

in a way that reduces the wealth of property owners while advancing the groups' own goals (such as additional habitat for spotted owls). This is a nonmarket, but legal, transfer of wealth.

Paul's desire to have the state rob Peter and give the money to Paul (rent-seeking) is well understood. Less understood is *rent extraction*, which is the receipt of payments in return for a promise *not* to take or destroy private wealth, in other words, extortion. Private rent extraction, such as a Mafia protection racket, exists, but is trivial (and illegal) compared to public-sector rent extraction.

Legislators have nearly unlimited constitutional powers to impose taxes and regulations that reduce or destroy the wealth of a business. Politicians can, therefore, extract rent from owners in exchange for not imposing destructive taxes or regulations (political extortion). Peter will be willing to pay something not to be robbed.

Who is the key player in the political protection market? The politician. A politician is a political entrepreneur with the legal authority to bestow favors on Peter or Paul. Exercising such power has, in recent decades, become the primary role of government. Productive functions of government—such as law enforcement and national defense—take a small fraction of government resources; most government now involves wealth redistribution via taxing and entitlement schemes, or regulations that favor certain firms at the expense of consumers and other firms.

McChesney's book provides a readable and nontechnical explanation of the theory and practice of our political economy. His particular contribution to this literature is his work on politicians as entrepreneurs who manage the process that allows them to be "paid not to legislate—money for nothing."

There is already a large literature about politicians transferring wealth to win political support. McChesney has expanded our understanding of the extent of the politicians' damage done by focusing on how they can extract rents for themselves by promising to abstain from that activity.

His book is filled with stories of the kinds that will show ordinary citizens that politics

is dominated by special interests. But as McChesney explains, politicians do not wait passively for rent-seekers to come to them with proposals. Politicians actively exploit the process, such as by giving taxpayer dollars to so-called "consumer groups" that request evermore regulation at hearings run by the same members of Congress. That provides a rationale for members of Congress to threaten new regulations unless industry mounts makes the appropriate effort (by PACs, etc.) to "convince" Congress of the "wisdom" of not acting.

The politicians cannot lose. The losers are citizens who see their freedoms and wealth consistently chiseled away by those who have developed the finest skills for getting money for nothing. Given the massive and expanding scope of government, McChesney's book is an important part of a comprehensive economic education. □

Roger Meiners is a professor of law and economics at the University of Texas-Arlington and senior associate at the Political Economy Research Center.

The Paradox of Progress: Can Americans Regain Their Confidence in a Prosperous Future?

by Richard B. McKenzie

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Reviewed by Paul Heyne

Why do so many Americans today believe that the prosperity previous generations have enjoyed will not be available to future generations? In *The Paradox of Progress* Richard McKenzie tries both to answer that question and to demonstrate that pessimism with regard to our prospects for the future is unwarranted.

One reason we live in "the age of diminished expectations" is that we have just passed through an era of exaggerated and unsustainable expectations. Another is that pessimism sells better than optimism. Some people, including apparently most of McKenzie's university colleagues, find that gloomy projec-

tions buttress their political positions and particularly their contempt for the 12 years of Reagan and Bush. McKenzie maintains that, despite our current "sense of woe," prospects for the future are extremely bright for most of us. He makes extensive and effective use of the studies produced by Michael Cox and Richard Alm at the Federal Reserve Bank of Dallas to show that, in the title words of one Cox and Alm report, *these* are the good old days. By almost every measure we can devise, the physical and material well-being of Americans has improved in recent years. There are problems, of course, and for some among us the problems are severe. But as McKenzie observes, "People simply have a knack of extending themselves until they create problems that must be solved." Most people probably want challenge more than they want satisfaction; the latter would quickly produce boredom.

For the first half of this country's history, the frontier provided that challenge as well as opportunities and escape routes for those who were not satisfied with the limitations and constraints of their situations. Now, says McKenzie, a new frontier is opening before us, one not of geography but of "virtual reality." Computer technology is enabling us all to go more places, do more things, gather more knowledge, cooperate more easily, and further more effectively whatever projects happen to interest us. It is abolishing traditional constraints, including the constraints imposed by governments, which increasingly cannot even monitor the activities they would like to control. McKenzie finds the prospects liberating and exciting for those willing and able to take advantage of them.

Willingness seems to be more important than ability, in McKenzie's view, because he thinks willingness will usually create ability. He italicizes his advice to the workers of the world: *"Become more productive. Work harder and get smarter. Get more education and skills. Get competitive. Do more than others have been doing or will likely do. Stop complaining."*

But is this enough? Can Americans regain their confidence in a prosperous future by heeding these exhortations? McKenzie's ebullient tone becomes more restrained in the con-

cluding chapters where he discusses the ethical or moral foundations of a prosperous society. Markets don't work well in a society whose members do not behave in accord with appropriate ethical rules: take responsibility for your actions, fulfill your promises, respect the rights of others. McKenzie fears, along with many others, that the moral infrastructure of American society has begun to collapse, and he doesn't know how to repair it. That, he admits, provides grounds for substantial pessimism.

This reviewer also doesn't know how to repair our collapsing moral infrastructure. But McKenzie makes the problem even more difficult than it is by assuming that ethical behavior will regularly be irrational and contrary to the interests of the person acting. He refers to Adam Smith as one who understood the importance of morality to the functioning of market systems; but he has badly misunderstood Smith on this point. Smith did not believe that acting in one's own interest was inconsistent with behaving ethically, because Smith thought that self-respect was a primary interest of most people and that self-respect ordinarily could not be obtained except by behaving in accord with a socially informed conscience, or what Smith called "the impartial spectator" or "the man within the breast."

"I have noted the difficulties some groups will likely experience if they don't adjust," McKenzie writes on the last page of his book, "if they cannot get their act together and abide by reasonable rules of conduct." The wicked will fail, in short—but it will be their own fault. He slights the distinct possibility that those individuals within a society who do *not* "get their act together" will ruin the system for those who do. The more disturbing feature of his argument, however, is his belief that the morality which is such an important prerequisite for the effective functioning of a market economy ultimately cannot be defended or argued for. Individuals and societies either have it or they do not. Those who have it will succeed, those who don't have it will fail.

Space does not permit an adequate discussion of the issue here. I shall only state that

McKenzie, who has been extensively influenced by Friedrich Hayek, seems to have surrendered to some of the unfortunate arguments Hayek put forward at the end of his career, especially in *The Fatal Conceit*, where he described ethical convictions as little more than the fortunate heritage of religious beliefs now largely abandoned. If the ethical rules that McKenzie and this reviewer deem vital to

the effective functioning of a free, prosperous, and progressive society cannot be given a better defense than this, McKenzie's optimism about the future looks a great deal like wishful thinking. □

Paul Heyne teaches economics at the University of Washington, Seattle. He is the author of The Economic Way of Thinking (Prentice-Hall, eighth edition, 1997).



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Discrimination and Liberty

(Editor's Note: We herewith inaugurate a new monthly feature: The Pursuit of Happiness. Its regular contributors will be Walter Williams, one of the most prominent defenders of liberty today, and Charles Baird, an economist specializing in the freedom of workers. Guest contributors will also occupy this space.)



How much should we care if people discriminate? In answering this question, maybe it's a good idea to say what we mean by discrimination. The most internally consistent definition is that discrimination is the act of choice. Thus, discrimination is a necessary fact of life—people do and must choose. When a person selects a university to attend, he must unselect other universities—in a word, he must discriminate. When a person chooses a mate, he discriminates against other possible contenders. In the first instance, we call it university discrimination, in the second case mate discrimination. Thus, when the term discrimination is modified by words such as race, sex, university, or mate, we merely state the criterion upon which choice is being made.

Is there a moral distinction between selecting a university on the basis of arbitrary distinctions and selecting a mate, employee, or anything else on the basis of similarly arbitrary distinctions? In mate selection, people routinely discriminate by race. How does that act morally differ from choosing employees by race? We know that social sanction is granted when race is used in selecting a mate but not granted in the case of selecting employees.

Some people might offer that when people select mates by race there is no private or social harm done, whereas in the case of race discrimination in employment there is private

and social harm. On further thought, it can be easily shown that such a proposition clearly does not hold. At the private level, when a black male indulges his racial preferences by marrying a black female, that act reduces the opportunity for white females who might have been attracted to and married the black male. At the social level, non-assortive mating (mating with those with similar attributes) has enormous consequences. Its racial component has helped perpetuate the large income and wealth differences between blacks and whites. If whites (generally having higher income and greater wealth) married blacks more often (who generally have lower income and wealth), the income distribution would be less skewed. The political rhetoric we often hear about differences between the haves and have-nots tells us that a smaller gap between black and white incomes would be socially desirable. But I have not heard calls for mandatory integration in marriage.

The fact that choosing by race reduces opportunity does not really distinguish racial discrimination from other kinds of discrimination. When people choose PC's, they "harm" the maker of Macs. When people indulge their preference for California wines, they "harm" Bordeaux manufacturers. We could produce an endless list of the "harms" done by people indulging their preferences by discriminating against one person, product, or service in favor of others.

In a free society, there should be support for people's right to choose. The true test of one's commitment to freedom of choice does not

Walter Williams is the John M. Olin Distinguished Professor of Economics and chairman of the economics department at George Mason University in Fairfax, Virginia.