

# When Entrepreneurs Become Victims

by Patrick Groff

**F**or a capitalist economy to function, entrepreneurs must not be subject to gratuitous or capricious government action. It is a violation of the cardinal precepts of free markets, as well as common moral sensibilities, for government to publicly vilify legitimate entrepreneurs.

The Federal Trade Commission has often been guilty of such vilification. Recently it took after a popular educational product called "Hooked on Phonics," driving the producer, Gateway Educational Products, into bankruptcy. The product may be forced from the marketplace.

Anyone who views, listens to, or reads the mass media regularly is doubtless aware of the catchy slogan "'Hooked on Phonics' works for me!" The large amount of advertising for "Hooked on Phonics" made the product highly recognizable. The company was planning to take the product to the United Kingdom. Then it was targeted by the FTC.

For anyone who is too far removed from his or her school days to remember, "phonics" is a method of teaching reading that relates how letters are used to represent the sounds of spoken words. The aim of phonics teaching is to develop students' abilities to look at a written word, recognize its letters, attach speech sounds to them, blend the

sounds together, and finally pronounce the word. According to experimental research, students who learn to decode written words through application of phonics information inevitably learn to read better than those who do not do so. By learning the relationship between spoken and written language, students acquire an independent means to read and understand any written text that they could fathom were it read aloud to them. "Hooked on Phonics" was designed in accordance with the research results.

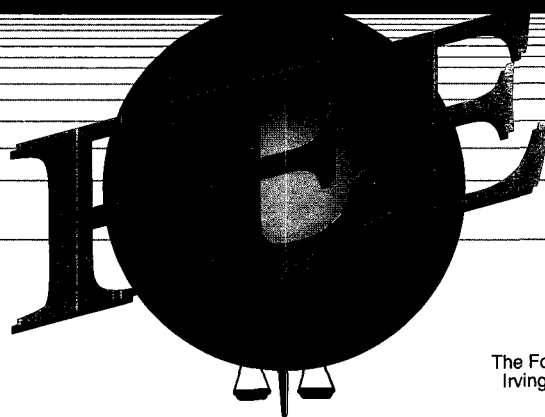
## The FTC Charges

As a specialist in reading development who closely follows the experimental research, I was shocked to learn that the FTC charged that advertising for "Hooked on Phonics" illegally exaggerated its potential for helping people learn to read. As those who have seen the ads will recall, they by and large contained testimonials by ordinary people who used the product, and found that it dramatically improved their or their children's reading.

The FTC does not usually file complaints against advertising that contains testimonials, especially by noncelebrities. Nonetheless, the agency ordered Gateway "to forthwith cease and desist from representing, in any manner, directly or by implication," that "Hooked on Phonics" will "quickly and easily teach [large numbers of] persons

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## Jobs and Trade

Unemployment is the great puzzle of our time. It perplexes politicians, confuses officials, and even entangles economists. It persists and continues to grow despite all the government programs that mean to reduce it and the tax dollars spent to alleviate it.

Some writers continue to echo the teaching of Karl Marx. For them, capitalism always creates an "industrial reserve army of labor" consisting of the mass of wage-earners who are exploited and then thrown out of their jobs. Most economists are at one with John Maynard Keynes, the economic guru of our time, who viewed unemployment as a symptom of insufficient spending. Politicians continue to cling to the Keynesian view because it supports their spending predilection.

Some old-guard politicians and writers explain unemployment in protectionist terms which are among the oldest and most controversial in economics. Unemployment, they blaze about, is the price we pay for our participation in a global economy with millions of unemployed and under-employed people who are willing to work for 25 cents an hour. "Free trade" is "unfair trade" for Americans who are condemned to the indignities and hardships of unemployment.

If foreign trade actually were responsible for the corporate layoffs, the phenom-

nal rise of imports and exports in recent years should have disemployed most Americans. According to U.S. Department of Commerce statistics, U.S. general imports in 1950 amounted to \$8.954 billion. By 1960 they had nearly doubled to \$15.073 billion. By 1970 they had risen to \$40.356 billion. During the 1970s they soared to \$244.871 billion, and during the 1980s to \$495 billion. This year they may exceed \$700 billion. Surely, if imports would destroy jobs, this 7,800 percent rise in imports since 1950 should have thrown most Americans out of work.

It is difficult to imagine our present working conditions and standards of living if the U.S. government had turned inward and closed its borders in 1950, as the Hoover Administration managed to perpetrate in 1930. Even if the disruption of trade and immediate foreign retaliation would not have brought another depression, the crushing burden which radical liberal administrations placed on the economy during the 1960s and 70s would surely have depressed the economy and drastically lowered American levels of living. Similarly, if there had been no foreign investments, the staggering budget deficits of the 1980s and '90s would have drained the capital market and paralyzed the economy.

*Employment always is a phenomenon of productivity and cost. In a market economy, in*

*booms and depressions, there is an unlimited demand for labor that makes productive contributions. Labor that costs more than it is expected to produce, whether it is unskilled or armed with triple degrees, is devoid of any demand. In the eyes of potential employers, it is utterly "unproductive."* This applies to actors and administrators, systems analysts, software programmers, automatic engineers, and aeronautical scientists. If young Ph.D.s in mathematics are unable to find employment, employers believe them to be rather "unproductive" considering their cost and productivity.

Much university-educated labor remains unemployed because it is not in touch with the labor market. It is government-directed and taxpayer-financed. Graduating from mammoth state universities and guided by Pell grants, Work-Study grants, Stafford loans, Perkins loans, and numerous other federal and state support programs, many graduates are ill-equipped for useful employment. In nearly all fields of economic activity employers provide most of the productivity training. But they are reluctant to offer it if the expenses of the trainee are prohibitive and the final results of the training are not expected to cover the outlays.

Businessmen continually adjust to changes in demand, supply, transportation, technology, cost of labor and capital, government levies and obstacles, domestic and international competition. Every member of the market order is under pressure to adjust in order to stay productive. Of course, a person is free to ignore the pressures; the typist may continue to pound the typewriter. But she cannot justly insist that she be subsidized by fellow workers and employers. The same is true of a university-trained aeronautical engineer who has learned to build great military planes. In times of war and preparations for war he is in great demand. In

peace he will have to learn peaceful pursuits. He does not have the natural right to live off the labors of others.

International competition is as beneficial as domestic competition; it forces sellers to outdo one another by offering better and cheaper goods and services and forces buyers to outdo one another by offering higher prices. Protective tariffs and other trade restrictions effect the very opposite; they permit the protected producers to offer inferior products at higher prices. They cause production to shift from places in which the natural conditions of production are more favorable to places in which they are less favorable. They force labor to move from export industries paying high wages to the protected industries that generally pay lower wages. In short, trade restrictions hamper production and thus lower the standards of living.

The competitive position of an enterprise in domestic as well as international markets is determined by its total costs of which labor costs merely are one of many components. In capital-intensive industries, such as the pharmaceutical, chemical, aeronautical, steel, tool-and-die industries, the cost of capital tends to determine competitiveness; in labor-intensive industries the total cost of labor is decisive. There are no labor-intensive American industries that compete with foreign labor. Our service industries which render valuable labor services need not fear foreign competition; they are protected by onerous immigration restrictions.

Free trade is fair trade; those who deny it to others do not deserve it for themselves.



Hans F. Sennholz

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with reading problems or disabilities to read.” In deciding to proceed against “Hooked on Phonics,” the FTC had to reject or ignore the abundant evidence that phonics teaching is the best way for students to learn to recognize written words quickly and accurately. Gateway was prohibited from telling potential customers that no method of teaching reading has been more successful, or that a great number of parents who school their children at home say its product works.

The FTC also dismissed, without reasonable cause, the results of a recent, well-designed experimental study of “Hooked on Phonics” in schools with low-income urban children. The independent study revealed that those children made uncharacteristically high gains in reading competence thanks to “Hooked on Phonics.” The company’s unconditional money-back guarantee did not deter the FTC from telling the public that the product could not be trusted to meet its claims. The mass media, always attracted to a scandal, interpreted the FTC’s action to mean that “Hooked on Phonics” is a fraudulent product that consumers should avoid.

## Challenges to the FTC Action

After the FTC announced that Gateway was guilty of false advertising, satisfied customers and defenders of phonics protested. The FTC said it received thousands of letters from “Hooked on Phonics” customers. Michael Farris, president of the Home School Legal Defense Association, challenged the FTC’s contention that reading can only be taught by trained professionals. He reminded the agency that “more than 96 percent of home school parent-teachers” have no professional training. Farris offered the FTC standardized test data that indicated children aged five to eight who were taught phonics at home on average achieve the 87th percentile in reading. By contrast, only 24 percent of public school fourth-graders read proficiently, according to the National Assessment of Educational Progress.

House Majority Leader Richard Armey

headed a congressional delegation that objected to the FTC’s treatment of Gateway. James C. Miller III, a former chairman of the FTC, complained that the agency had used the “power of the state to suppress a competing technology.” Robert Sweet, head of the research department of the U.S. Department of Education in the Reagan administration, strongly questioned the validity of the advice the FTC said it had received from unnamed “outside experts” that “phonics instruction may not help many people with reading problems.” Sweet concluded that the FTC had acted against “Hooked on Phonics” in an attempt to disable “the phonics movement in this country.”

Thanks to the massive protest, the FTC reversed itself, pleading that it had not intended to put Gateway out of business. It would be naive, however, to assume that the FTC had no preconception of the effect of its original action. The product’s reputation was largely damaged. Its sales plummeted. Gateway was driven to seek relief in bankruptcy court.

## Who Profits?

It is unlikely that anyone will ever discover what special interests prompted the FTC to go after “Hooked on Phonics.” But we can determine who would benefit most from its demise. (It certainly would not be people with reading problems.) Sweet, who is now president of the National Right to Read Foundation, points out that “the antagonism of the education industry and its professional associations against teaching intensive, systematic phonics in schools is almost palpable.” The obvious winners in the “Hooked on Phonics” affair turn out to be two influential educational organizations, the International Reading Association (IRA) and the National Council of Teachers of English (NCTE). The great commercial success of “Hooked on Phonics” was a constant embarrassment to those groups, since they strongly promote an alternative approach to reading development called “whole language.” IRA and NCTE regard direct and systematic phonics teaching as



dangerously anachronistic, and cavalierly dismiss the empirical evidence of its superiority as bogus.

The groups' devotion to the whole-language method is exemplified by their unwillingness to take seriously the disastrous consequences of its mandated use. Whole language is more popular in California than in any other state. As a result, California students are the worst readers in the nation. Whole-language teaching in Massachusetts has hurt reading achievement so badly that last year 40 distinguished professors of linguistics, cognitive science, psychology, and neurology from several eminent universities petitioned the state's commissioner of education to stop promoting it. According to those experts, whole language's practices "run counter to most of the major scientific results of more than 100 years" in their respective fields.

The widespread acceptance of the whole

language approach by educators, despite the lack of supporting evidence, is ominous. The FTC attack on "Hooked on Phonics" therefore was more than just a federal agency trying to destroy a small business. The action also represents a setback to effective reading instruction at a time when, according to the U.S. Department of Education, almost 50 percent of American adults are functionally illiterate. These are ex-students, of course, many of whom learned to read by the method recommended by the IRA and NCTE.

Thus the publisher of "Hooked on Phonics" is not the only victim of the FTC's action. The injured parties in this notorious affair number in the tens of millions. They are people of all ages across the nation, who, because of the FTC's interference, may have lost their opportunity to learn to read in the most effective manner possible. □

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# Liberty and Responsibility: Inseparable Ideals

by Max More

The founders of the American political and economic system felt a burning desire to establish a country of unprecedented liberty. Many of those who endured the arduous journey to the New World left behind religious oppression and rigid class systems. The highhanded rule of King George III and his demands for tribute sharpened resentment of State control. America, rooted in an ideal of liberty for all, marked a proud step forward in the evolution of human political arrangements.

America still inspires those seeking escape from or reform of their own country's political arrangements, but its example no longer seems to shine as brightly. Despite significant remnants of creativity, entrepreneurship, and invention, there are more criminals, more hopeless people, more dependents and outright parasites. Too many people spend their energy and money engaged in legal battles rather than in producing. A vast bureaucracy has grown: a bureaucracy devoted to controlling productive activity and to growing ever larger.

Do such problems stem from allowing people too much liberty? Social commentators of diverse affiliation often suggest this, and call for tougher government regulation and control. As Charles Murray demonstrates in *Losing Ground*, both history and

economic theory clearly show that such centralized approaches have failed and will fail. The solution lies not with central control but with the preservation and expansion of liberty. Vital to this solution is an appreciation of the relation between liberty and personal responsibility.

## Liberty and Responsibility

Over the course of this century the ideals of liberty and personal responsibility have increasingly drifted apart. Personal responsibility cannot exist without liberty, and liberty will not endure without responsibility. Liberty without responsibility is license.

Liberty-as-license has become a widespread aspect of our culture. It manifests itself in many ways: in desires for freedom to do anything without restraint and without cost (someone else will bear the cost); the demand for income *as a right* (someone else will produce the income); the expectation of guaranteed commercial success (someone else will pay the costs of government subsidies and protection from foreign and "unfair" competition).

The survival of liberty *requires* personal responsibility. Without this connection our political institutions become a means for the shifting of blame, for compelling others to fix our problems, and for living off the efforts of others. As responsibility declines, the political system grows increasingly oppres-

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