independence?

Should the U.S. government withdraw from its global security commitments and pursue a course of "global stability" or "strategic independence"? This debate, which is at the heart of U.S. foreign policy, is characterized by heated arguments and differing views. Some scholars believe in the "global crusade" to promote democracy, while others advocate for a more pragmatic approach to national security.

In response to Wattenberg, Carpenter, New York Times columnist and foreign policy expert, argued that it was essential for the U.S. to maintain a global crusade to promote democracy, as it was necessary for the United States to take on a global policing role.

Joseph S. Nye, Jr., of Harvard University argued that economic power would be more important than military power in the future. Richard N. Rosecrance of UCLA and Carter Institute senior fellow Christopher Layne.

**Notes**

1) The Road to Serfdom, George Gorton & Sons Ltd., London, 1944.
7) Khrushchev’s Remarks, p. 513.
8) Khrushchev’s Remarks, p. 513.
9) Khrushchev’s Remarks, p. 513.
10) Khrushchev’s Remarks, p. 513.
11) Khrushchev’s Remarks, p. 496.

**Book Challenges International Claim**

Does Gun Control Work in Japan and England? Would It Work in U.S.?

A new Cato book tests the seductive argument that since countries with strict gun control have less crime, the United States would have less crime if it had stronger gun control. Samuel, the Mournful, and the Cowboy: Should America Adopt the Gun Controls of Other Democracies? by Denver attorney David B. Kopel offers a thorough investigation of both the gun laws and the cultures of Japan, Canada, Great Britain, and other democracies. He concludes that the lower crime rates of those countries reflect their less violent cultures far more than their strict gun controls.

Kopel finds that gun control in other countries has not reduced violent crime. The British Commonwealth enacted gun laws in the 1970s–20 panic over the drug war. The licensing system that was designed to try to lead a labor revolution. Most of those that have strict gun control also have much more powerful—often benign—governments and much less respect for civil liberties than we have in the United States. In any case, Kopel finds that the key explanation of a nation’s crime rate is the self-control of its citizens.

Kopel offers the most comprehensive analysis ever published in the United States of the gun control laws of several foreign countries. He also explains America’s unique gun culture in the context of the American traditions of civil liberties and individualism. The Samurai, the Mournful, and the Cowboy, published by the Cato Institute and Prometheus Books, is available from Cato for $28.95.

**Book Calls for Health Care Reform**

Decades of government intervention in the marketplace have brought us to the current crisis in medical care, and deregulation will lead us out. So concludes Terrence P. Wahey in the forthcoming Cato Institute book what has government done to our health care? In this concise and readable guide, Wahey shows how the problems in our current system stem directly from a long history of government meddling—by regulating doctors, state mandates on medical schools, restrictions on the use of hospitals, and the像stems on the market for health care and innovation.

Moreover, through the tax laws, regulation of the insurance industry, and Medicare and Medicaid, the federal and state governments have overstimulated the demand for medical services by distorting the prices of those services. When government constrains supply and stimulates demand, Wahey writes, the result is what we have in the medical market—a rising leadership in the world, it could not be a global policeman.
**EPA Doesn’t Recognize Air Quality Improvement, Cato Study Charges; Foreign Military Aid Should End**

The EPA dramatically overstates the urban smog problem. No monopoly over every city's air pollution exists by simply assigning an "environmental protection" label to the city. Military aid programs are a boon to arms makers in an age of defense-budget cuts. And the political science profession has a vested interest in opposing congressional term limits. Those are among the conclusions of a Cato Institute study published over the last two months.

**Cato Policy Report**

**The War on the Police**

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**Clearing the Fog about Smog**

There has been a dramatic improvement in ozone air quality in U.S. cities that the Environmental Protection Agency still classifies as problem areas, according to a preliminary analysis of 1991 ozone data done by K. H. Jones, a former senior scientist with the Council on Environmental Quality. "The Truth about Ozone and Urban Smog" (Policy Analysis no. 168) says that if 1991 ozone data were incor- porated into the EPA's current assessment, 80% of the cities where smog levels were previously classified as "severe" by the EPA to determine nonattainment status, the number of cities where smog levels would fall would increase from 89 to 28. Recalculation of the data base could relieve the economy of a $26 billion annual regulatory burden imposed by the 1990 amendments to the Clean Air Act.

**Jonathan Enord has joined the Cato Institute as vice president for development. He is an attorney who has specialized in First Amendment and antitrust law and is the author of Freedom, Technol- ogy, and the First Amendment, published by the Pacific Research Institute.**

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**U.S. Should Stay Out of Mideast, Leon Hadar Argues in Quaqmire**

With the disappearance of the Soviet Union, there is a remaining reason for the United States to be a major participant in Middle Eastern politics: Leon Hadar says no in his new Cato Institute book, Quaqmire: America in the Middle East. Hadar is a former UN bureau chief for the Jerusalem Post who teaches political science at American University in Washington, writes that it is time to rethink America's decades-old Middle Eastern policy, which was fashioned in the crucible of the Cold War.

Hadar begins by noting that dramatic changes in the old Soviet bloc in 1989 and 1990 had begun to force a reconsideration of America's international role—until Saddam Hussein of Iraq invaded Kuwait. One effect of the crisis and ensuing war was to temporarily save the foreign policy establishment from a painful readjustment. Those, including President Bush, who advocated a continued global peace role for the United States could point to Iraq to illustrate the threat of "instability" that required an American response. Although the United States can no longer be said to dominate Central Europe, for example, evidence of instability in the Middle East, with its riches of oil, remains an apparently unavoidable one for American globalism.

Hadar argues that current developments in the Middle East in fact do not demonstrate a need for American involvement. He points out that American leaders have neither the power nor the knowledge to manage the lives of people in the region and that U.S. meddling inevitably makes the various parties more irresponsible and less willing to take advantage of opportunities for settling disputes.

Quaqmire calls on the United States to redefine its role with respect to Israel, the Palestinians, the Arabs, and Iran. It identifies the special interests—conservative and liberal, Arabist and pro-Israeli—that urge an energized American presence in the Middle East for their own purposes and argues persuasively that such a role is not in the general interest of the American people.

Quaqmire is available from the Cato Institute for $14.95 in paperback, $24.95 in cloth.

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**A valued addition to the public library collection, not only for the insightful observations of its distinguished contributors, but because the Persian Gulf conflict continues to threaten renewed American involvement.**

—Midwest Book Review

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**"If you thought Pacific Heights was fiction, you need to read this book."**

—John Schlesinger

Director, Pacific Heights

72 pp., $9.95, paper
Victory in Colombia!

As President Bush met last week in Texas with leaders from Bolivia, Colombia, Peru, Mexico and Venezuela to discuss anti-drug strategies, Chilean officials complained [that] the United States' multimillion-dollar crackdown in neighboring countries is forcing traffickers into Chile.

—Orlando Sentinel, Mar. 1, 1992

Desperate last-ditch argument against market processes no. 1271

In a 1981 paper called "The Economics of Superstars," [economist Sherwin] Rosen noted that big markets produced big rewards that were highly skewed toward the top people in the industry....

Robert Frank of Cornell University and Philip J. Cook of Duke University suggest that winner-take-all markets have grown substantially in recent years [to include] investment banking, law and corporate management....

Now the really interesting thing about winner-take-all markets, according to Frank and Cook, is that their existence may undermine the overall allocative efficiency of the market [because] smart people may flock to the winner-take-all markets at the expense of other fields of endeavor. [Thus] the economists offer a model where progressive tax rates actually increase overall economic output sharply, by causing workers to move from the winner-take-all sector of the economy (where they don't get to keep as much of what they make) to the production sector.

—David Warsh in the Washington Post, Mar. 25, 1992

Didn't you always suspect this?
The District [of Columbia] government has spent $79 million of its $92.4 million share of federal highway money this year, one of the lowest spending rates in the nation.
The slow pace has been brought to the attention of Transportation Secretary Andrew Card, who...called Mayor Sharon Pratt Kelly to tell her of the problem. He has asked federal highway officials to help the District spend its money faster.

—Washington Post, Mar. 12, 1992

Getting off on the wrong foot
For the first time, Poland is trying to impose a Western-style personal income tax...and it is turning to the Internal Revenue Service in Washington for help....

Two veteran American tax experts took time out earlier this month to provide a round of basic training to 25 of their newly appointed counterparts in Poland....

At the training course, Polish tax inspectors marveled at the possibilities for obtaining data in an information-rich environment like America. In Poland, they said, permission to rummage through a taxpayer's personal bank accounts is rarely granted by the Finance Ministry.

Zygmunt Sachnowski, national director of the fiscal police, contends that the recently passed law setting up the personal income tax leans too far in the direction of protecting citizens' rights....

[IRS agent George F.] Blair also noted that in the United States, the authorities had the power to pursue an individual for failing to pay taxes on illegal income. Such powers have not yet been granted to Polish revenue officers.


Surprise, surprise, surprise!
A significant portion of a $3-billion-a-year Federal program intended to help needy communities is spent in ways that provide them few benefits and sometimes enrich private interests, Congressional investigators say.

—New York Times, Mar. 18, 1992

A new study shows that white Medicare patients are 3½ times more likely to have heart bypass surgery than the black patients covered by [Medicare]....

"Our results suggest that a national health insurance program by itself may not solve all the problems of access to care," says Arthur J. Hartz, a clinical epidemiologist at Medical College of Wisconsin.

—Wall Street Journal, Mar. 18, 1992