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The Informal Revolution

BY JEFFREY A. TUCKER

Governments have always intervened in the economy, but today's State—armed with modern data collection as well as an interventionist ideology—has taken us to a new level of regulation and taxation.

Faced with this, people find less costly ways to work, produce, and exchange, even if it means doing so unofficially. This is one reason the State can never achieve total economic control—witness the underground economies in the socialist world.

The socialist world is not unique, however, as economists have recently begun to notice. All over the world, people are escaping the big government net by going “informal,” a term coined by economists researching African rural life in the early 1970s.

Today the term refers to that sector of all economies outside of government control, those enterprises which need not fill out government paperwork, abide by government regulations, have their profits taken, or deal with union demands.



Although extremely diverse, informals have features in common throughout the world. Most are small, with a dozen workers or less. These workers receive

few if any of the “social benefits” found in the formal sector: unemployment insurance, health insurance, union organization, and

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The Real Meaning of the Soviet Referendum

BY IGOR OLEJNIK

The public probably did vote “yes” on the Soviet referendum, but Gorbachev's aim in organizing it was not to increase freedom; the rigid reds around him think the public already has too much freedom. The purpose was to trick the public, and the West, into thinking that better days lie ahead, and to give the government a “democratic” excuse to crack down on the national independence movements.

The ballot question read: “Do

you think it is necessary to preserve the Union of Soviet Socialist Republics as a renewed federation of equal sovereign republics in which the rights and freedom of individuals and of nationalities will be fully guaranteed?”

The Soviet government has no intention of guaranteeing rights and freedoms, of course. The vote, and the question, were designed to preserve the power and the jobs of top bureaucrats. As worded, the referendum seemed

to give people a choice between the hated system of the past and a promising new one. The new system is a mirage, but who could be surprised at the results?

Note the contradiction in the question. “Equal sovereign republics” is the opposite of “Soviet Socialist Republics,” especially since six of the 15 republics have declared their opposition to Soviet socialism and demanded their independence. That is why Boris Yeltsin urged a no vote and

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The Model and Ideal

From the President



BY LLEWELLYN H. ROCKWELL, JR.

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In 1908, Lenin called the United States "the model and ideal of our bourgeois civilization." He meant it as a sneer, but it was true. The humane civilization and free economy of the old American republic boasted the lowest taxes, the least regulation, the smallest government, the most entrepreneurship, and the greatest economic opportunity in the entire world.

Today, comparing America to other industrialized countries, the result is not as heartening.

From 1979 to 1989, for example, our government grew as a proportion of the economy (as measured by GDP) from 31.7% to 36.5%—a far higher rate than most other industrial countries. The Spanish and Greek governments grew faster, but they had both been taken over by socialists.

As a result of the greedy 1980s (government greed, that is), we are about average among industrialized countries in proportional size of government. Way ahead of us are such countries as Switzerland, Japan, New Zealand, and Australia.

When we factor in 1990-91, we will look even worse, for federal spending as a percentage of GNP has grown nearly 3% since 1989, not including the cost of the Gulf war or the foreign aid associated with it.

In fact, the Bush administration is increasing spending five times as fast as Ronald Reagan did. At this pace, by the year 2,000 the size of the D.C. leviathan will put us near the bottom of the industrialized world in this key measure.

Jobs have gone up with spending. In the U.S., 15.1% of all employees work (if you will excuse the expression) for the government, an average figure for industrial countries. But in Switzerland the figure is 10.6%, and in Japan it's 8.2%. (Japan also beats us in taxes. Americans pay, overall, 27% of their gross earn-

ings; Japanese, 15%. Any questions about the trouble we have competing?)

In the 1970s, the U.S. bureaucracy grew at 5.3%, a rate higher than almost every other country in the industrialized world. But whereas most countries that ballooned their bureaucracy in the 1970s cut back on the growth rate in the 1980s, the U.S. did not. From 1979 to 1989, our government workforce grew at an average of 2.1% per year. Margaret Thatcher's Britain cut its bureaucracy by .5% per year.

Not only did we hire more government workers, their inflation-adjusted wages went up at 2.4% per year. This compares with Germany, France, Italy, and Great Britain where bureau-

By every measure, the growth of government has taken us from Lenin's hated "model and ideal" to the mere average.

The American people are still the most freedom-conscious in the world, less ready to bow the neck to big government than the citizens of any other country. But, as the government intends, we are growing more pliable.

James P. Pinkerton, known as the libertarian on the White House staff, says the answer is "empowerment." It sounds good, until you realize he means such programs as President Bush's Americans With Disabilities Act, which subverts private property rights and empowers government, and the military's affirmative-action programs, which

If we want to be the society Lenin hated, we're going to have to do more than tinker around the edges of the welfare state.

crats' salaries increased at the rate of inflation, and with Sweden, Norway, Belgium, and Canada, where their real wages fell. Even worse, the wages of our bureaucrats grew 1.6% faster than private workers'. In every other industrialized country, bureaucratic wages fell relative to the private sector.

In economic regulation, we come in behind Great Britain and New Zealand. And while most other countries are deregulating, we are re-regulating.

Our record on privatization doesn't look good either. In the 1980s, Italy privatized six companies, Germany 11, Canada 15, France 17, New Zealand 18, and Great Britain 56. Our record was one.

he says show a "New Deal-like commitment" to "upward mobility for all."

"Against big government?" an incredulous Rep. Newt Gingrich (R.-Ga.) said to former Congressman Ron Paul the other day. "Against big government? Conservatives aren't against big government." It wasn't always so, of course. In those days, in fact, Republicans wouldn't have praised the semi-fascist New Deal, let alone sought to emulate it.

If we want to be the society Lenin hated, we're going to have to do more than tinker around the edges of the welfare state. We're going to have to turn Schwartzkopf loose on Capitol Hill. Now that's my idea of a New Paradigm. ◀

The Informal Revolution

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the minimum wage. Their conditions of work do not meet official health and safety standards. The firm's location usually violates zoning ordinances. And the management is not bound by official standards of accounting.

Research is still spotty, but it is now thought that informals account for at least 20%, and perhaps as much as 60%, of worldwide non-agricultural employment. No one can say how much informals contribute to overall production, except to say that it is much more than anyone had previously thought.

In western nations, informals have grown as government intervention has increased. Health, safety, and environmental controls; employment taxes and regulations; affirmative action and other racial regulations; and labor laws have driven entrepreneurs and workers into informal markets.

In the U.S., the biggest source of informalism is labor-law violations. Some estimate that 15% of American workers are involved in informalism, accounting for as much as 5% of GNP. Italy's informal market is much bigger, partly because the government largely ignores it. One estimate has 49% of employed women, and 18% of men, working informally, and contributing 11% of total Italian production. In some areas of Spain, 38% of workers are hired on an informal basis; overall 22% of workers are involved. And plenty of other industrialized countries haven't been studied yet.

Leaving aside socialist countries (where it has been wildly underestimated), informalism provides an economically critical role in the third world. A new study commissioned by the Organization for Economic Cooperation and Development (OECD) and involving thousands of economists, has assembled the best of this scholarship, and come up with a startling picture.

In Latin America, an average of 30.7% of the labor force works in the informal sector, ranging from Venezuela at 26.2% to Bolivia at 44%.

In market-oriented Asian countries, the numbers are relatively low: Hong Kong at 10% and Singapore at 12.3%. In South Korea, a more heavily regulated and taxed economy, the figure is 20.8%. In more tightly controlled Indonesia, the figure is 39.2%, and in semi-socialist India it's 47.8%.

Africa has the largest informal sector in the world, ranging from a low of 25.4% in Algeria to an astounding 74.6%-89.8% in Mali.

All data indicate that there has been an enormous shift from formal to informal employment. In

Austrian economics explains why informalism exists and what to do about it.

Latin America, from 1980 to 1985, formal employment increased 1.2%, public employment increased 4.6%, and informal employment increased 6.8%.

On average, about half of these jobs provide services. Many people are self-employed, many are involved in family businesses, and a surprising number (77% in some developing countries) are in non-paying apprenticeships.

We don't hear much about apprenticeship anymore, though it is an important and age-old institution. An apprentice does not receive direct pay, but instead gains valuable experience that he can use later. Often he is given room and board, and always he gains a sense of the work ethic and business management.

Our modern era derides apprenticeship as exploitative, even likening it to slavery. But looking at the informal sector, where in some countries apprenticeship is still routine, we see that it is simply a natural way of getting job-specific training. A major portion of informal workers in the third world have no formal education. Apprenticeship fills this need. In fact, informals are much more open to the poor and unskilled than formal markets.

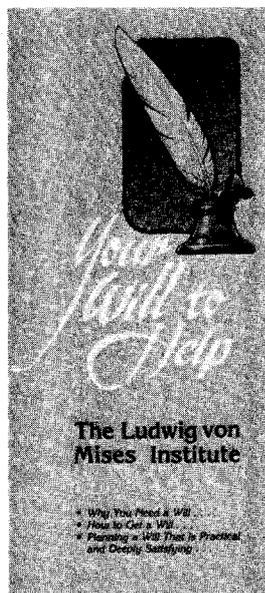
The OECD report notices "an inverse relation between the proportion of employment in the informal sector and the per capita GNP level." That is to say, the poorer the country, the larger the informal sector. This is not difficult to understand. Poor countries have giant governments, which people attempt to escape, although this explanation seems to elude most economists.

In fact, the informal revolution is ignored by conventional economic theory (i.e., Keynesian and monetarist). You won't find any mention of it in their texts, and you will never find informalism listed as one of the consequences of interventionism.

Why? Because it requires more than assembling econometric models. To understand informalism, we must take a deeper look at the institutions that give rise to it: excessive regulation, taxation, and other government controls. Economists also dislike the lack of comprehensive statistical data on informals, which seems to place them beyond the reach of study.

Austrian economics, developed most fully by Ludwig von Mises, is unique in focusing on the enduring laws that govern economic behavior. It has the tools to explain why informalism exists (interventionism) and what to do about it (stop intervening).

What hasn't been noticed is that the informal revolution also casts doubt on the economic data



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used by economists. When we see figures claiming that some country has 45% unemployment, can they be believed? Probably not. Yet why should officially unapproved economic behavior be considered less legitimate for study than the official kind? It could be that conventional data tell only half the story.

Fortunately, most third-world governments are now less draconian on informality. Once considered a public menace, informals are spoken of today in more respectful terms. Says the OECD report: "[T]he task of containing the increase in unemployment and absorbing a substantial share of the labour

market entrants lies with the informal sector."

We can go further: informals represent the most powerful empirical repudiation of economic planning by the modern State. Until governments free up their economies, the informal sector will continue to expand beyond its current high levels. ◀

The Real Meaning of the Soviet Referendum

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other republics boycotted the entire process.

The referendum assures central government control over the republics' economies. Gorbachev's "reformist" days are over. He is reverting to his 1985 strategy of "acceleration": imposing more "labor discipline," i.e., forcing people to work harder and longer. That's why "acceleration" has more in common with War Communism of 1918 than with the pretended market reforms of the last few years.

To hold the Soviet Empire together, the central government will use economic terror on the recalcitrant republics, as it did in Lithuania. Everything produced under Soviet monopoly control can be embargoed. The central government will start by cutting off gas, oil, and coal. Electricity is especially vulnerable since it is linked in one central system. The government can also destroy any

industry in any republic by cutting off complementary and semi-finished goods. If necessary, the government can even cut the flow of food, such as it is.

This can be crippling, since the republics' economies are still dependent on Moscow's distribution system. A food cutoff also leads to rising prices, which in turn can lead to public disillusionment with the goals of independence movements. As always, centralized economic control is a useful political tool.

If economic warfare doesn't work, the central government will enter into formal negotiations, using a divide-and-conquer strategy. Gorbachev can "persuade" or simply bribe the leaders of various republics. He can offer favorable status relative to the others: more consumer goods, access to currency reserves, and special privileges for key individuals. In these negotia-

tions, Gorbachev will hold all the cards.

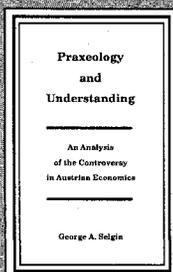
If that doesn't work, the Soviets can foment public provocations as an excuse for crack downs. Then the government can arrest the best-known national political leaders and install in their places the respective Committees for National Salvation, front groups loyal to Moscow.

If Gorbachev pulls this all off, he could be in power indefinitely—provided he gets sufficient bank loans and aid from the West. This is why we still hear Soviet rattling about creating a "market." It provides a cover for Western governments to keep sending aid, it lures private capital into joint ventures, and it gives international lending institutions the "structural reforms" they want before extending credit.

But every dime of aid goes down the drain. No one can account for the \$50+ billion Gorbachev received from the West in 1985, for example. Yet he recently got another \$3 billion from Kuwait. And rumors in Moscow suggest he intends to sell the small Kurile islands to Japan for \$200 billion in loans.

Gorbachev is determined to keep the rebellious republics in line. If he does not, others around him will take over. As for the citizens of those republics, the future looks even dimmer than usual. ◀

**FREE
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This
Month**



Economists wage their fiercest internal wars on a subject that seems esoteric, but isn't: the method of doing economics. In doing so, they address such questions as: Is good economics composed of mathematical models or sound logic? Are the conclusions of economic science transient findings or laws? Do human beings act randomly or purposively?

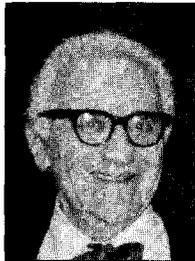
The answers given to methodological questions mean a world of difference in practice: central planning vs. the free market, a society that celebrates entrepreneurs or locks them up.

Professor George Selgin of the

University of Georgia addresses methodological issues in a penetrating and clearly written essay published this month by the Institute. Already regarded as a classic within Austrian economics, it argues for Mises's methodological position ("praxeology," the logic of action) and refutes his detractors.

For a deeper understanding of Misesian economics, read this essay, which is free this month to everyone who makes a contribution. Full-time students who enclose a copy of their college or university ID can also get *Praxeology and Understanding* at no charge. ◀

The Glorious Postwar World



BY MURRAY N.
ROTHBARD

Every war in American history has been the occasion for a Great Leap Forward in the power of the State, a leap which, at best, could only be partly rolled back after the war.

A conflict as seemingly minor as the War of 1812 took the Jacksonians three decades to wash out of American life; and freedom was never able to recover fully from the Civil War and World Wars One and Two. After the two world wars in particular, statisticians had a seemingly irresistible argument: America should use the wonder and the glory, the united martial spirit, the singleness of national purpose, to wage wars at home against a battery of domestic ills.

There are always problems aplenty at home against which to mobilize the national will: depression, poverty, injustice, what have you. And that mobilization necessarily means collectivism in action: increased federal power under the commander-in-chief.

After the full-fledged War Collectivism of the first World War, a collectivism that joined Big Business, Big Labor, statist intellectuals, and technocrats under the aegis of Big Government, the youthful planners of that collectivism: the Bernard Baruchs, Herbert Hoovers, and Franklin Roosevelts, spent the rest of their lengthy lives striving to recapture those delightful days, and to fasten them permanently upon peace-time America. The institutions and the rhetoric of wartime collectivism were recaptured during the Hoover and Roosevelt New Deals to "combat" the Great Depression, often with the same institutions and the same people running them.

Thus, Eugene Meyer's War Finance Corporation lending federal money to corporations, which had lingered on during the peace-time 1920s, was renamed the Reconstruction Finance Corporation and enlarged by Hoover in 1932, with the same Eugene

Meyer happily running the show, starting from the self-same offices in Washington, D.C. And then, World War II brought back the collectivist planning of the first war. Baruch's War Industries Board was reconstituted as the War Production Board of World War II, and was resurrected once more under General Electric's Charles E. Wilson during the Korean conflict.

The War Labor Board, designed to privilege unions, set wages, and arbitrate disputes, inspired the National Labor Board in the early Roosevelt New Deal, to be succeeded by the National Labor Relations Board under the Wagner Act, and to be supplemented by a reprised War Labor Board during World War II.

launched by the president in his victory address before Congress on March 6:

"In the war just ended, there were clearcut objectives, timetables and, above all, an overriding imperative to achieve results. We must bring that same sense of self-discipline, that same sense of urgency, to the way we meet challenges here at home."

After summarizing some of his current domestic agenda, proposals for "reform and renewal" including "civil rights," highways, aviation, transportation, and a "crime package," and hailing the past year's "historic" Clean Air Act, his "landmark" Americans with Disabilities Act, and his Child Care Act as portents for the future, the president

Hold on to your hats, Hand to your wallets and Purses, Mr. and Ms. America, here we go again!

Particularly dangerous for an acceleration of statism are *successful* wars; while Korea and Vietnam led to an intensification of State power, they did not generate the lifelong nostalgia, the eagerness to recapture the glory days, of a successful war. No American war has been quite as successful as the Gulf War, particularly if we take the kill ratio of enemy to American, or that kill ratio per day.

We would therefore expect a supercharged atmosphere of bringing that war home to domestic life. In a world where television seems to speed up public responses, that postwar domestic mobilization has already begun. This spirit of domestic war, appropriately enough, was

gave Congress a deadline:

"If our forces could win the ground war in 100 hours, then surely the Congress can pass this legislation in 100 days."

The president then noted that in his State of the Union address, five weeks before, he had posed this question to Congress: "If we can selflessly confront evil for the sake of good in a land so far away, then surely we can make this land all that it should be." By their victory, the president told us, our troops "transformed a nation at home." The president concluded that "there is much that we must do at home and abroad. And we will do it."

Hold on to your hats, and to your wallets and purses, Mr. and Ms. America, here we go again! ◀

The Great Dairy Heist

BY JAMES BOVARD

Since 1980 federal dairy policy has cost the average American family enough to buy its own dairy cow. Annual subsidies for each dairy cow in the U.S. exceed the per capita income of half the population of the world.

The federal government has been awash with surplus dairy products since 1979: Uncle Sam bought the equivalent of almost nine billion pounds of milk last year, and expects to buy over eight billion pounds this year. The federal dairy price support program obliges the government to buy unlimited amounts of milk at a set price. The federal program sets a price floor in the marketplace, and guarantees that dairy prices will not fall below the level that Congress decrees. Naturally, this level is almost always significantly higher than the market price that would otherwise prevail. And because the federal price is higher, dairymen respond by producing dairy surpluses.

Congress attempted to solve the dairy surplus problem a few years back by paying dairymen more than \$1.3 billion to slaughter more than one million cows. Under the 1986-1987 Dairy Termination Program, 144 dairy owners got more than \$1 million each to take a five-year vacation from dairying, and one California producer received \$20 million. Yet, as the General Accounting Office noted, "Total milk production did not decrease because nonparticipating farmers increased their production during the program period." Despite this failure, a national commission of dairymen has recommended more Bossie-massacres.

Retail milk prices are also increased by byzantine milk marketing regulations. The goal of the federal milk marketing policy is to make each small geographical region self-sufficient in milk. Milk marketing regulations take up three separate volumes of the

Code of Federal Regulations and require 600 federal employees to administer. The regulations were begun in the 1930s, when roads and refrigerated technology were comparatively backward, and have been retained for half a century despite vast increases in technology and transportation that should have made such autarchic policies a laughingstock.

Fluid milk is approximately 87% water. It is easy to dry out milk produced in a low-cost-of-production area, ship it to a high-cost-of-production area, and reconstitute it. Reconstituted milk tastes almost exactly like fresh fluid milk and could cost up to 30 cents a gallon less. But allowing dried milk to compete against local fresh milk is effectively banned by the federal government as a threat to local milk monopolies.

The reconstituted milk ban sacrifices the most productive to the least productive dairy farmers. If reconstituted milk were legal, dairy farmers in the natural dairy regions of the US could produce a surplus that would provide citizens elsewhere with much cheaper milk. A 1988 USDA study estimated that allowing reconstituted milk could save taxpayers and consumers over \$1.4 billion a year.

Dairy is one of our most protected industries, with quotas limiting imports to roughly 2% of domestic consumption. Government first prohibits American consumers from purchasing cheese, butter, and nonfat dry milk from 80% of the world's dairy producers, and then concocts a system to "protect" consumers against a shortage from the other 20% of dairy producers.

Many American dairymen are hopelessly uncompetitive by international standards: Australian and New Zealand farmers can produce milk for less than half the cost of the average American farmer. American dairy prices have been double or triple world price levels for most of the 1980s.

The U.S. International Trade Commission estimated that dairy import quotas are so strict that in 1986 they were the equivalent of a 142% tariff on dry milk, a 172% tariff on cheese, and a 190% tariff on butter.

Yet, even though American dairymen cannot compete with New Zealand farmers, the U.S. is a major dairy exporter. On March 1, 1991, USDA announced a major expansion of dairy export subsidies. The U.S. government is currently paying U.S. farmers more than \$1 a pound for butter, and selling it to foreigners for roughly half the price. At a time when many Americans cannot afford to buy milk, USDA will spend over \$50 million to dump 140,000 tons of U.S. dry milk on world markets at firesale prices.

Why is the U.S. a dairy exporter? Largely in order to dispose of the evidence of the failure of U.S. dairy policy. In the early 1980s, the Agriculture Department was embarrassed by news stories about massive mountains of surplus butter, milk, and cheese. Exporting the surplus at a loss helps USDA avoid a public relations disaster, and it also allows Congress and the dairy lobby to deny that a surplus exists and thus defeat efforts to lower prices in the U.S.

The Congressional Office of Technology Assessment estimates that milk output per cow could double and that 5,000 large dairy farms could supply the nation's milk needs by the year 2,000. The cost of dairy production fell 4% in 1987 alone, and milk output per cow jumped 3% in 1988. Computerized feeding methods can boost milk yields another 5% without increasing a herd's total feed requirement. Artificial insemination, embryo transfers, and cloning are helping to boost average dairy cow productivity by a steady 2-3-4% a year.

The time bomb ticking away

The dairy program must be scrapped. The federal government should not be making good food more expensive for Americans to buy.

beneath the federal dairy program is bovine growth hormones (BGH), however. BGH can boost milk production by up to 30% per cow at little additional cost. BGH naturally reproduces the hormones within cows to stimulate milk production, and thus is far more natural than the controversial beef hormones. The Food and Drug Administration has concluded that there is no significant difference in milk from regular cows and cows treated with bovine growth hormone, and is expected to approve BGH early next year, so bills have already been introduced in the Wisconsin, Minnesota, and Vermont legislatures calling for bans on BGH.

By sharply increasing dairy productivity, BGH could destroy federal regulators' ability to tightly control national milk markets. Naturally, this terrifies the farm groups that have done so well from federal intervention.

The federal dairy program has cost more than \$5 billion since 1980. Thanks to import barriers and marketing order restrictions on the internal dairy trade, dairy prices have been between 30% and 200% higher than would otherwise have been the case. A USDA study estimated that the dairy program cost consumers between \$5 and \$7 billion a year. This amounts to more than \$50 billion since 1980. The average American family has paid more than \$1,000 since 1980 for the dairy program—enough to buy a used dairy cow.

Thanks in part to the dairy program, there is a calcium shortage in poor people's diets. Higher milk prices have also contributed to osteoporosis in the elderly. There are more than 250 poor people per full-time dairyman in the U.S. According to the Agriculture Department, the average full-time dairyman is worth over half a million dollars. But, since

poor people don't donate almost \$2 million a year to congressmen as the dairy lobby does, it is sound public policy to effectively mandate scores of malnourished poor people and brittle-boned elderly for each well-to-do dairyman.

Adding insult to a history of injury, the Senate recently voted to force Americans to buy thicker, less fluid milk by having milk processors dump surplus milk powder into fluid milk to eliminate surpluses.

When will it all end? The dairy program is a blatant case of congressmen managing a large sector of the economy for their own personal benefit—as if the only reason that God created milk, cheese, and butter was to give deserving congressmen a re-election tool.

The dairy program must be scrapped. The federal government should not be making good food more expensive for Americans to buy. ◀

The Danger of Food Stamps

BY WILLIAM MURCHISON

The food-stamp program defies the conventional conservative wisdom that the passage of time hallows and sanctifies. This turkey has been around since the New Deal (with time out for World War II and the Eisenhower/Presley era), and no sanctification is in sight. Where's the beef? It's in the shopping bag, going out the supermarket door as part of a \$12 billion welfare program for one of every 12 Americans.

Beef isn't all that's in the bag. Once predicated on noisy concern for poor people's nutrition, the program today lets recipients use their stamps for soft drinks, candy, and ice cubes. This won't change any time soon either. When was the last time you read in the popular press or saw on television anything about food stamps? Or read an indignant letter to the editor about a food-stamp recipient stacking her groceries onto the velour back seat of a Cadillac and driving away?

Food stamps, though much costlier than in the 1970s, seem to be accepted with weary resignation, for reasons we will consider in due course.

Congressional committees "cutting" the deficit last year increased food stamps, and a Texas welfare official confirms that there is "definitely less of a stigma" to food stamps than in the past.

The Heritage Foundation, in the sheaf of policy proposals tendered the Bush administration two years ago, said that attempts to replace food stamps "would meet with stiff political opposition from many advocacy groups and members of Congress. Food stamp policy ought to be evaluated and reformed as part of a major welfare reform initiative."

In fact, it is high time to revive the food-stamp issue, or, better said, to make it an issue, period.

Food stamps were part of the New Deal. Low-income families could buy stamps equal to their

average food expenditures. Each dollar of stamps purchased entitled a household to an extra 50 cents worth of surplus foods. Thus three important political constituencies were made grateful—poor people, grocers, and farmers with surpluses.

Though the program ended during World War II (along with the food surpluses), it was revived on a permanent basis in 1964, thanks to Sen. George B. McGovern, then a Democratic back-bencher from the farming state of South Dakota. This was the Great Society era, and of course there was much talk of inadequate nutrition and hungry Americans. It didn't hurt that his constituent farmers and grocers were delighted to see food stamps revived. (Nor can we be surprised that the program is administered by the agricultural committees in Congress rather than the ones in charge of welfare.)

As federal programs do, food

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The Danger of Food Stamps

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stamps started small (by D.C. standards, anyway)—424,000 participants. But like all federal programs, it began to swell, like those children's knickknacks which you put in a glass of water, then watch as they turn into large prehistoric beasts.

So with food stamps, which, by 1970, went to ten times as many Americans as six years earlier. The federal cost was \$550 million. (States partially fund the program.) And that was just for openers. By 1980, as eligibility standards were broadened, the number of recipients soared almost five-fold, to 21.1 million. Federal costs were \$8.7 billion.

Whereupon Ronald Reagan became president. He had promised, as part of his agenda of economic revival, to corral government spending. He addressed the food-stamp problem with some degree of success, relatively speaking. By 1988, the final year of the Reagan presidency, 18.6 million were receiving food stamps, 17% fewer than 1980. And the U.S. government shelled out less, in constant dollars, than eight years earlier.

Yet the program wasn't reformed. The Grace Commission, charged by the White House with sizing up federal programs in need of sizing down, called food stamps a major source of transfer-payment fraud and abuse. The Inspector General's office found that grocery stores had taken in an extra \$30 million in food-stamp dollars by issuing store slips, rather than cash, for change. If the slips were never used, so much the better for the stores, which cashed in the entire original value of the food stamps.

But these were halcyon days compared to the present. Food stamp use began to grow sharply in the summer of 1989. In May

1990, the number of recipients rose above the 20 million mark for the first time in five years. The Agriculture Department explained that this was in large part because Aid to Families with Dependent Children, presently the main state-federal welfare program, was growing. Today food stamps are free. Come and get 'em if you qualify, which you very well may. A "fraternity" with 20 million members obviously isn't hard to join.

The Heritage Foundation's analysis may be right after all—there won't be any food-stamp reform until there is welfare reform. Unspoken is the obvious premise: there won't be any welfare reform until politicians receive a backbone transplant. What if Sen. X says, let's abolish food stamps. *The Free Market* and a few other discerning publications would say, wonderful, high time! Others would say, oh, how horrible! The establishment media would remind us of starving mothers and hollow-eyed babies: Ethiopia in the good old U.S.A. It would not matter that churches and other charities in a free market would feed the deserving poor, or that there would be fewer poor people with less government. The story would be, hard-hearted senator proposes to starve mothers and tots.

It is hard to talk sense in this kind of emotional atmosphere. And it is hard not to talk sense. Or at least to try.

Twelve billion dollars, when the deficit alone is many times that figure, seems small in today's Washington. But the real cost is moral.

If we want to make one of every 12 Americans dependent on federal handouts, why, the food-stamp program is a wonderful way to go about it. Shall we

try for one out of 10? One of six?

With such dependence, as Charles Murray points out in *Losing Ground*, comes the loss of "pride in independence" and the lessening of "pressure on the younger generation to make good on the family tradition." "More importantly," Murray continues, "the working people who made little money lost the one thing that enabled them to claim social status. For the first time in American history, it became socially acceptable within poor communities to be unemployed, because working families too were receiving welfare."

This is what the Texas welfare official quoted earlier meant when she said the food-stamp program had lost its "stigma." The recipients, that is, have lost any sense of shame—and with it, any desire to get off welfare, make their own way in the world, rise in accordance with their abilities.

Welfare, of course, reinforces sloth. But lose the stigma, and the incentive to work goes out completely. That's the lesson of food stamps, as it is the lesson of the welfare state in general.

The sense of shame that might have been attached to the recipients sits instead upon the shoulders of the taxpayers, who are encouraged to wonder if they're being generous enough.

Such are the subtle corruptions of welfare. We know what to do, but we can't quite convince ourselves to do it, for fear of subjecting ourselves to bouts of conscience.

The food-stamp program has done something worse than entrenched bad habits and squander our economic substance. It has poisoned our well of civic courage. ◀

Future programs:

The Mises Weekend
Stanford, CA
July 5-7, 1991

The Mises University
Stanford, CA
July 7-14, 1991

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