

PREJUDICE IS FREE, BUT DISCRIMINATION HAS COSTS

by Steven Farron*

Thomas Sowell provides examples of people from many parts of the world demanding that their governments restrict the economic and occupational success of specific ethnic or racial groups. However, when the same people act as individuals or business owners, they actively resist and/or circumvent these restrictions.¹

The reason is a fundamental economic principle, which is obvious to common sense. If an individual or business, while engaging in an economic activity—hiring, promotion, lending money—considers any non-economic factors, the person or business will suffer economically—even if the non-economic factors were considered unconsciously. Martin Katz provides an excellent concise demonstration of this principle in his argument for government-enforced affirmative action. He demonstrates that the lower average income and occupational status of black Americans must be caused by their lower productivity, not by racial discrimination. So, without government

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The title “Prejudice Is Free, But Discrimination Has Costs” is an observation by Thomas Sowell, *Preferential Policies: An International Perspective* (New York: W. Morrow, 1990), p. 22.

¹Sowell, *Preferential Policies*, pp. 19–40.

intervention, this situation will persist because of the extremely powerful pressure that competition puts on businesses to maximize profits by choosing the best possible person for every job without considering his race.²

In large businesses, the government-enforced discrimination that Katz advocates does succeed somewhat in blunting the relentless pressure of capitalistic competition to evaluate people as individuals, rather than as members of races or ethnic groups, since the government ensures a level playing field for all competitors, and the costs incurred are diluted by the businesses' abilities to engage in additional non-discriminatory hiring, promotion and business transactions. In government employment and at universities, discrimination invariably accomplishes its goal, since there is no direct competition and its costs are hidden.

"Discrimination" means using criteria other than those by which the organizations involved contribute the most to society. The most important contributions by universities are to educate students and to conduct research. The goal of business is profit. The collapse of economic systems based on other goals, socialism and the eastern Asian variant of capitalism, which subordinated profits to social goals like providing secure employment and maximizing production, has demonstrated that profit is the only indicator of economic efficiency. Consequently, the nebulous social benefits that the champions of discrimination claim for it are gained not only at the expense of its immediate victims—the people who are not hired, admitted to university, etc.—but also at the expense of the entire society. The only certain beneficiaries are the people who are hired, promoted, etc. over more competent people; and, as I will illustrate, they are always the elite of the preferred group.

²Martin Katz, "The Economics of Discrimination," *Yale Law Review* 99 (1986): 1033–52. His explanation of why considerations of anything but merit cannot persist in an untrammelled market economy is on pages 1036–39. Katz assumes without discussion that blacks are as intelligent as whites (p. 1044 n. 44), so he attributes their lower productivity to past discrimination.

As used universally today, affirmative action means discrimination against racial/ethnic groups that are more successful than others, for the purpose of equalizing socio-economic-educational disparities. In those contexts, I will use it interchangeably with discrimination.

Moreover, the putative benefits of discrimination are irrelevant for small businesses since they cannot be coerced into practicing it. The reasons are that the government cannot enforce discrimination uniformly on them, and its costs for them are obvious, painful, and impossible to dilute. If a small business discriminates against any individual or group of people, even if unconsciously or by using mistaken criteria, a competitor will take advantage of its lapse and hire/promote/lend money to the people against whom discrimination was practiced, thus gaining a considerable competitive advantage. Moreover, most small businesses deal directly with individual consumers. When individuals buy products and services, few practice discrimination, no matter how desirable they think it is, and no matter how eagerly they want their government to enforce it. The reasons are that, for consumers, the cost of discrimination is unavoidably obvious, and they have no way to compensate for it.

I will provide some striking examples of this universal pattern. Its universality depends on the interaction of the economic principle I outlined with a psychological tendency, that when people act individually, rational self-interest obliterates all other considerations, even to the extent of trying to circumvent legal regulations in order to do business with people whom they loathe and hate. Thus, this pattern provides a cogent empirical proof for the most basic premise of economics, the primacy of rational self-interest in economic transactions, a premise that is by no means self-evident.

MALAYSIA: THE AFFIRMATIVE ACTION MODEL

A draft affirmative action bill that requires every business [in South Africa] to have an affirmative action plan will be released before the end of the year. . . . The bill will follow the Malaysian affirmative action model.³

President Mugabe [of Zimbabwe] has frequently visited Kuala Lumpur [the capital of Malaysia] and praised its racial policies as a model for the whole world to emulate.⁴

A study commissioned by the Malaysian government has found that the economy's productivity growth has

³Johannesburg *Star*, Business Report (September 5, 1997): 1.

⁴Johannesburg *Star* (December 22, 1994): 3.

been rising slowly, from an already low base. . . . What hampers productivity of labor is that 25 years of pro-Malay affirmative-action policies have made it almost impossible to sack workers in vastly overstaffed businesses.⁵

Today, approximately 60 percent of Malaysia's population is racially Malay, 30 percent Chinese, and 10 percent Indian. (Malays are now officially called *Bumiputra*, but *Malay* is still more widely used.) In the late nineteenth and early twentieth centuries, when Malaysia was a British colony, the British imported Chinese and Indians as unskilled, illiterate laborers. Most of the Chinese worked in mines, especially tin mines, and most of the Indians on rubber plantations. China and India were poorer than Malaysia, so Chinese and Indians worked for less pay than did Malays. Indeed, many of the jobs they did were so strenuous, dangerous, or dirty that Malays would not do them for any wage. The ships that brought the Chinese indentured laborers to Malaysia "were floating hells" with high mortality and suicide rates. Once there, they dug huge mines, some a hundred meters deep, using only hoes. Chinese women "were bent double for hours in the heat of the sun, often immersed to the knees in water, and often with a baby strapped to their backs." The average budget for a Chinese mine worker was \$9.70 *per month*.⁶ Furthermore,

Diversions were few, centering on gambling, prostitution and opium smoking—all of which were probably used consciously by the *towkays* (businessmen) to keep the coolies permanently dependent and in debt. . . . Health conditions in the mining camps and early peninsular towns were appalling.⁷

The Chinese also suffered from severe, governmentally imposed, pro-Malay discrimination under British rule:

⁵Jim Rohwer in *Fortune International* (November 24, 1997): 19. Rohwer is the author of a highly regarded book on Southeast Asia, *Asia Rising* (New York: Simon & Schuster, 1995).

⁶Victor Purcell, *The Chinese in Southeast Asia* (London: Oxford University Press, 1965), 2nd ed., pp. 283–90; Thomas Sowell, *Migrations and Cultures: A World View* (New York: Basic Books, 1996), pp. 179, 191–92.

⁷Donald R. Snodgrass, *Inequality and Economic Development in Malaysia* (New York: Oxford University Press, 1980), pp. 36–37.

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The Chinese were systematically excluded from some important parts of the economy. They were not allowed into senior administrative posts. . . . Very few Chinese were permitted into the army or police. . . . Chinese holdings in agriculture were stabilized during the first decades of the twentieth century through the progressive exclusion of the Chinese from the development of jungle land and the increasing legal protection of cultivated land owned by Malays.⁸

However, the most serious discrimination was in education. Government Malay-language primary schools were free for all Malay boys and girls, and were compulsory for all boys living within a mile-and-a-half of such schools; many English-language schools were mostly government-financed. The government established no Chinese-language schools, and most Chinese were too poor to pay the fees at English-language schools, or did not choose to use them. So the Chinese established their own schools without government assistance. The teachers in these schools were often fortune-tellers and diviners, and

the schools themselves had to be seen to be believed. Most of them were dirty, ill-ventilated, and ill-lighted basements, out-houses, or attics; sanitation was non-existent; skin diseases were common . . . the hubbub of pupils . . . was deafening.⁹

Then, when the Japanese occupied Malaysia, many Malays collaborated with them, but the Chinese were persecuted brutally. Many were murdered, and many others, “deprived of some previous forms of employment . . . retreated to a near-subsistence existence on the jungle’s fringe.”¹⁰

After Malaysia gained independence in 1957, discrimination against non-Malays, especially anti-Chinese, intensified. Articles 153 and 89 of the Constitution mandated the continuation of the colonial government’s pro-Malay discriminatory practices in civil service hiring, granting licenses to private businesses, admission to

⁸Snodgrass, *Inequality and Economic Development in Malaysia*, pp. 37–39.

⁹Purcell, *The Chinese in Southeast Asia*, pp. 276–78; Sowell, *Preferential Policies*, pp. 45–46.

¹⁰Sowell, *Migrations and Cultures*, pp. 193–94; Snodgrass, *Inequality and Economic Development in Malaysia*, p. 39.

universities, and land ownership. In addition, the government subsidized Malay-owned businesses through government contracts and government-financed credit, limited the proportion of Chinese-owned businesses in certain economic activities, and forced Chinese-owned businesses to hire specified proportions of Malays and to transfer stipulated portions of equity to Malays.¹¹

Despite this discrimination, the Chinese rose meteorically. In 1911, the most common occupations of employed Malaysian Chinese were mining laborers (41.5 percent), agricultural laborers (11 percent), fruit growers, laborers (unspecified), and domestic servants. Twenty years later, only 11 percent of employed Chinese were miners or agricultural laborers. Ultimately, they owned 85 percent of all retail establishments and comprised more than 90 percent of all chief executives. In 1970, Malays owned less than 4 percent of all manufacturing businesses. At the University of Malaysia, during the 1960s, even despite preferential admissions and scholarships for Malay students, Chinese earned twenty-two times more Bachelor of Science degrees than Malays, and 102 times more Bachelor degrees in engineering. (Indians, who are outnumbered by Malays six to one, earned two-and-a-half-times as many science degrees as Malays, and five times more engineering degrees.) In 1970, 81 percent of Malaysian architects were Chinese and 4.3 percent Malay; 89 percent of dentists were Chinese, 3 percent Malay, and 5 percent Indian; 45 percent of doctors were Chinese, 4 percent Malay, and 40 percent Indian. (The rest were Eurasians, Ceylonese, etc.)¹²

In May 1969, savage anti-Chinese riots erupted. There had

¹¹Just Faaland, J.R. Parkinson, and Rais Saniman, *Growth and Ethnic Inequality: Malaysia's New Economic Policy* (London: Hurst, 1990), pp. 16–22; Yuan-li Wu, "Chinese Entrepreneurs in Southeast Asia," *American Economic Review* 73, no. 2 (May, 1983): 112–17; Snodgrass, *Inequality and Economic Development in Malaysia*, pp. 211–12.

¹²Snodgrass, *Inequality and Economic Development in Malaysia*, pp. 38, 212–13; Sowell, *Migrations and Cultures*, pp. 192, 349; Sowell, *Preferential Policies*, pp. 46–47; Faaland, et al., *Growth and Ethnic Inequality*, p. 53; Yuan-li Wu and Chun-hsi Wu, *Economic Development in Southeast Asia: the Chinese Dimension* (Stanford, Calif.: Hoover Institution Press, 1980), p. 51; Firdaus H. Abdullah, "Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty," *Ethnic Studies Report* 15, no. 2 (1997): 189–221.

been many earlier instances of anti-Chinese mob violence, but the riots of 1969 were much more lethal. The Malaysian government's response was based on the assumption that the riots expressed justified indignation at the tremendous overrepresentation of Chinese in business, professions, and universities. (The U.S. government reacted in the same way to the black riots of the same period.) The Malaysian government proclaimed the New Economic Policy (NEP) to attain "racial balance" and "Malayanisation," and to end "identification of race with economic function" by 1990.¹³ Not only did the NEP promise to intensify and systematize the racial discrimination that had always existed, but it also set a specific goal and timetable:

Within a period of 20 years, Malays and other indigenous people will manage and own at least 30 percent of the total commercial and industrial activities in all categories and scales of operation. . . . Employment pattern at all levels and in all sectors . . . must reflect the racial composition of the population.¹⁴

The NEP also mandated that, by 1990, Malays would own 30 percent of all shares in corporations, Malaysian Chinese and Indians would own 40 percent, and foreigners would own 30 percent. (In 1970, Malay individuals owned 2.6 percent of corporate shares, Malay trust agencies owned another 1.7 percent, Malaysian Chinese and Indians owned 34 percent, and foreigners 61.7 percent.)¹⁵

The NEP did greatly increase the number of Malays in government institutions. At the universities, which are government-controlled, total enrollment increased by 2.9 times between 1970 and 1980. At non-university diploma-granting institutions, the rise in enrollment was even faster, so in that one decade, enrollment in tertiary education increased by 3.4 times. A more remarkable transformation was that by 1980, the proportion of students at Malaysian universities who were Chinese and Indian was lower than

¹³T. Lin, "Inter-ethnic Restructuring in Malaysia, 1970–80: The Employment Perspective," in Robert B. Goldmann and A. Jeyaratnam Wilson, eds., *From Independence to Statehood* (London: Frances Pinter, 1984), p. 45; Faaland et al., *Growth and Ethnic Inequality*, p. 73.

¹⁴Faaland et al., *Growth and Ethnic Inequality*, pp. 76, 313–14.

¹⁵Faaland et al., *Growth and Ethnic Inequality*, pp. 140–42.

their proportion in the Malaysian population.¹⁶

The civil service had always been overwhelmingly Malay, even under the British, thanks to massive racial discrimination, and it had always been treated as a major means of providing employment for educated Malays, from high school graduates, who became clerks, to college graduates, who became administrators. Between 1947 and 1957, 78,000 government jobs were created for Malays, accounting for 77 percent of the net increase in non-agricultural jobs for Malays; another 76,000 government jobs were created for Malays between 1957 and 1967. Under the NEP, the civil service was greatly expanded, and its salaries repeatedly increased until it became one of the highest-paying employers in Malaysia. Moreover, Chinese and Indians were ousted even from positions requiring technical knowledge, which they had previously been allowed to hold. With extremely few Malay scientists, engineers, and doctors,

Insistence in hiring Malays [in the civil service] doggedly adhered to even when no qualified Malays were available, led to serious delays in important development programmes—often, ironically, programmes designed to benefit the Malays themselves.¹⁷

However, as the number of Malay university graduates skyrocketed in the 1970s, even this frantic expansion of the civil service could not absorb them:

After 1969 . . . the supply of university-trained Malay generalists threatened to outrun demand, until the government's move toward direct participation in business gave a new boost to demand growth.¹⁸

Notice that Snodgrass is talking about the government undertaking major economic intervention to stimulate demand not for products or services, but for Malays who received university degrees through

¹⁶Lin, "Inter-ethnic Restructuring in Malaysia, 1970–80," pp. 48–50; M. Heidhues, "Malaysia" and "Indonesia," in Minority Rights Group, eds., *The Chinese of South-East Asia* (Manchester: Manchester Free Press, 1992), p. 14.

¹⁷Snodgrass, *Inequality and Economic Development in Malaysia*, pp. 226–28; Lin, "Inter-ethnic Restructuring in Malaysia, 1970–80," pp. 47–48.

¹⁸Snodgrass, *Inequality and Economic Development in Malaysia*, p. 228.

affirmative action. Lin describes this phenomenon from a different perspective:

Confronted with an apparent Bumiputra [i.e., Malay] inability to take up shares in commerce and industry, the public enterprise emerged as a new instrument in ownership restructuring, buying up shares in trust for Bumipturas, to be resold to Bumipturas later.¹⁹

Snodgrass attributes the unemployability of these Malay university-graduates to their being “generalists”—in other words, liberal arts majors. However, the majority of them received their degrees through affirmative action, not merit. Thus, they were incapable of performing jobs that require the difficult mental work that can be assumed of legitimate university graduates in any field. This must be a large part of the reason why they could not obtain jobs in the private sector despite all the government’s regulations and subsidies to force and bribe private businesses to hire Malays.

As for the public enterprises mentioned above, Malaysian government statistics indicate that, in 1976, in those that were 100 percent government-owned; 63 percent of the managerial, professional, technical and supervisory personnel were Malays; in those that were 50–99 percent government-owned, the proportion was 41 percent; and in those that were 0–49 percent government-owned, the proportion was 30 percent. The same Malaysian government statistics show that those enterprises in the first category lost \$133 million (U.S.) by 1976, those in the second category lost \$48 million, and those in the last made a profit of \$53 million. This difference must be largely caused by the differences in competence among the people running each type of enterprise.²⁰

These statistics provide the reason why, in private enterprise, where efficiency and profitability are all-important, racial discrimination was much more difficult to enforce. In fact, the government abandoned the NEP’s goals for the proportion of Malays in various private-sector occupations well before 1990. In 1982–83, the government announced that racial restructuring had to be curtailed because it was impeding economic growth. In 1985, also to stimulate growth, the government announced a privatization policy to in-

¹⁹Lin, “Inter-ethnic Restructuring in Malaysia, 1970–80,” p. 52.

²⁰Lin, “Inter-ethnic Restructuring in Malaysia, 1970–80,” pp. 52–54.

crease private-sector investments from 50 percent of all investment to 62 percent in 1990. These changes were implicit repudiations of the NEP, since “It was a cardinal principle of the New Economic Policy . . . that, if necessary, growth had to be sacrificed for equity [i.e., racial discrimination].” When the NEP ended in 1990, average Chinese income was twice that of Malays, and average Indian income 1.5 times that of Malays—about the same ratios as when the NEP was instituted twenty years earlier.²¹

The only areas of private enterprise in which the NEP had a significant impact were employment at the top level of big businesses and share ownership in Malaysian corporations. In big businesses, the number of Malay partners, executives, and board members, most of whom had political connections, increased greatly. By 1990, Malays owned 20 percent of corporate shares, often through forced transfers at below market prices. That was only two-thirds of the 30 percent target set by the NEP, but it was 4.7 times the proportion of shares held by Malays in 1970, and was one of the few areas in which an NEP goal came even that close to being achieved. In the same period, the proportion of shares in Malaysian corporations owned by Malaysian Chinese and Indians rose from 34 percent to 57 percent. The latter was much higher than the 40 percent target set by the NEP because the proportion of shares held by foreigners declined precipitously.²²

In contrast with the massive public employment of Malay affirmative-action university graduates, the proportion of “professional and technical workers” in the private sector who were Chinese and Indian actually rose after the NEP was instituted.²³ The number of Malay-owned small businesses also remained extremely low, despite desperate government attempts to help would-be Malay entrepreneurs. For example, the government extended the policy that the British had begun of lending money to Malay-owned businesses, even though these loans always had a

²¹Faaland et al., *Growth and Ethnic Inequality*, pp. 89–91, 94, 99, 113, 135–36, 146.

²²Sowell, *Migrations and Cultures*, p. 196; Heidhues, “Malaysia” and “Indonesia,” pp. 12–13; Faaland et al., *Growth and Ethnic Inequality*, pp. 140–42.

²³Sowell, *Preferential Policies*, p. 51.

high rate of default. In construction, a 5 percent bidding preference for bids from Malay firms was instituted in the early 1960s; nevertheless, Malay firms “have won only a tiny share of public-sector construction contracts, to say nothing of private construction.” In road transport, a policy begun in 1954 to favor Malays when granting taxi and trucking licenses and to promote the formation of Malay bus companies did raise the Malay share in road transportation employment from 28 percent in 1947 to 35 percent in 1967. However:

On the negative side, there is the extent of purely nominal compliance (for example, *sub rosa* leasing of Malay-licensed taxis to non-Malays) and the inefficiencies introduced into transportation services. There is no doubt that the number of licensed taxis and common-hauler trucks have increased less than they would have in the absence of the restrictive licensing policy, while substitute vehicles such as private cars (some of which are used as “pirate taxis”) and trucks licensed only to carry the owner’s goods have grown proportionately.²⁴

Two facts illustrate why government-enforced discrimination in small businesses is ineffectual. When the government sponsored and supported a Malay-owned-and-run bank, “it behaved much like any other profit-oriented commercial bank . . . making more loans to the more credit-worthy Chinese, Indian, and foreign enterprises than to Malay.” Similarly,

When Malays did open trading establishments, often with official assistance, difficulties were usually encountered. Ironically, even Malay customers frequently preferred non-Malay shops since their prices tended to be lower, and . . . they were more willing to extend credit.²⁵

The crucial question is why the Chinese have dominated Malaysian business. There is one and only one explanation. Malaysians of all races, no matter what their prejudices, prefer doing business with Chinese than with Malays.

So government racial regulations have been circumvented, but that has required a great deal of time and effort, since the inevitable result of affirmative action regulations is to:

²⁴Snodgrass, *Inequality and Economic Development in Malaysia*, p. 226.

²⁵Snodgrass, *Inequality and Economic Development in Malaysia*, pp. 212–13, 223.

give a large discretionary role to individual [government] administrators and create a multiplicity of regulatory agencies in rule making. . . . Chinese entrepreneurs must devote a disproportionate amount of energy to dealing with the bureaucracy. . . . Native front men . . . in the executive suite . . . [form] a new rentier class, not a new crop of native entrepreneurs.²⁶

Quotas for employment of Bumiputras [Malays] have led Chinese businessmen to resort to a variety of strategies to circumvent government interference. . . . The device of “Ali-Babism” (collaborating with a Malay “Ali” but keeping control themselves, “Baba” meaning a Chinese) has been used . . . not just in Malaysia. Today this arrangement . . . has grown. . . . Bumiputra favoritism can tempt collection of illegal and extra-legal fees, and observers believe that corruption has increased.²⁷

The front-page headline of the Johannesburg *Star* of November 7, 1997, read “Affirmative Action Scams Exposed.” It quoted a study that found it “commonplace” for “corporations [to] use black front companies and hire ‘ghost’ black directors to win contracts.” If those who conducted this study, or the South African government, knew anything about “the Malaysian affirmative action model” that South Africa is supposed to follow, they would know that these “scams” follow the Malaysian model exactly, despite decades of attempts by the Malaysian government to stop them.

Finally, who benefits from this complex, fraudulent web of maneuvering?

The businesses held in trust for the Malay community as a whole are in fact managed by members of the Malay elite. The new tycoons who make up the top layer of this elite are drawn from high social status groups. . . . Several are members of royalty. . . . Publicly-sponsored enterprise will . . . provide jobs for only a tiny fraction of the Malay labor force [but] they could offer a significant way of “taking care of” the swelling flow of [affirmative-action-university-] educated Malays.²⁸

²⁶Wu, “Chinese Entrepreneurs in Southeast Asia,” p. 116.

²⁷Heidues, “Malaysia” and “Indonesia,” p. 13.

²⁸Snodgrass, *Inequality and Economic Development in Malaysia*, p. 221.

The proportion of the share of Malay income going to the richest 10 percent of Malays rose from 42 percent to 53 percent, and even among the richest 10 percent of Malays, the growth in relative wealth was restricted to the wealthiest half (i.e. about 5 percent of all Malays). In fact, the percentage of poor Malaysian households that were Malay increased from 73.8 to 75.5.²⁹ Ethnic preferences have made the mass of Malays not only relatively poorer, but absolutely poorer as well, since Malaysia would have been considerably more prosperous without these preferences.

Some economists have argued that NEP has actually retarded economic growth. The government appeared to acknowledge this in mid-1991, when its new “National Development Policy” was announced as a ten-year plan to emphasize growth more than ethnic redistribution. Nevertheless, NEP favouritism for Bumiputras can be expected to continue.³⁰

The Malaysian government is fully aware that the rewards from affirmative action have gone to a small circle of Malays. Dr. Mahathir Bin Mohamad, who has been Malaysian Prime Minister since 1981, Minister of Home Affairs since 1986, was Minister of Education from 1974 to 1977, and Minister of Trade and Industry from 1977 to 1981, did more than anyone else to enforce these preferences. In his book *The Malay Dilemma*, he observed, “These few Malays, for they are still only very few, have waxed rich not because of themselves, but because of the policy of a government The poor Malays themselves have not gained one iota.”³¹ Dr. Mahathir summed up the problem: “*Whatever the Malays could do, the Chinese could do better and cheaper.*”³²

The same Chinese “problem” exists wherever Chinese live. In Indonesia, like Malaysia, Chinese suffered from discrimination in

²⁹M. Puthucheary, “Public Policies Relating to Business and Land, and their Impact on Ethnic Relations in Peninsular Malaysia,” in R.B. Goldmann and A.J. Wilson, eds., *From Independence to Statehood* (London: Frances Pinter, 1984), pp. 158, 163–4.

³⁰Heidues, “Malaysia” and “Indonesia,” p. 13.

³¹Dr. Mahathir Bin Mohamad, *The Malay Dilemma* (Singapore: Asia Pacific Press, 1969), p. 44.

³²Mahathir, *The Malay Dilemma*, p. 25, italics added.

land ownership and education under Dutch colonial rule, and even more intense discrimination after independence. They have also been victims of mob violence on a much greater scale there than in Malaysia. Chinese there comprise less than 3 percent of the population but control 70 percent of the country's private domestic capital and run 80 percent of its 200 largest businesses. In Thailand, despite pro-Thai affirmative action since the 1930s, Chinese continue to own more than 70 percent of all retailing outlets and 80 percent to 90 percent of the rice mills, the largest businesses in the country. In fact, they control every phase of rice production except farming—buying the rice, transporting it, milling it, and exporting it. Even some of the government-owned enterprises established to reduce the role of the Chinese in the economy have ended up hiring Chinese managers. In the Philippines, where Chinese comprise less than 1 percent of the population and were victims of discriminatory legislation and mob violence under the Spanish, and again after 1921, they own 75 percent of retailing businesses. The Americas are no different. In mid-twentieth-century Jamaica, the average Chinese income was three times the average income of mixed Chinese-black Jamaicans, and five times that of black Jamaicans; anti-Chinese riots have been common there as well.³³

The Chinese (and Indian) “problem” in Southeast Asia and the futility of all attempts to solve it were well summarized in 1955 by Virginia Thompson and Richard Adloff's *Minority Problems in Southeast Asia*. The “problems” in their title refers to minority domination of the Southeast Asian economies, and they agree with the local populations of the countries involved that it is a problem that has to be solved by:

controls which the respective governments are now [in 1955] trying to impose on Chinese business. Chief among these are the official monopoly of the rice trade in Burma, Thailand, and Indochina; the reservation to nationals of a majority of the licenses granted to exporters

³³Sowell, *Migrations and Cultures*, pp. 176, 186–90, 203–212, 219–20; Heidhues, “Malaysia” and “Indonesia,” p. 15; D.S. Eitzen, “Two Minorities: The Jews of Poland and the Chinese of the Philippines,” *Jewish Journal of Sociology* 10 (1968): 222–25; Wu and Wu, *Economic Development in Southeast Asia*, p. 51.

and importers in Indonesia, Cambodia, and Burma, and in the case of Viet Nam to French firms; and the development in these countries of co-operative societies designed to eliminate the alien middleman and the moneylender. . . . Attempts to control the Chinese . . . have been frustrated by Chinese evasion, ability, and indisparability. . . . Licensing systems have been thwarted by the willingness of inexperienced indigenous businessmen, whom they were intended to benefit, to sell their import and export permits to Chinese. . . . Indonesia's President Sukarno in a speech . . . attacked the Chinese: "Government regulations have frequently been violated, outsmarted. . . . These foreigners . . . have sown the seeds of racial hatred, because the difference between rich and poor coincides with the difference in nationalities."

None [of the governments of Southeast Asia] has yet proved the ability of its own nationals to replace the services which the Chinese have performed. No amount of legislation . . . can induce enough of its own people to take up jobs which the Chinese can no longer legally fill. More important is the grave problem of agricultural credit. Development of the co-operative movement is widely believed to be the answer . . . but Burma's government has had to write off, at a great loss to the national treasury, the great bulk of agricultural loans it had made to peasants. The Chinese seem, through sheer ability, to have adapted themselves. . . . Double-taxed by both regimes in Viet Nam, subject to extortion from "agents" of both Peiking and Taipeh in Malaya and Thailand, and the target of discriminatory legislation everywhere . . . the Chinese have . . . prospered.³⁴

As the statistics I cite before my quotation from Thompson and Adloff show, the solutions that they mention for the Chinese prob-

³⁴Virginia Thompson and Richard Adloff, *Minority Problems in Southeast Asia* (Stanford, Calif.: Stanford University Press, 1955), pp. 6–8.

The moneylenders whom the Burmese government replaced, with disastrous results, were Indians, who constituted 8 percent of all employed Burmese but more than half of Burmese doctors, businessmen, and bankers. They were rewarded with discriminatory legislation, mob violence, and expulsion. Thompson and Adloff, *Minority Problems in Southeast Asia*, discuss this at greater length on pages 83–87; see also Sowell, *Migrations and Cultures*, pp. 345–46.

lem have been no more effective in the forty-five years that followed the publication of their book than they had been earlier. Consequently, in the spring of 1998,

Chinese-owned office buildings, banks, and shopping centers all over Indonesia went up in smoke. Ethnic Chinese homes and shops were looted; ethnic Chinese women were pulled off buses and brutally raped.³⁵

James Rohwer, after discussing Chinese business and professional success throughout Southeast Asia and the violent hatred it invariably causes, pointed out:

If this sounds familiar from something in European history, it should: As early as the seventeenth century, European travellers in Southeast Asia were describing the Chinese as "Jew-like."³⁶

When King Rama VI, who ruled Thailand between 1910 and 1925, wrote a book entitled *The Jews of the East* to attack the Chinese in Thailand, he was using for his title a description that had been widely used for three hundred years.³⁷ More recently, while Amien Rais, the head of the 28-million-member Indonesian Islamic organization Muhammadiyah, was a graduate student at the University of Chicago, he said that he wanted to prevent the Chinese from attaining the type of control over Indonesia that Jews had attained over the United States.³⁸

So it is significant that when IQ tests were invented, they explained the similarity between Jews and Chinese that has been repeatedly noted for three centuries.

The difference in average IQ between Chinese and Austronesians (a racial category that includes Malays, Indonesians, and Filipinos) is approximately the same as the difference in average IQ between European Jews and Gentiles (and also the difference in average IQ between American whites and blacks). The average IQ of American blacks is in the middle 80s, of Austronesians high 80s

³⁵Jonathan Paris, "Minority Rules," *New Republic* (July 13, 1998): 20–22.

³⁶Rohrer, *Asia Rising*, p. 231.

³⁷Daniel Pipes, *Conspiracy: How the Paranoid Style Flourishes and Where it Comes From* (New York: Free Press, 1997), pp. 123–24.

³⁸Paris, "Minority Rules."

to middle 90s, of white Gentiles 101–3, of Chinese 105–6, and of Jews of European origin 114–19, depending on the type of IQ test used. The relative success of these ethnic groups, whenever they live together in the same country, adds to the other irrefutable evidence that intelligence is genetically determined, that it is the primary factor in socioeconomic success, and that it is measured accurately by IQ tests.³⁹

For this reason, institutionalized discrimination, no matter how severe or prolonged, has never solved the problem of ethnic/racial occupational-economic inequality. The only solution is the elimination of the guilty group, whether by expulsion, as of the Indians in east Africa, or mass murder, as of the Jews of Europe. (I ask the reader to suspend judgment on this assertion until he has finished this article.)

SOUTH AFRICA: HISTORY REPEATS ITSELF

Karl Marx wrote:

Hegel remarks somewhere that all facts and personalities of great importance in world history occur, as it were, twice. He forgot to add: The first time as tragedy, the second time as farce.⁴⁰

Slightly fewer than 60 percent of white South Africans are Afrikaners, that is, South Africans whose first language is Afrikaans, a dialect of Dutch that evolved in South Africa. They have been

³⁹Richard Herrnstein and Charles Murray, *The Bell Curve: Intelligence and Class in American Life* (New York: Free Press, 1994), pp. 272–76, 300–1, 359; Miles D. Storfer, *Intelligence and Giftedness: The Contributions of Heredity and Early Environment* (San Francisco: Jossey-Bass, 1990), pp. 314–23; Daniel Seligman, *A Question of Intelligence: The IQ Debate in America* (New York: Carol Publishing Group, 1992), pp. 121–24, 130–33; R. Lynn, “Intelligence, Ethnicity and Culture,” in J. Lynch and C. Mogdil, eds., *Cultural Diversity and the Schools* (London: Falmer Press, 1992), vol. 1, pp. 367–68, 371.

The relative economic success of different countries is determined primarily by their economic systems, as North and South Korea and the former East and West Germany illustrate.

⁴⁰Karl Marx, *The Eighteenth Brumaire of Louis Napoleon*, in Lewis Feuer, ed., *Marx and Engels* (Garden City, N.Y.: Anchor, 1959), p. 320.

considerably poorer, and more rural, religious (Dutch Reform), and racist than English-speaking white South Africans. Most English-speaking white South Africans are of British origin, but a considerable proportion are of other European nationalities. By far, the most important of these economically are Jews, who, in 1987, were only 2.3 percent of the white population but controlled corporations that accounted for 62 percent of the total capitalization of the shares listed on the Johannesburg Stock Exchange.⁴¹

The Afrikaner majority was magnified electorally because rural districts were overrepresented in parliament. Every South African head of state was an Afrikaner from the formation of the Union of South Africa in 1910 until South Africa's first black president, Nelson Mandela, in 1994.

It is instructive to compare President Mandela's economic views with those of his predecessors. At the fiftieth ANC National Conference, on December 16, 1997, he said:

[An] important element of our policy is the deracialisation of the economy to ensure that . . . in its ownership and management, this economy increasingly reflects the racial composition of our society. . . . Business success can no longer be measured solely by reference to profits. . . . The *laissez-faire* argument . . . invokes the argument of the survival of the fittest. There is something wrong with making the survival of the fittest the guiding principle of a civilised society. . . . The situation cannot be sustained in which the future of humanity is surrendered to a so-called free market, with government denied the right to intervene. . . . Our own society [is one] in which many are driven by the unhampered pursuit of self-interest, and . . . money has forcefully taken the place of fundamental values. . . . The evolution of the capitalist system in our country put on the highest pedestal the promotion of the material interest of the white minority.

On October 11, 1958, *Die Transvaler*, whose editor for many years was Hendrik Verwoerd, Prime Minister from 1958–1966, had the following editorial.

There are people who [argue that] . . . simply everything . . . must be made subordinate to their so-called

⁴¹*Economist* (March 15, 1997): 50.

Farron – Prejudice is Free, but Discrimination has Costs

economic laws. . . . It is fortunate that under a Nationalist government these worshippers of economic laws have never had their way but that a nobler and higher goal has been striven after—the maintenance of white civilization.⁴²

In September 1941, *Volkshandel* made a different accusation against capitalism:

Every sober-minded, thinking Afrikaner is fed up to the top of his throat with so-called *laissez-faire*—let-it-be—capitalism, with its soul-destroying materialism and the spirit of “every man for himself. . . .” We are sick of it because of . . . the condition which makes the Afrikaner a spectator in the business of his own country.⁴³

In a speech in October 1934, Daniel François Malan, who fourteen years later became Prime Minister and inaugurated the policy he called *apartheid*, said:

By revolution or evolution, the capitalist system, which is based on self-interest and the right of the stronger, is doomed.

The attacks on capitalism quoted above can be misleading. The ANC once championed socialism, but now it wants to use the productive power of capitalism while preventing the “fittest” from retaining economic control, as they would if capitalism were unrestrained. Similarly, as late as the early 1950s, some Afrikaner nationalists were genuine socialists; most, though, wanted to benefit from capitalism while employing the government to prevent what they accurately perceived would be the inevitable results of unrestrained capitalism: economic, social, and residential racial integration and interdependence, a decline in the standard of living of white manual workers (most of whom were Afrikaners), the end of a distinctively Afrikaans culture, and control of the economy by the “stronger.”

Before preceding, it must emphasize that the transfer of Darwinian terms like “fittest” and “stronger” from biology to economics is extremely distorting since in *laissez-faire* capitalism success

⁴²This and the following quotations are from Walter Williams, *South Africa's War against Capitalism* (New York: Praeger, 1989), pp. 97, 126.

⁴³*Volkshandel* (September, 1941).

can be gained and maintained in only one way: being better than competitors at providing products and services that other people want. For example, in 1908, the least expensive cars cost \$1500. In that year, Henry Ford began selling cars for \$825, and, by 1925, he was selling them for \$260. That made him the “fittest” and “strongest” automobile manufacturer in the world.

Prime Minister Malan and President Mandela used these distorting terms so as to represent themselves as champions of a higher, more refined, and more humane economic system. In fact, though, their real objection is that the “stronger” and “fittest” are the wrong people: whites in general for President Mandela; Anglo-Saxon whites (rather than Afrikaners) and, even more, Jews for Prime Minister Malan.

“Survival” is equally misleading. President Mandela knows that capitalism ensures biological survival better than any other economic system. Many of Henry Ford’s competitors did not “survive” in “ownership and management,” to quote President Mandela, because the public preferred Ford’s cars to theirs, but their biological existence was not endangered.

Most English-speaking white South Africans had only weak emotional ties to South Africa. As such, they did not develop ideological justifications for racial discrimination, as Afrikaners and black nationalists did. Still, they had strong practical reasons for supporting racial discrimination. Some English-speakers, although fewer than Afrikaners, were manual workers, and others sympathized with white laborers. Most importantly, nearly all white South Africans wanted to prevent residential integration because they feared (correctly) that it would expose them to an extremely high rate of crime. Consequently, from well before the 1910 formation of the Union of South Africa, regional South African governments tried to impede racial economic integration, which would lead to residential integration, and to protect white laborers from black competition. The goal of preventing “the stronger” from controlling the economy was, of course, held only by Afrikaners and was not implemented until the Afrikaner nationalists, under Malan, gained sole control of the government in 1948.

Few peoples in world history have had nearly as good or obvious reasons for practicing racial discrimination as white South Africans did. However, the economic self-interest of each individual

is always not to discriminate. So, even in South Africa, whites, acting collectively, had to resort to large-scale government intervention to enforce discrimination, and that intervention was constantly opposed by individual whites and white-owned businesses. David Yudelman, in a classic summary of the interpretations of South African economic history, pointed out that there are “certain intractable facts” that no one can deny:

White industrialists have put continual, concerted pressure on the South African government . . . to allow them to use more black labor, and in more skilled jobs . . . because . . . they see this as a way of becoming more affluent.⁴⁴

The first major confrontation came in gold mining. More than half of South Africa’s export earnings came from gold, and a tax of 42 percent on the profits of gold mines made them the major source of government revenue. This gave mining unions great power, since a strike threat was a national crisis. Consequently, between 1893 and 1918, mining unions obtained more and more legislation restricting the employment of non-whites, especially in skilled jobs. However, the price of gold is determined internationally, so the level playing field that the South African government’s regulations provided against the gold mines’ domestic competitors could not protect them from the losses that inefficient employment policies imposed on them. The mine owners responded to these regulations with as much evasion and illegal hiring as they could get away with. Finally, during 1921, the price of gold fell from 130s. per ounce to 95s., while labor costs per ton had increased by a third since 1915. Despite Prime Minister Smuts’s warning that racial job quotas are “sacrosanct,” the desperate mine owners replaced about a third of their white miners with blacks, and lowered the wages of the other white miners, who now had black competition. The result was one of the bloodiest labor disputes in the history of the world. White miners, many led by Communists and socialists, waving red flags and chanting, “Workers of the world, unite and fight for a white South Africa,” burned, looted, and attacked blacks and police stations. For a few days, the strikers controlled most of Johannesburg and its environs. Order was restored

⁴⁴David Yudelman, “Industrialization, Race Relations, and Change in South Africa,” *African Affairs* 74 (1975): 93.

only by seven thousand soldiers, artillery, aerial bombardments, and tanks. Between 200 and 250 people were killed, over four-fifths of whom were white, and more were wounded. Four strike leaders were hanged and one committed suicide. The mine owners' final victory came in 1923, when the courts ruled that the laws regulating racial mining employment are *ultra vires*. In 1924, the mines had their highest profits since the formation of the Union of South Africa.⁴⁵

Prime Minister Smuts's South Africa Party (SAP) controlled the government that crushed the strike, whereas the National Party, which represented Afrikaner workers, farmers, and nationalists, and the Labour Party, which represented English-speaking workers, supported the strikers. The SAP incurred a great deal of hostility because of the brutal suppression of the strike; the Communist and National Parties accused Smuts of being a "puppet of Goldbergs" (i.e. capitalists).

The next election, in 1924, was won by a coalition of the National and the Labor Party. The new government passed legislation that entrenched racial restrictions in mining employment beyond legal challenge, despite "tremendous pressures by capital to erode the [racial] bar." As a result, between 1935 and 1963, the average annual real rate of return on South African mining shares was only 0.2 percent, and South African mining companies diverted much of their investment abroad. By 1970, many gold mines were kept operating by government subsidies; the annual amount of these subsidies was what the mines would have saved by replacing 70 percent of their white with black workers.

The economic situation of the gold mines would have been even worse if the mining unions and government did not agree to several *ad hoc* relaxations of the color bar to save marginal mines from bankruptcy. In these cases, some of the productivity gains were passed on to white miners in the form of higher wages. As is typical of racial preferences, the beneficiaries of these severe economic dislocations were the elite of the protected group: white

⁴⁵Merle Lipton, *Capitalism and Apartheid (South Africa 1910–86)* (Cape Town: David Philip, 1989), 2nd ed., pp. 112–17, 261, 265; Sowell, *Preferential Policies*, pp. 24–26; Williams, *South Africa's War against Capitalism*, pp. 36–37, 46, 48–60, 71.

mine workers, whose wages were one-third to two-thirds higher than those of white manufacturing workers.⁴⁶

The National-Labour government also made tariff protection for manufacturers conditional on “the employment of a reasonable proportion of civilised workers,” thus compensating for the costs of racial discrimination.⁴⁷ In 1934, the Customs and Tariff Commission explicitly acknowledged that “the greatest competitive drawback of SA industry is the high cost of white labour.” The new government also made the employment of a large proportion of whites a prerequisite for bidding on government contracts, gave unions a key role in determining occupational structure, wages, and access to training, and passed a minimum wage law for the expressed purpose of diminishing the advantage of black over white labor. However, despite these inducements and attempts at coercion, between 1924 and 1940 the proportion of manufacturing employees who were white rose by only four percent (from 38 percent to 42 percent).⁴⁸

Farmers exercised much more political influence than other employers. They were more numerous than other types of employers, and their numbers were magnified by the overrepresentation of rural districts in Parliament. Moreover, most farmers were Afrikaners, while most other employers were English-speaking; and farmers benefited from romantic associations among Afrikaner nationalists. In 1910, more than half of the ruling SAP’s Members of Parliament (MPs) were farmers; in 1948, nearly half of the victori-

⁴⁶T.R.H. Davenport, *South Africa: A Modern History* (Houndsmills, Basingstoke, Hampshire: Macmillan, 1987), 3rd ed., pp. 279–85; Williams, *South Africa’s War against Capitalism*, pp. 58, 60–61, 63, 114–20; Lipton, *Capitalism and Apartheid*, p. 38; A. and B. Standish, “Poor Whites and the Role of the State: The Evidence,” *South African Journal of Economics* 53 (1985): 146.

⁴⁷“Civilised” labour was defined as “the labour rendered by persons whose standard of living conforms to the standard of living generally recognized as tolerable from the usual European standpoint.” It sometimes included Coloureds (i.e. mixed-race), but for the sake of simplicity, I will use it as synonymous with whites.

⁴⁸Lipton, *Capitalism and Apartheid*, pp. 19–20, 38–39, 239; Williams, *South Africa’s War against Capitalism*, pp. 38–39, 62–63, 72–74, 86–87, 101; Sowell, *Preferential Policies*, pp. 27–28.

ous National Party's MPs were farmers, as were 20 percent of the opposition United Party's MPs. Because of their political influence, farmers were the only group of employers who managed to avoid any government intervention in their employment practices. Consequently, agricultural employees, even in skilled and managerial jobs, came to be nearly all black, despite high Afrikaner rural unemployment. At first, farmers championed controls on black job mobility; but, in their need for a skilled, stable labor force, they came to join urban employers in pressuring the government to improve black education and end restrictions on black job mobility and settlement in areas reserved for whites (which did not mean in the same neighborhoods as whites).⁴⁹

Since private employers could not be induced to hire the unemployed whites who were displaced from rural areas, most of whom were unskilled and uneducated, the government supplied employment. As early as 1911, the railroads, which were government-owned, recognized that they had a responsibility to employ unskilled whites, even though they cost much more than blacks; and, in 1920–21, the Forestry Department reported that the employment of white labor is “hardly justify[ed] from the economic . . . point of view, but [is justified] from the social standpoint.”⁵⁰ Between 1924 and 1940, the number of whites employed by the government in relief work rose from fewer than 19,000 to nearly 55,000. The proportion of whites employed by the Railways and Harbours Administration, the largest government employer of manual labor, increased from 9.5 percent in 1924 to 39.3 percent in 1933, and kept increasing until 1940; meanwhile, the proportion of black employees decreased from 75 percent to 48.9 percent between 1924 and 1933.⁵¹

Even in 1923, the Railways Department admitted that it was overstaffed. “By the end of the 1920s, the cost of implementing the civilized labour policy became so embarrassing that the Board of the Railways and Harbours minuted that the Railways need no

⁴⁹Lipton, *Capitalism and Apartheid*, pp. 86–88, 96–98, 258, 282.

⁵⁰Standish and Standish, “Poor Whites and the Role of the State,” pp. 148–50.

⁵¹Williams, *South Africa's War against Capitalism*, pp. 85–86; Standish and Standish, “Poor Whites and the Role of the State,” pp. 151, 154, 159.

longer record the cost of the policy.”⁵² However,

Some public corporations found it impossible to continue the policy of labour recruitment based on socio-political, as opposed to economic criteria. . . . In 1932, ISCOR [Iron and Steel Corporation] announced that, handicapped by the Great Depression, it would no longer employ labour on *humanitarian* and not economic grounds and allowed blacks into its workforce.⁵³

ISCOR’s management, like most white South Africans at the time, regarded racial discrimination as the moral, even “humanitarian” policy, but was prevented from pursuing it by economic considerations. Since economic considerations exercised such a powerful influence even on a government corporation, it is no wonder that private businesses could not be forced to put morality above economics.

In 1933, the National Party fused with the South African Party to form the United Party, but in 1934, twenty right-wing Nationalists formed the *Gesuiwerde* (Purified) National Party (henceforth “NP” in this essay), which controlled South Africa from 1948 until the end of white rule.

In 1951, the Industrial Legislation Commission reported that blacks were replacing whites in the baking, furniture, millinery, sheet metal, and electrical businesses, and that blacks “largely dominate the semi-skilled market and have penetrated the sphere of skilled labour to a not inconsiderable extent.”⁵⁴ The NP then introduced the first direct legislation to control the employment of non-whites in manufacturing and commerce, especially in skilled jobs. It consisted of monthly taxes on employers of urban Africans, and tighter restrictions on blacks entering and staying in towns and cities. However, the economy clearly could not function without black labor, including skilled black labor, so the government constantly granted *ad hoc* exemptions. This gave great arbitrary power to government officials, which the government consciously used as a means to silence business opposition to gov-

⁵²Standish and Standish, “Poor Whites and the Role of the State,” p. 162.

⁵³Standish and Standish, “Poor Whites and the Role of the State,” pp. 162–63, italics added.

⁵⁴Lipton, *Capitalism and Apartheid*, pp. 39, 150.

ernment policies. Indeed, Minister of Transportation Ben Schoeman called job reservation “a sword above an employer’s head.”⁵⁵

Despite this sword over their heads, businessmen continued to fight government interference in their hiring practices, openly in political campaigns and covertly in their business practices. The Riekert Commission reported in 1979 that government officials complained about widespread illegal employment of black workers. It estimated that two-thirds of the clothing factories in the central Transvaal, the economic heartland of South Africa, were employing illegal black workers, and the situation in other industries was probably the same. In fact, businesses “even made provision in their tender prices for the payment of fines.” It also reported that the overwhelming majority of employers complained that bureaucratic control of the black labor supply meant that they could not hire “suitable workers . . . within a reasonable time,” that hiring black workers involved “cumbersome procedures linked with voluminous documentation,” and that these problems were particularly acute for small businesses because they could not hire special staff to deal with labor recruitment. It therefore absorbed much of the time and energy of senior management. Businessmen also complained about the high salaries paid to the bureaucrats who controlled the labor supply. The Riekert Report conceded that government control of labor caused “all kinds of market failures,” but concluded that it was an “absolutely essential social security measure; even though . . . the abolition of such control would lead to faster economic growth.”⁵⁶ Fines on employers of illegal workers were therefore made heavier, and hundreds of employers were fined, despite the fact that government commissions repeatedly found such fines futile.⁵⁷

The situation in non-manufacturing businesses was the same. For example, blacks were legally barred from skilled construction jobs in the early 1950s, and this bar was re-enacted in 1970. Nevertheless, the Industrial Tribunal reported in 1974 that it found

⁵⁵Williams, *South Africa’s War against Capitalism*, pp. 77–79; Lipton, *Capitalism and Apartheid*, pp. 24–26.

⁵⁶Riekert Commission, as cited in Lipton, *Capitalism and Apartheid*, pp. 151–53.

⁵⁷Lipton, *Capitalism and Apartheid*, pp. 151–53.

“alarming malpractices” on visiting building sites, with blacks “openly engaged” in nearly all types of skilled work. Hundreds of building employers were prosecuted, but the illegal employment of blacks in skilled construction jobs kept increasing.⁵⁸

Before that, in the early 1970s, business pressure, black militancy, and international agitation brought the first relaxation of legal restrictions on hiring and promotion since 1948. The savings involved in hiring cheaper black labor could then be openly calculated and recorded; they were huge.⁵⁹

Nevertheless, B.J. Vorster, the Prime Minister at the time, told Assocom (Associated Chambers of Commerce),

Efforts to use business organizations to bring about basic change in government policy will . . . cause . . . harmful friction between the government and the private sector. You cannot ask me to implement policies rejected by the electorate.⁶⁰

In fact, whenever the government’s racial policies were attacked, its “two stock retorts” were that its opponents “were setting out to sabotage South Africa” and that in their “blind worship of *die Mammon van die geldmag*” (Mammon of the money power), they were “prepared to sacrifice white civilization.”⁶¹

Vorster’s predecessor, Hendrik Verwoerd (1958–66), “refus[ed] to address a major gathering of businessmen, whom he charged with ‘paving the way for black domination’ and denounced Assocom as traitors.”⁶² In a way, these accusations were unfair. Nearly all

businessmen shared the dislike and fear of most white townsmen of the problems [especially crime] associated with rapid [black] urbanization and supported some

⁵⁸Lipton, *Capitalism and Apartheid*, pp. 33, 209; Williams, *South Africa’s War Against Capitalism*, p. 105.

⁵⁹Lipton, *Capitalism and Apartheid*, pp. 146–47, 208–9.

⁶⁰Lipton, *Capitalism and Apartheid*, p. 179.

⁶¹Joanna Strangways-Booth, *A Cricket in the Thorn Tree: Helen Suzman and the Progressive Party of South Africa* (Bloomington: Indiana University Press, 1976), p. 210.

⁶²Lipton, *Capitalism and Apartheid*, p. 151.

controls over entry, even while they complained about restrictions on the size of the labour pool and the mobility of *their* workers. Despite this ambivalence, their pressures were consistently for the erasing of controls.⁶³

In order to control where blacks lived, white South Africans had to control the government. So when the editor of the *Rand Daily Mail* took a politically liberal (in addition to economically liberal) line, the newspaper's owners, who were mainly leaders of the mining industry, had him replaced.⁶⁴

Ironically, though, it was Verwoerd, a brilliant intellectual and systematic thinker, who saw the long-range political consequences of the constant war that South African businessmen waged, both legally and illegally, against economic regulations. Similarly, in 1950, a conference of the Action Committee of the Dutch Reformed Churches, which were ardent supporters of *apartheid*, accurately predicted that blacks could not continue to be hired in low-skilled jobs without eventually entering higher-skilled jobs and then demanding political power.⁶⁵

However, it was by no means only businessmen who violated laws which they thought socially desirable: "To build a house in Johannesburg meant either waiting for months for a white, expensive, legal building gang, or finding a black gang. . . . Most customers opted for the quicker, cheaper service."⁶⁶

So whites acting as individuals undermined the one social goal that nearly all white South Africans agreed was necessary: maintaining residential segregation. When the 1950 Group Areas Act systematically entrenched the hodgepodge of previous *ad hoc* segregation laws, PM Malan called it "the kernel of apartheid."

Nevertheless, the urban black population constantly increased, as blacks were sucked into cities and towns by the insatiable desire of businesses for black labor, and of individual whites for domes-

⁶³Lipton, *Capitalism and Apartheid*, p. 150, italics in the original.

⁶⁴Yudelman, "Industrialization, Race Relations, and Change in South Africa," p. 89.

⁶⁵Williams, *South Africa's War Against Capitalism*, p. 13. D.F. Malan, the Prime Minister at the time and the inaugurator of *apartheid*, was an ordained Dutch Reform clergyman.

⁶⁶Sowell, *Preferential Policies*, p. 30.

tic servants. By 1970, more than two-and-a-half-times as many blacks lived in South African cities as in 1936, and nearly 14 times as many as in 1904. This rapid rise in black (and other non-white) urban residents caused a severe housing shortage in non-white areas, and a consequent willingness of non-whites to pay high prices for houses in legally white areas. By the middle 1980s, many urban neighborhoods that were *de jure* white had become *de facto* integrated, or even mostly non-white. Most of these neighborhoods were lower class and lower-middle class. While many of their white inhabitants supported extreme right-wing political parties, they nonetheless eagerly sold their houses to non-whites who offered above-market prices, and they cooperated in various legal subterfuges to circumvent the Group Areas Act.⁶⁷

As was observed, nearly all white South Africans thought that, for social reasons, especially crime, they had to retain control of the government to protect themselves from a black inundation. However, the South African government's economic racial policies were designed overwhelmingly for Afrikaners. Most of the white workers whose jobs were protected from black competition were Afrikaners, as were the manual workers whom the government hired, at great cost, to displace black workers in the 1920s and 1930s, and, to a lesser extent, before that.

More numerous Afrikaner beneficiaries of government intervention in the economy were those in the civil service. In 1936, 59 percent of white civil servants were Afrikaners. However, the better-educated English-speakers controlled the higher civil service ranks. After the NP attained power in 1948, with 75–80 percent of the Afrikaner vote and a negligible English vote, the government became a means of providing white-collar, managerial, and professional employment for Afrikaners.

The civil service and the twenty-two public corporations, which supplied most of South Africa's iron, steel, electricity, telecommunications, railway services, weapons, petrochemicals, etc., were greatly expanded. The annual expenditure of the public sector as a percentage of gross domestic investment rose from 36 percent in 1946 to 53 percent in 1976. By 1968, twice as many Afrikaners held government jobs as had twenty years earlier. By 1980,

⁶⁷Williams, *South Africa's War Against Capitalism*, pp. 111–14.

the government employed 34 percent of economically active white South Africans, and more than 80 percent of all government officials and 85 percent of the army's permanent personnel were Afrikaners (who make up 57 percent of the white population); less than 10 percent of the top positions were still held by English-speakers.

The government also indirectly provided managerial and professional employment for Afrikaners, through government contracts with Afrikaans businesses and firms of Afrikaans professionals (accountants, lawyers, engineers, architects, etc.). In fact, the boards of directors of Afrikaans businesses often included cabinet ministers, and interlocked with the boards of state corporations. Such government favoritism of Afrikaners over non-Afrikaners, who were often manifestly better qualified, was open and unashamed.⁶⁸

Crucial to understanding this blatant favoritism is the fact that under NP rule, from 1948 until Nelson Mandela's presidency, all of South Africa's heads of state, most of its cabinet ministers and NP members of parliament, and nearly all heads of civil service departments and government-owned companies were members of the *Broederbond*. One of the requirements for membership in this "Band of Brothers" was a pledge to give preference to Afrikaner individuals and companies in economic, public, and professional life.⁶⁹

Nevertheless, the NP (and the *Broederbond*, with which it was intertwined) had completely failed to accomplish its main goal since the 1930s: ending non-Afrikaner control of the economy. The ideal of *Volkskapitalisme* ([Afrikaner] people's-capitalism)

⁶⁸Lipton, *Capitalism and Apartheid*, pp. 24, 235, 277, 283–84, 312–13; H. Giliomee, "The Afrikaner Economic Advance," in H. Adam and H. Giliomee, eds., *The Rise and Crisis of Afrikaner Power* (Cape Town: David Philip, 1979), pp. 160–61, 164–66, 168; Sowell, *Preferential Policies*, p. 29; Yudelman, "Industrialization, Race Relations, and Change in South Africa," pp. 88–89.

⁶⁹Giliomee, "Afrikaner Politics: How the System Works," in H. Adam and H. Giliomee, eds., *The Rise and Crisis of Afrikaner Power* (Cape Town: David Philip, 1979), pp. 247–49; Lipton, *Capitalism and Apartheid*, p. 283.

was formulated in the 1930s. Like President Mandela's ideal, it sought to make ethnic advancement more important than profits. It "would entail Afrikaners owning the means of production, investing in and patronizing Afrikaans enterprises, and employing . . . Afrikaner workers." At the *Broederbond* economic congress of 1939, the stated aim was to "mobilize the *volk* [(Afrikaner) people] to conquer the capitalist system, and to transform it so that it fits our ethnic nature."⁷⁰

In the 1930s, before the NP attained power, implementing this ideal involved NP-organized boycotts of Jewish and Indian traders, especially in small towns. However, as always, "while patriotic Afrikaners made some effort to 'buy Afrikaans,' the rank and file have been more interested in prices, quality, design . . . credit terms, and the location of the business." So, "despite all the demagoguery, the Afrikaner masses traded with Indians rather than with the less-competitive Afrikaner businesses."⁷¹

Although consumers chose economic self-interest over morality and patriotism, as they invariably do, white businesses did succeed in removing their Indian competitors through government legislation. In 1950, more than a half century of anti-Indian legislation supported by white (and Coloured) retailers and wholesalers culminated in the provisions of the Group Areas Act, which barred Indian businesses from central business districts in many towns and cities. Hostility to Indians was even greater among blacks, who saw them as "exploiters," than among whites and Coloureds, who saw them as "unfair" competitors. The only major race riot in South African history was the huge anti-Indian riot by blacks in Durban in 1949, in which 142 people were killed.

Although Indian shops had been forced to move to the outskirts of urban areas, they still prospered, because whites, Coloureds, and blacks still bought from them. Between 1950 and 1976, the number of moderate-sized Indian businesses in Natal,

⁷⁰Giliomee, "The Afrikaner Economic Advance," pp. 156–60. The original purpose of calling the congress was to raise money for poor Afrikaners. Typically, nine times more money was raised for Afrikaner businesses than for poor Afrikaners.

⁷¹Giliomee, "The Afrikaner Economic Advance," pp. 156, 167; Williams, *South Africa's War Against Capitalism*, p. 107.

where most South African Indians live, rose from 120 to 900.⁷²

Much more significant is that the NP totally failed to end Anglo-Jewish (especially Jewish) economic dominance, an economic enemy that was personified as “Hoggenheimer,” a name derived from the name of the (racially) Jewish mining magnates, the Oppenheimers. Future PM Verwoerd, writing as editor of *Die Transvaaler* in the 1930s, said that it was the Jews who were blocking Afrikaner economic well-being, and the regulations of the Transvaal branch of the NP explicitly excluded Jews from membership.⁷³

Nevertheless, in 1987, after forty-nine years of the NP unscrupulously exploiting a monstrous government machine, Jews, who amounted to 2.3 percent of the white population, controlled corporations that accounted for 62 percent of the total capitalization of the shares listed on the Johannesburg Stock Exchange, English-speaking Gentiles controlled 27 percent, and Afrikaners only 17 percent.⁷⁴

The beginning of this section had a quotation from President Mandela—an accusation that “our own society [is one] in which many are driven by the unhampered pursuit of self-interest, and . . . money has forcefully taken the place of fundamental values.” Previously, this accusation had been constantly reiterated by Afrikaner nationalists and white racists. However, probably the most socially valuable human characteristic, the characteristic that saves us from self-destruction, is that when most people act individually, economic self-interest is stronger than morality. It is a great misfortune that this is often not true when people act collectively, and that there are people who have no interest in material self-aggrandizement, but are driven by the desire to purify social interactions and human nature and to enhance their countries’ great-

⁷²Williams, *South Africa’s War Against Capitalism*, pp. 106–11; Lipton, *Capitalism and Apartheid*, p. 268; Davenport, *South Africa*, pp. 513–14; Sowell, *Migrations and Cultures*, p. 330.

⁷³Lipton, *Capitalism and Apartheid*, p. 269; Alan Paton, *South African Tragedy: The Life and Times of Jan Hofmeyr*, Dudley C. Lunt, abridg. (New York: Scribner, 1965), p. 201.

⁷⁴*The Economist* (March 15, 1997): 50. These percents add up to more than 100 because of overlap.

ness. If only Lenin, Stalin, Mao, and Hitler had cared about nothing but making as much money as possible, they would have devoted themselves to providing products and services that other people want, instead of murdering tens of millions of innocent, defenseless people.

THE UNITED STATES

Before the 1950s, businesses in the American South opposed or tried to circumvent state and municipal segregation laws because of the expense and effort involved in implementing them. A much-studied case is the resistance of railroad and streetcar companies (which were privately owned) to the laws passed between 1880 and 1910 requiring them to segregate their passengers by race.⁷⁵ In addition to non-compliance with these laws, the streetcar companies fought their legality up to the Supreme Court. They lost in *Plessy v. Ferguson* (1896), in which the Court ruled that “separate but equal” laws are constitutional, a ruling that was not reversed until *Brown v. Board of Education of Topeka* in 1954. The streetcar companies were accused of “as usual . . . putting profits ahead of the welfare of the region.”⁷⁶

Even before slavery was abolished, white Southern individuals put economic self-interest above racial prejudice. Throughout the antebellum South, white workers complained that they could not compete with the wages charged by free blacks. They demanded and sometimes got legal restrictions.⁷⁷

In the 1960s, government-enforced anti-white discrimination replaced anti-black discrimination. As always, racial discrimination has “worked” in education. For decades, a black from a family in the highest ten percent of the American population in socioeconomic status has been given preference in university admission

⁷⁵Jennifer Roback, “The Political Economy of Segregation: The Case of Segregated Streetcars,” *Journal of Economic History* 46 (1986): 893–917.

⁷⁶Edward L. Ayers, *The Promise of the New South: Life after Reconstruction* (New York: Oxford University Press, 1992), p. 143, 144, 433.

⁷⁷Thomas Sowell, “Three Black Histories,” in Thomas Sowell, ed., *Essays and Data on American Ethnic Groups* (Washington D.C.: The Urban Institute, 1978), p. 20; Jared Taylor, *Paved with Good Intentions* (Carroll & Graf: New York, 1992), pp. 28–29.

over a white from the lowest ten percent. At every educational level, the average IQ of American blacks is more than a standard deviation (SD) below that of whites at the same level, usually much lower, with Latinos in between but closer to blacks than to whites. The average racial difference for people with advanced degrees is 1.6 SD. The average black American with a post-baccalaureate degree has approximately the same IQ as the average white American who has no more than a high school diploma. To express that another way, a white who is intelligent enough to graduate from high school would be intelligent enough to get a post-baccalaureate degree if he were black.⁷⁸

Who employs most of these affirmative-action black university graduates? The answer will not surprise anyone who knows anything about economics or discrimination elsewhere. More than 60 percent of black American professionals work for the government compared to a quarter of white professionals.⁷⁹ In fact, 22.8 percent of all blacks in the American labor force are government employees, compared to 14.6 percent of whites, and black overrepresentation among government employees keeps growing.⁸⁰

The concentration of blacks, and especially of university-educated blacks, in government employment is especially remarkable in view of the enormous pressure on businesses since the middle 1960s to hire and promote blacks, and the massive assistance that has been given to black-owned businesses. In 1995 alone, \$5.8 billion in federal procurement funds were shovelled into just one of

⁷⁸Herrnstein and Murray, *The Bell Curve*, pp. 216, 319–22, 463–68, 488, 502–3, 758 n. 27, 764 n. 41; L. Gottfredson, “Societal Consequences of the g Factor in Employment,” *Journal of Vocational Behavior* 29 (1986): 398–406.

⁷⁹Dinesh D’Souza, *The End of Racism: Principles for a Multiracial Society* (New York: Free Press, 1995), pp. 495–96. The proportion of black professionals who work for the government is often reported as half. In fact, half of black professional men and two-thirds of black professional women are government employees. Among blacks who work, the proportion of professional women is 46 percent greater than the proportion of professional men, and many more black women work than black men. See Taylor, *Paved with Good Intentions*, p. 25; also see *Journal of Blacks in Higher Education* (Summer 1998): 86–87.

⁸⁰Thernstrom and Thernstrom, *America in Black and White*, pp. 188–89.

the many set-aside programs for “minority”-owned-and-controlled businesses—the one for “small, disadvantaged businesses,” most of whom did not have to bid against competitors. The federal government is by far the largest consumer in the United States, contracting with private firms for huge amounts of military and civilian building, and buying everything from paper clips to toilet paper to airplanes. Every American state and most cities have similar programs. Despite this massive assistance, only 3.7 percent of blacks in the labor force are self-employed, as opposed to 9.5 percent of whites and a much higher proportion of Jews, Armenians, and Orientals. Moreover, 60 percent of the revenue of black-owned businesses derives from the government. Government assistance to minority-owned businesses is usually justified as providing the start they need to compete in the private sector. In fact, few minority-owned recipients of government contracts survive on their own.⁸¹

Who are the beneficiaries of American affirmative action? Again, the answer will not surprise anyone familiar with affirmative action elsewhere. Systematic studies have shown no significant benefits to the general black American population from affirmative action. Its supporters usually defend it by citing the black poverty rate, and especially the terribly high rate of unemployment among black men in their late teens and early twenties, which is supposedly a major contributor to black crime and illegitimacy. (There is no reason for an unemployed man to marry the mother of his children, or for her to want him to marry her.) However, the proportion of blacks living in poverty declined from 87 percent in 1940 to 47 percent in 1960, and to 30 percent in 1970. Since the inauguration of pro-black discrimination, the racial gap in median income, labor-force penetration, and joblessness has widened, the black poverty rate has not declined at all, and unemployment among black men in their late teens and early twenties is now much worse than it was in the 1950s.⁸²

⁸¹Thernstrom and Thernstrom, *America in Black and White*, pp. 440–42, 459; D’Souza, *The End of Racism*, pp. 495–96; Clint Bolick, *The Affirmative Action Fraud: Can We Restore the American Civil Rights Vision?* (Washington, D.C.: Cato Institute, 1996), pp. 60–61.

⁸²Thernstrom and Thernstrom, *America in Black and White*, pp. 233–34, 245–47, 443–44, 450, 538; see also pp. 80–84, 194–97.

Black columnist William Raspberry summed up the irony of affirmative action when he pointed out that upper- and middle-class blacks cite statistics “to prove that blacks in the aggregate are under-represented in college, graduate school or top management.” As a result, “black executives who hold good jobs get promoted to better ones; blacks who already sit on important corporate boards get other directorships. The people who provide the statistical base get nothing.”⁸³

Let us look at some of the beneficiaries of affirmative action. The most obvious are the many individuals who have obtained affirmative-action university degrees and then affirmative-action professional and managerial jobs, mostly in the government. But other blacks have also benefited. In the federal set-aside program mentioned above for “small, disadvantaged businesses,” none of the beneficiaries has ever been white, but one black-owned company received \$440 million. A September 1994 audit of 50 of these “small, disadvantaged businesses” found that 35 of the 50 owners had a net worth of more than a million dollars and five lived in houses valued at more than \$800,000. This audit was part of an official review of affirmative action by two high-ranking members of the Clinton administration. On the basis of this review, they insisted unconditionally that no affirmative action programs be curtailed, and President Clinton accepted that recommendation.⁸⁴

Furthermore, the legal maximum wealth that an owner of a “small, disadvantaged businesses” can have to be eligible for this program is much less than for many other government programs. For instance, in the program by which the owner of a “small disadvantaged business” gets a government contract if his bid is less than 10 percent higher than the bid of a business owned by a non-Hispanic white, the maximum net worth of the owner of the owner of a “small, disadvantaged businesses” is three times as high.⁸⁵

Many white businesses have also benefited from affirmative action. They benefit not by providing products and services that

⁸³William Raspberry, *Wilmington News Journal* (August 30, 1990).

⁸⁴Thernstrom and Thernstrom, *America in Black and White*, pp. 424, 442–43, 458, 460.

⁸⁵George R. La Noue, “To the ‘Disadvantaged’ Go the Spoils,” *The Public Interest* 138 (2000): 91–98.

other people want, but by finding ways to use affirmative action laws, sometimes legally, sometimes illegally. When the U.S. Department of Transportation studied the composition of the companies that got work between 1982 and 1984 that was “set-aside” for minority-owned building firms, they found that half were ineligible or questionable.⁸⁶

In Atlanta, Georgia, the going rate that white construction firms pay to blacks to sign contracts for them is 15 percent of the contract’s value. The extra 15 percent is paid by taxpayers, in addition to the cost of not contracting with the lowest possible bidder. In 1995, one contractor estimated that a building job that cost \$60,000 in a nearby county, where the lowest bidder got the job, would cost \$100,000 in Atlanta. Other black and white businesses and politicians have profited by the bribery and kickbacks that affirmative action laws encourage.⁸⁷

Affirmative action also provides lucrative employment to many administrators and lawyers, since enforcement is complex and litigation is constant. Each year, about six thousand affirmative action lawsuits are initiated at a cost of \$300 million.⁸⁸

Even the cost to contractors of trying to handle the complex regulations of the Office of Federal Contract Compliance Program (OFCCP) is considerable—6.5 percent of total costs, according to a study by the Arthur Anderson accounting firm. And the OFCCP regulates the affirmative action programs of nearly 200,000 government contractors and subcontractors, with about 26 million employees (24 percent of the entire American workforce).⁸⁹

If the reader suspects that this estimate was exaggerated by some sort of anti-government bias, I will observe that, in 1993, the

⁸⁶Taylor, *Paved with Good Intentions*, p. 139; Herman Belz, *Equality Transformed* (New Brunswick, N.J.: Transaction Publishers, 1991), p. 201.

⁸⁷Thernstrom and Thernstrom, *America in Black and White*, pp. 424, 443, 451.

⁸⁸Richard Epstein, *Forbidden Grounds: The Case Against Employment Discrimination Laws* (Cambridge, Mass.: Harvard University Press, 1992), p. 259.

⁸⁹Bob Zelnick, *Backfire: a Reporter’s Look at Affirmative Action* (Washington, D.C.: Regnery, 1996), pp. 29, 44.

Task Force on Reinventing Government, appointed by President Clinton and chaired by Vice President Gore, estimated that the “cost to the private sector of complying with regulations is at least \$430 billion annually—9 percent of our gross domestic product.”⁹⁰

Bates and Williams, in an article extremely well disposed toward government assistance to minority-owned businesses, and that praises Atlanta for its “ambitious and innovative MBE [Minority Business Enterprise] procurement programs,” summed up the situation:

In many areas of the country, the facade of statistical success in preferential procurement rests on a foundation of misinformation and fraud. According to the Baltimore County Grand Jury, “A great number of certified minority businesses have traded the opportunity to gain a foothold in the construction industry for the quick profit available from selling the use of their MBE name to nonminority firms.” . . . While the nonminority firms that sell to state/local government are much more likely to remain in business than other firms, this positive relationship . . . is entirely lacking for MBEs. . . . The MBE vendor groups with the highest government mean sales was [sic] construction. . . . [Among them] government sales . . . [are] a negative and statistically significant determinant of firm survival. Among MBE construction firms, selling to the government is clearly associated with going out of business. Indianapolis . . . conducted extensive field audits of MBEs holding city contracts in 1992. Thirty percent . . . had their certificates revoked as a result.⁹¹

So far I have been discussing only one type of government support to minority-owned businesses: government contracts. There are many others. For example, the federal government and many states and municipalities force banks to make a substantial proportion of their loans in black neighborhoods. Significantly, black-owned banks direct a considerably smaller proportion of

⁹⁰Vice President Albert Gore, Jr., ed., *From Red Tape to Results: Creating a Government That Works Better and Costs Less* (Washington, D.C.: U.S. Government Printing Office, 1993), p. 32.

⁹¹T. Bates and D. Williams, “Preferential Procurement Programs and Minority-Owned Businesses,” *Journal of Urban Affairs* 17(1995): 7.

their investments to black neighborhoods, black-owned businesses, and black individuals than do white-owned banks. The reason can only be that they are under less government pressure than are white-owned banks to consider race and ethnicity.⁹²

The final questions must always be: Why have black-owned businesses not been able to prosper on their own, and why do blacks remain poorer than whites? The media frequently report studies that claim to show anti-black discrimination in hiring, promoting, lending money, etc. These claims receive massive, uncritical coverage, and then are proven to be unfounded.⁹³

However, anyone who knows anything about racial discrimination in other countries would know that it could not explain the economic situation of black Americans. Surely, white Americans cannot be as bigoted as white businessmen in white-dominated South Africa were generations ago (or even more recently), who constantly risked and paid heavy fines to hire black workers and promote them to skilled positions, or as rural Afrikaners in the 1930s, who ignored the appeals of their elected political leaders to boycott Jewish and Indian traders and patronize Afrikaans-owned businesses, or than Afrikaans farmers, who formed the core of support and leadership for extreme right-wing parties but hired black managers and skilled black workers instead of unemployed rural Afrikaners.

I mentioned above the extensive frauds in Atlanta, Georgia, through which white businesses win contracts with the city government. The population of Atlanta is more than two-thirds black, and, since 1974, it has had a black mayor, a mostly black city administration, and an extremely vigorous affirmative action program, in addition to the federal affirmative action programs it falls under. Surely, discrimination cannot account for the inability of black businesses in Atlanta to take advantage of these programs.

⁹²Taylor, *Paved with Good Intentions*, pp. 57, 184–87; Walter Williams, *The State Against Blacks* (New York: McGraw Hill, 1982), pp. 29–30.

⁹³D'Souza, *The End of Racism*, pp. 276–81; Zelnick, *Backfire*, pp. 321–33; Thomas Sowell, *The Vision of the Anointed: Self-Congratulation as a Basis for Social Policy* (New York: Basic Books, 1995), pp. 40–42; Thernstrom, *America in Black and White*, pp. 446–49, 503–5; H. Rosin, "Cultural Revolution at Texaco," *The New Republic* (February 2, 1998): 15–18; Taylor, *Paved with Good Intentions*, pp. 55–56, 59–61.

These *a priori* considerations are supported by empirical data. In 1989, the Supreme Court ruled in *City of Richmond v. Croson* that city and state governments could use racial criteria for contracts only to redress past discrimination, which included “passive discrimination,” when a government had not ended private discrimination in its jurisdiction. In the decade that followed, state and municipal governments spent \$55 million of taxpayer money for 140 studies to prove past discrimination. The federal government’s Urban Mass Transit Authority spent an additional \$14 million. Also not included in the \$55 million is Atlanta’s \$532,000, 1034-page study, which covered the city’s contracting history from the Civil War. Significantly, a city in the Deep South had to go back to the Civil War to try to find evidence of government discrimination, including passive discrimination. More significantly, not a single one of these studies that has been brought to a trial has ever been found to be valid. But their validity is irrelevant to their purpose.⁹⁴

No matter how poorly done, a several-hundred-page disparity study “proving discrimination” will quiet critics in the political and business community, just by its existence. Few will actually read it and fewer will have the time or tools to analyze it. Once a study exists, the relatively . . . inexpensive trial tactic of seeking a preliminary injunction is usually eliminated. A case . . . involving a disparity study will end up as a costly duel of experts, with the jurisdictions having an enormous advantage in intellectual and fiscal resources [supplied by the taxpayers]. If the contractor wins, the jurisdiction may commission a new study and put the program back in place, until challenged again in court.

There are considerable risks for a . . . contractor challenging an MBE program. The litigation will be long, costly, and uncertain in outcome. The lawsuit may be politically risky . . . since the charge of racism will often be made against the plaintiff. Further, [he is] suing . . . the government, which controls so much of the environment in which contractors work. Contractors [have been] . . . warned by politicians not to challenge MBE

⁹⁴George R. La Noue, “Social Science and Minority ‘Set-Asides,’” *The Public Interest* 111 (1993): 49–61; La Noue, “To the ‘Disadvantaged’ Go the Spoils,” p. 95; Taylor, *Paved with Good Intentions*, pp. 139–40.

programs. . . . Jurisdictions have proven adept at protecting their overall program by granting waivers or settling out-of-court before a ruling is made. . . . When, after three days of trial, the Dade County study was shown to have serious flaws, the county paid \$490,000 settlement to the plaintiffs so it could continue its program.⁹⁵

Dade County, like Atlanta, is in the Deep South, but it could not come up with a report of past discrimination that could withstand three days of trial. New York also paid for a huge study that proved nothing. Nevertheless, Mayor Dinkins then announced that although there would be no quotas, 20 percent of city contracts would go to businesses owned by minorities and women. San Francisco's report also could find no evidence of past discrimination, but its mayor told department heads that their budgets would be slashed if 12 percent of their suppliers were not minority-owned businesses. Memphis began an MBE set-aside program in 1993. In that year, the states of New York and New Jersey reinstated their set-aside programs, which they had suspended because of *Croson*.⁹⁶

In 1995, in *Adarand Constructors v. Peña*, the Supreme Court, in essence, extended the *Croson* ruling to the federal government. The federal government immediately spent \$1.7 million to try to find evidence of past discrimination, in order to justify present discrimination.⁹⁷ This search was necessary since, when the minority business set-aside law was passed, the only evidence for the prior discrimination that the law's supporters offered was the small proportion of contracts that minority contractors had obtained. They did not offer even anecdotal evidence of past discrimination.⁹⁸ In 1996, the Justice Department proposed a study for each industry to show "the level of minority contracting that one would reasonably expect to find in a market absent discrimination or its effects." In 1998, after two years of research, the Department of Commerce

⁹⁵La Noue, "Social Science and Minority 'Set-Asides'," p. 61.

⁹⁶Taylor, *Paved with Good Intentions*, pp. 139–41; La Noue, "Social Science and Minority 'Set-Asides,'" pp. 55–56; Bates and Williams, "Preferential Procurement Programs and Minority-Owned Businesses," p. 2.

⁹⁷Terry Eastland, *Ending Affirmative Action* (New York: Basic Books, 1996), p. 191.

⁹⁸Epstein, *Forbidden Grounds*, pp. 429–30.

issued the study. It proposed that the 10 percent advantage for bids from minority businesses be extended to nearly three-quarters of the \$180 billion procurement budget. Incredibly, this study, which was of such constitutional and budgetary importance, was only twelve pages. Despite repeated attempts, Congress could get no information on how the study was conducted. But enough data have been forced out of the Justice Department by litigation to see that the study's methodology was blatantly flawed, and its conclusions often deliberately fraudulent. One point that the Justice Department did state clearly was that it could find not one instance of anti-minority discrimination by a federal procurement officer. The Commerce Department is preparing a new study. To support it, the government is paying private consulting firms to recruit 30,000 minority-owned businesses *a year* to seek certification as "small disadvantaged businesses" (SDBs). Since the premise on which these studies is based is that "absent discrimination or its effects," the same proportion of SDBs would receive government contracts as the proportion of SDBs in that industry, the huge increase in the number of SDBs will prove that many more should be granted government contracts.⁹⁹

So American federal, state and municipal governments spend huge amounts of white taxpayers' money to enable them to continue discriminating against whites by awarding contracts to companies that will cost taxpayers more to do work than the companies who would have gotten the work if there were no discrimination.

But the question imposes itself again and even more strongly: why are black-owned businesses so few and feeble, even in mostly black cities? Why must the various governments of the United States resort to expensive frauds to enable them to practice massive pro-black discrimination?

Most black Americans say in surveys that they prefer to buy products made by black-owned businesses. However, only four percent of their spending goes to black-owned businesses, and attempts by black-owned business to increase that proportion have failed.¹⁰⁰ Here, the Malaysian situation provides an illuminating

⁹⁹La Noue, "To the 'Disadvantaged' Go the Spoils."

¹⁰⁰D'Souza, *The End of Racism*, pp. 495-96; L. Wynter, "Business and

analogy. Malays continue to do business with Chinese rather than Malays despite resentment at Chinese success that is so intense that it is often manifested in violence. Similarly, a black American is 56 times more likely to commit a violent crime against a white American than *vice versa*. But that statistic seriously understates the true ratio because the United States government classifies 91 percent of American Hispanics as white; Hispanics compose 12 percent of the American population, and have a crime rate three-and-a-half times as high as non-Hispanic whites.¹⁰¹

Yet blacks continue to do business with whites rather than with blacks.

NAZI GERMANY: THE ULTIMATE TEST

For a long time before the Nazis attained power, nearly all Germans thought that Jewish overrepresentation in German economic, professional, and cultural life was a serious problem. In 1880, Portuguese novelist Eça de Queiroz observed:

The motive of this anti-Semitic fury [in Germany] is simply the growing prosperity of the Jewish colony. . . . High finance and small business are both in [Jewish] hands. . . . In the liberal professions he absorbs everything: he is the lawyer with more briefs and the doctor with more patients.¹⁰²

A year earlier, the *Antisemiten Liga* (League of Anti-Semites), the first organization anywhere to have the term “anti-Semite” in its title, began its program by explaining:

The purpose of the association formed under the title “League of Anti-Semites” is to . . .strive . . .toward the one aim of saving our German fatherland from complete Jewification . . . by making it its task to force the Semites

Race,” *Wall Street Journal* (August 17, 1994): B1.

¹⁰¹These and many other facts on ethnic and racial crime in the United States can be found in a report, based on federal and state crime statistics, entitled “The Color of Crime.” It can be ordered for \$5, which includes shipping, by telephoning (703) 716-0900 or emailing AR@amren.com

¹⁰²Eça de Queiroz, quoted by Fritz Richard Stern, *Gold and Iron: Bismarck, Bleichröder, and the Building of the German Empire* (New York: Knopf, 1977), p. 519.

back into a position corresponding to their numbers.¹⁰³

Also in 1879, Adolf Stöcker founded the first anti-Semitic mass movement. In his first anti-Semitic speech, he summarized the Jewish problem:

Jews . . . control the arteries of money, banking and trade; they dominate the press and are flooding the institutions of higher learning.¹⁰⁴

The next year, he summarized the Jewish problem anecdotally:

Recently a corpse was found. . . . The corpse was examined—and at hand were a Jewish physician, a Jewish surgeon, a Jewish judge, a Jewish lawyer—only the corpse was German.¹⁰⁵

The Nazis called the Holocaust “the final solution [*Endlösung*] of the Jewish problem,” and this was the problem that it was designed to solve. In 1922, Hitler said:

The million workmen who were in Berlin in 1914 . . . [are now] thinner, worse clad, poor; but the 100,000 Jews from the East who entered Germany in the early years of the War arrived in poverty, and they are now “made men” riding in cars.¹⁰⁶

In 1928, Hitler said:

We see that in Germany Jewification progresses in literature, the theater, music and film; that our medical world is Jewified, and the world of our lawyers too; that in our universities ever more Jews come to the fore.¹⁰⁷

¹⁰³Quoted by Peter G.J. Pulzer, *The Rise of Political Anti-Semitism in Germany and Austria* (London: P. Halban, 1988), rev. ed., p. 49.

¹⁰⁴See Paul W. Massing, *Rehearsal for Destruction: A Study of Political Anti-Semitism in Imperial Germany* (New York: Harper, 1949), p. 286.

¹⁰⁵Adolf Stöcker, *Die Juden Frage (The Jewish Question)* (Berlin, 1880), p. 138.

¹⁰⁶Adolf Hitler, *The Speeches of Adolf Hitler, April 1922–August 1939: An English Translation of Representative Passages Arranged Under Subjects*, Norman H. Baynes, ed. (London & New York: Oxford University Press, 1942), p. 7.

¹⁰⁷Quoted in Friedländer, *Nazi Germany and the Jews*, p. 102.

In 1935, Hitler justified the Nüremburg Laws, the most stringent anti-Jewish regulations enacted until that time, with the observation:

This legislation is not anti-Jewish, but pro-German. The rights of Germans are thereby to be protected. . . . The Jews, who formed less than one percent of the population, tried to monopolize the cultural leadership of the people and flooded the intellectual professions, such as law and medicine.¹⁰⁸

Albert Speer, Minister of Armaments during the war and Hitler's personal architect, was as close personally to Hitler as anyone could be. In the Foreword to his memoirs, *Inside the Third Reich*, Speer says that his purpose is "to reveal some of the premises which almost inevitably led to the disasters" and that *the* Nazi crime was the murder of the Jews. He constantly stresses that he subjected himself to twenty years of unrelenting and unforgiving self-analysis while in jail following the War. He says that when he joined the Nazi Party and afterwards, "I was not an anti-Semite; rather, I had Jewish friends from my school days and university days, like virtually everyone else."¹⁰⁹ The terrible crime with which he reproaches himself is ignorance of the murder of the Jews, ignorance for which he says "No apologies are possible."¹¹⁰ He says that his culpable ignorance began when he joined the Nazi Party in 1931 without having read its programs. This was inexcusable because "had I only wanted to, I could have found out even then that Hitler . . . was a rank anti-Semite." He explains that he could not have known that from the Nazis' public statements because

The party at that time was confining itself . . . to denouncing what it called the excessive influence of the Jews upon various spheres of cultural and economic life. It was demanding that their participation in these various areas be reduced to a level consonant with their percentage of the population. . . . At that time I was no more an anti-Semite than I became in the following years. In none of my speeches, letters, or actions is

¹⁰⁸ *The Speeches of Adolf Hitler*, p. 733.

¹⁰⁹ Albert Speer, *Inside the Third Reich*, (New York: Macmillan, 1970), p. 16.

¹¹⁰ Speer, *Inside the Third Reich*, pp. 112–13, 376.

there any trace of anti-Semitic feeling or phraseology.¹¹¹

Speer prided himself on two decades of pitiless self-examination and rigorous analysis of the premises that caused the Holocaust, but it never occurred to him that there was anything wrong, unreasonable, immoral, or even anti-Semitic about reducing the proportion of Jews in German economic and cultural life to their proportion in the German population (less than three-quarters of one percent). If Speer felt this way in the context of his memoirs, how much more did the vast majority of Germans feel that way at the time?

Hjalmar Schacht, German Economics Minister from the middle of 1934 until late 1937, provides another striking example. Like Speer, he was, or at least claimed to be, a non-ideological technocrat. After the War, the Nuremberg Tribunal acquitted him, accepting, as do most historians, his claim that he tried as best he could to shield individual Jews and Jewish economic activity from the anti-Semitic assaults of the government for which he worked. He makes the same point in his autobiography, *76 Jahre meines Lebens*, published in 1953. However, he also wrote,

No one begrudged him [the Jew] the fact that he could freely engage in commerce and industry. But when the legal and medical professions showed an unusually high percentage of Jews . . . [and the theater, the press, and music] were under Jewish control, then this constituted the incursion of an alien spirit into the spirit of the host people.¹¹²

Similarly, Thomas Mann wrote in his diary on April 9, 1933, “[It is] no great misfortune that Jewish domination of the legal system has been ended. . . . I could to some extent go along with the rebellion against the Jewish element.”¹¹³ Shortly afterward, Mann resigned from the Prussian Academy of Arts rather than take an oath of loyalty to the Nazi regime, and went into exile from Germany with his Jewish wife.

¹¹¹Speer, *Inside the Third Reich*, pp. 19–20.

¹¹²Hjalmar Schacht, *76 Jahre meines Lebens (My First 76 Years)* (Bad Worishofen: Kindler und Schiermeyer, 1953), p. 450.

¹¹³Thomas Mann, *Diaries, 1918–1939* (London, 1984), p. 150.

In assessing the failure of the Nazis' pro-Aryan affirmative action policy, the views of these Germans, who prided themselves on not being anti-Semites, must be kept in mind.

As is typical of discrimination, the Nazis easily forced Jews out of government employment, where they had always been few, soon after they attained power. The Nazis also forced the Jews out of the universities, where they had been extremely numerous. Nazi Education Minister Rust pointed out that before the Nazi takeover:

The most important chairs at so-called German universities were filled with Jews. Positions were vacated [by Aryans] to allow them [Jews] to pursue their parasitic activities, which were then rewarded with Nobel Prizes.¹¹⁴

However, ousting Jews from the professions and business was incomparably more difficult. By March 1933, in many cities, Jewish lawyers were being dragged from their offices and even from courts during proceedings and beaten.¹¹⁵ But sporadic violence did not satisfy the eagerness of Gentile lawyers to rid themselves of Jewish competition. At its March 14, 1933 convention, the League of National Socialist Lawyers called for a purge of all courts, and for new elections to the bar associations to make sure they were "free of all Jews and Marxists." (The number of Marxist lawyers was negligible.) The National Association of Lawyers excluded Jews, and prohibited its members from operating joint practices or sharing joint premises with Jewish lawyers. On March 21, Prussian Commissar Hans Kerrl ordered that the proportion of Jewish lawyers who could practice "correspond . . . to the proportion of Jews in the rest of the population." Even before April 7, when the Law for the Reestablishment of the Civil Service excluded Jews from government employment, Jewish judges and district attorneys were "requested to take a short vacation."¹¹⁶

¹¹⁴Cited in Saul Friedländer, *Nazi Germany and the Jews* (New York: Harper Collins, 1997), p. 57. During the Weimar Republic (1919–1933), of the nine Germans who won Nobel Prizes, five were Jewish. Jews comprised 0.74 percent of the German population.

¹¹⁵K.H. Jarausch, "Jewish Lawyers in Germany, 1848–1938: The Disintegration of a Profession," *Year Book of the Leo Baeck Institute* 36 (1991): 181–82.

¹¹⁶Avraham Barkai, *From Boycott to Annihilation: The Economic Strug-*

Violence, legal and professional exclusion, and the (justified) fear by potential clients that courts would be biased against their cases if they were represented by Jewish lawyers took a heavy toll. By June 1933, 30 percent fewer German Jewish lawyers were practicing than in February, but they still constituted 16.25 percent of all German lawyers, 22 times the proportion of Jews in the German population. And that ratio is calculated on the premise that the German Jewish population was the same in June as in February, which it was not.¹¹⁷

By 1935, Jewish lawyers were prohibited from representing even Jewish clients as court-appointed lawyers for the indigent, defense lawyers, and trustees in bankruptcy proceedings. However, in 1937, 55 percent of Jewish lawyers who had been practicing in the beginning of 1933 were still working. The Jewish population of Germany had declined by 27 percent. Furthermore, more than 60 percent of the emigrants were between 20 and 45 years old, and most were men. By 1939, the ratio of German Jewish women to men was 1.37 to 1. If only the number of Jewish men of working age is considered, Jewish overrepresentation in the legal profession with respect to their proportion of the general population was probably not much less in 1937 than it had been in June 1933.¹¹⁸

Restrictions against Jewish doctors began to be enacted at the same time as those against Jewish lawyers. On April 7, 1933, the mayor of Munich announced that Jewish doctors working for the government could practice only on Jewish patients. On April 22, the Baden Medical Association announced that all Jewish doctors would be dismissed from official posts, and that they henceforth could practice only on Jews. During the next few months, Germany's other states enacted similar restrictions. In many cities, including Berlin, welfare offices were told not to refer patients to

gle of German Jews, 1933–1943, William Templer, trans. (Hanover, N.H.: University Press of New England, 1989), pp. 15–16; Jarausch, “Jewish Lawyers in Germany, 1848–1939,” p. 180. Friedländer, *Nazi Germany and the Jews*, p. 29.

¹¹⁷Friedländer, *Nazi Germany and the Jews*, p. 29; Barkai, *From Boycott to Annihilation*, pp. 3–4, 25–28.

¹¹⁸Barkai, *From Boycott to Annihilation*, pp. 55, 68, 154.

Jewish doctors. In May 1934, the national government barred Jewish doctors, as well as non-Jewish doctors who were married to Jews, from various government-supported health insurance plans. This meant that patients in these programs could no longer be reimbursed for the medical expenses incurred with a Jewish doctor. This was an extremely serious blow. In 1928, 33 percent of all Germans were in these programs, and the Nazis increased that proportion rapidly when they attained power.

The same exclusion was applied to Jewish dentists in February 1935. The government also urged the public to avoid Jewish doctors. By July 1935, the radical Party press was demanding the death penalty for Jewish doctors who treated Gentile patients. Meanwhile, "Time and again, Jewish doctors were picked up at their homes or from the street and taken to camps or jails, sometimes never to be seen again." In many cases, no charge was brought against the arrested, but a common accusation was made that Jewish doctors were taking sexual advantage of female patients, nurses, and receptionists. Gynecologists and obstetricians were those most at risk from this accusation.¹¹⁹

The Nüremberg Law of September 1935 and the consequences that followed from it were another serious blow to the occupational viability of Jews, especially Jewish doctors. The outlawing of sexual relations between Jews and Gentiles increased the frequency and gravity of accusations of sexual misconduct. Moreover, no Jew was allowed to employ a Gentile woman under the age of 45. That meant that many Jews lost the service of their secretaries, receptionists, and (in the case of doctors) nurses. Then, the Reich Physicians' Ordinance of December 13, 1935, formalized explicitly what had been unofficial policy for some time. No one who was one-quarter or more Jewish could be licensed to practice medicine as long as the proportion of Jewish doctors exceeded the proportion of Jews in the population.¹²⁰

¹¹⁹Robert Proctor, *Racial Hygiene: Medicine under the Nazis* (Cambridge, Mass.: Harvard University Press, 1988), pp. 91, 144, 148; Barkai, *From Boycott to Annihilation*, pp. 26, 29–30, 56; Michael H. Kater, *Doctors under Hitler* (Chapel Hill: University of North Carolina Press, 1989), p. 189–92.

¹²⁰Kater, *Doctors under Hitler*, pp. 193–95.

Innumerable subsequent local and national, legal and extra-legal impediments were put in the way of Jewish doctors. Typical examples are: in October 1936, a national law forbade state officials from visiting Jewish doctors; in July 1936, the Labor Front of Hamburg denied reimbursement for medical certificates from Jewish panel doctors; a month later, the local panel fund of Dresden prompted patients to choose only Aryan doctors; in Hamburg in 1937, Party members were stationed in front of Jewish doctors' offices and registered the name of every Gentile visitor.¹²¹

In addition, German Gentile doctors were as ready as German Gentile lawyers to use whatever means they could to rid themselves of Jewish competition, including hiring thugs to smash the offices and equipment of their Jewish colleagues. This was illegal, but Jewish victims were rarely able to obtain legal redress. Between 1933 and 1945, three times more doctors were members of the Nazi Party, and at least seven times more were members of the S.S. than their proportion of the general population. (The only occupation whose members were more disproportionately represented in the S.S. was lawyers, twenty-five times their proportion of the population.)¹²²

These governmental and professional measures reduced the number of Jewish doctors considerably. By early 1934, the proportion of German doctors who were Jewish was down to 11.4 percent, but that was still 15 times the proportion of Jews in the German population. And, again, that ratio is calculated on the premise that the German Jewish population was the same as it had been a year earlier, which it was not. Even in June 1937, 10 percent of German doctors were Jewish.¹²³ As in the case of the legal profession, Jewish overrepresentation in the medical profession with respect to the proportion of Jewish men of working age in the general population was probably not much less in 1937 than it had been in 1933.

Restrictions and harassment of Gentiles consulting Jewish doc-

¹²¹Kater, *Doctors under Hitler*, p. 195.

¹²²Kater, *Doctors under Hitler*, pp. 54–55, 68–70, 199, 242–44; Michael H. Kater, "Everyday Anti-Semitism in Prewar Germany: The Popular Bases," *Yad Vashem Studies* 16 (1984): 150–53.

¹²³Kater, *Doctors under Hitler*, pp. 187, 221.

tors and lawyers were earlier and more stringent than those against Jewish clients. Clearly, though, many German Gentiles sought the services of Jewish doctors and lawyers despite the barriers put in their way, sometimes even violating the law to do so, and often preferred Jewish doctors to Gentile doctors, even though fees paid to Gentile doctors were reimbursed by the government, while fees paid to Jewish doctors were not.

Thus, despite the generations-old idea held by nearly all German Gentiles that Jewish overrepresentation in the professions was a serious problem, many obviously regarded Jewish professionals to be so superior to Gentile professionals that it was to their self-interest to prefer them to Gentile professionals no matter what the impediments. That is why there had always been so many Jewish professionals, and why they had been extremely successful.

The German government finally terminated most professional activities by Jewish doctors and lawyers in late 1938, although even after that it allowed exceptions.¹²⁴ The question is why it waited so long. The statistics on the number of German Jewish professionals are from the German government. Thus, government officials knew that their attempts to solve the problem of Jewish overrepresentation were being circumvented on a massive scale. Yet, solving that problem was their highest priority, and was a goal that much more moderate anti-Semites had constantly insisted was vital.

That the Nazis were embarrassed by the slowness with which they solved this crucial problem is obvious from the following passage in a 1942 textbook written by Rudolf Ramm on the professional, ethical, and legal responsibilities of the doctor, which was required reading for all German medical students.

One of the first measures of the National Socialist medical leadership [in 1933] was cleansing the profession from politically unreliable and racially foreign elements. . . . When one reflects on the fact that in 1933, among 50,000 physicians active in Germany, 13 percent were Jewish, and that in Berlin, this was more than 60 percent; if we consider Austria, too, where the figures for Vienna were close to 67 percent, then one gets a sense of the enormous influence wielded by the Jew within medicine. . . . Today, however, one can al-

¹²⁴Barkai, *From Boycott to Annihilation*, pp. 121–22.

ready see what a blessing it has been that the Jews were forcibly excluded from the vital professions.¹²⁵

Ramm greatly exaggerated the speed with which the Nazis solved this problem in order to hide the embarrassing fact that they compromised their often-stated and deeply felt principles by taking so long to solve the Jewish problem in medicine. There is only one explanation for why they sacrificed principles to expediency: "Hitler took into account German public opinion."¹²⁶

Even though collective German public opinion regarded Jewish overrepresentation in the professions as a serious problem, the aggregate of German individuals nonetheless preferred employing Jewish lawyers and doctors, despite the impediments placed in their way. These individuals included many civil servants, whose conduct was closely scrutinized and whose jobs were terminated for political indiscretions. They even included Nazi Party members.

Civil servants and even members of party organizations were reluctant to surrender their trusted Jewish doctors. To check the state officials, the NSDAP [Nazi Party] in Baden passed an edict in June 1935 announcing their exclusion from the German civil servants' union should they not drop their Jewish doctors (as well as lawyers). And in Ulm . . . where the party had managed to obtain the patient list of two Jewish panel physicians, the authorities were shocked by the large number of civil servants still frequenting those doctors.

But the wrath of the Nazis knew no bounds when they found out how many of their own number still engaged Jewish doctors—those people were traitors. . . . The examples were ample. . . . After her suicide attempt, Eva Braun, the Führer's mistress, was treated by . . . Jewish Dr. Martin Marx. . . .

In Thuringian Erfurt a few weeks later the local NSÄB [Nazi Physicians' League] and KVD [Associa-

¹²⁵Proctor, *Racial Hygiene*, pp. 90, 154. Ramm's statistics are somewhat inaccurate. Jews constituted 16.5 percent of all German doctors and 52.1 percent of those in Berlin at the beginning of 1933, when Jews comprised less than 0.75 percent of the national population. See Proctor, *Racial Hygiene*, p. 149. Of course, his statistics did not need to be completely accurate to show the enormity of the problem.

¹²⁶Friedländer, *Nazi Germany and the Jews*, p. 69.

tion of German Health-Insurance Physicians] functionary Dr. Curt Staeckert issued a circular complaining about the increasing popularity of Erfurt's sixteen Jewish panel physicians. Charging that those doctors had at least doubled their incomes (which he was in a position to know as local head of the KVD) and that the incomes of some "Aryan" physicians had receded accordingly, he vented his rage against the real culprit, the National Socialist patient. . . . Staeckert served notice that henceforth he would control the patients and would cause the immediate dismissal of recalcitrant party and SA members. Civil servants and even private employees would not escape his punishment either. [But] "Aryan" patients, including civil servants and party cadres, were reluctant to leave their Jewish doctors.¹²⁷

The situation of Jewish businesses was the same. As among professionals, Gentile competitors, acting individually and through municipal chambers of commerce and national trade associations, eagerly supplemented government anti-Jewish activities, and the government itself was not sluggish in taking action. On March 28, 1933, it called for a nationwide boycott of Jewish professionals and Jewish-owned businesses beginning on April 1, a Saturday, the day on which Germans did most of their shopping; in many cities and towns, the local government began the boycott a day early. The directive in which the boycott was announced stated that its goal was that "the number of Jews employed in all professions [be] in keeping with their percentage of the total German population," which had always been the basic anti-Semitic demand.¹²⁸

Jewish businesses were covered with posters and graffiti with statements such as "Every mark in Jewish hands is stolen from the Fatherland." Two S.A. men, who were now auxiliary members of the police, were posted in front of Jewish businesses, chanting, shouting, and passing out leaflets. Often they used force to try to stop customers from entering, and/or showered them with insults, rubber-stamped their faces with abusive slogans, took their pictures and/or wrote down their names and then posted lists of "trai-

¹²⁷Kater, *Doctors under Hitler*, pp. 190–91, 194.

¹²⁸Kater, "Everyday Anti-Semitism in Prewar Nazi Germany," pp. 153–55; Ian Kershaw, *Popular Opinion and Political Dissent in the Third Reich: Bavaria 1933–1945* (New York: Oxford University Press, 1983), pp. 245–46; Barkai, *From Boycott to Annihilation*, pp. 17–19, 64.

tors to the people” on bulletin boards or published them in newspapers with their pictures. All these tactics were repeated in subsequent local boycotts.¹²⁹

The boycott should have had a powerful impact. Forty-five percent of employed German Jews were in retailing, as owners, family members, or employees. As in all endeavors, Jewish success in retailing was strikingly disproportionate to their numbers. Jews owned 6 percent of all German retailing businesses, but accounted for 26 percent of retail sales and 79 percent of department-store sales.¹³⁰ Moreover, most of the Jews in industry and the crafts owned small businesses. But the Nazi press bemoaned the lack of cooperation against the “enemies of the people.” In fact, the announcement of the forthcoming boycott triggered panic buying in Jewish stores before it took effect.¹³¹

The boycott’s failure was not caused by deficient anti-Semitism. George Messersmith, the American consul in Berlin, reported both that Germans ignored the boycott and that anti-Semitism was pervasive.¹³²

However, the nationwide boycott was only the official proclamation of a war. During the rest of 1933, local boycotts were

¹²⁹Klaus P. Fischer, *The History of an Obsession: German Judeophobia and the Holocaust* (New York: Continuum, 1998), pp. 244–45; Barkai, *From Boycott to Annihilation*, p. 19; Michael Burleigh and Wolfgang Wippermann, *The Racial State: Germany, 1933–1945* (Cambridge & New York: Cambridge University Press, 1991), pp. 77–78; R. Gellately, *The Gestapo and German Society: Enforcing Racial Policy 1933–1945* (Oxford: Clarendon Press, 1990), p. 109.

¹³⁰Barkai, *From Boycott to Annihilation*, pp. 6–7; Donald L. Niewyk, *The Jews in Weimar Germany* (Manchester: Manchester University Press, 1980), p. 13.

¹³¹Friedländer, *Nazi Germany and the Jews*, pp. 22–25; Sarah Ann Gordon, *Hitler, Germans, and the “Jewish Question”* (Princeton, N.J.: Princeton University Press, 1984), pp. 168–69; Barkai, *From Boycott to Annihilation*, p. 23. On the evening of March 31, Goebbels announced that the boycott would last for only one day. But that was not known before the boycott, and the next day most people were not aware of it.

¹³²Richard Breitman, *Official Secrets* (New York: Farrar, Straus, and Giroux, 1998), pp. 20–21.

implemented in several cities, some lasting two weeks. Moreover, beginning in July, many municipal governments prohibited recipients of welfare vouchers, which were issued to welfare recipients and young married couples, from using them in Jewish stores. This became national policy in March 1934. Beginning in October 1933, many regional Nazi Party organizations and government agencies forbade government employees and Party members from buying in Jewish stores.¹³³

A new wave of boycotts erupted in the spring and summer of 1935, accompanied with an unprecedented level of violence against Jews, their property, and their customers. It was regionally, not nationally, coordinated, but all parts of the country were affected at various times. However,

Given the massive extent of the intimidation and coercion, it is remarkable how difficult the Nazis found it to break the ties between Jews and their non-Jewish customers. Reports from many parts of Germany, emanating from Nazi and non-Nazi sources, indicate how little the mass of Germans were persuaded by Nazi propaganda. . . . In Pomerania, for example, where the NSDAP [Nazi Party] had some of its best [electoral] results before 1933, the Gestapo office at Stettin reported . . . that a large proportion of the population—workers, better-off sections of the bourgeoisie, even *Beamte* [civil servants] and Party members, and above all, the rural population—were still shopping overwhelmingly in Jewish stores, saying they were cheaper, had a better range of choice. . . . Reports from Baden and in the South-West noted that Jewish shops were “overcrowded” and that people, undeterred by harassment and intimidation, were going where things were cheapest. In Mannheim, . . . Jewish department stores were doing “splendid business.” . . . The Munich *Polizeidirektion* [police directors] saw the massive success of the annual sales at the leading Jewish clothing store in the city as a sign that many women still “had not understood nor want to understand the lines laid down by the *Führer* for solving the Jewish question.” . . . In many places there were reports of Nazi Party members and even functionaries purchasing their goods at Jewish shops. One Jewish firm in Pirmasens had allegedly been

¹³³Barkai, *From Boycott to Annihilation*, pp. 35–36, 56.

making *Arbeitsdienst* [government labor-service] uniforms at favorable prices for the “Aryan” concern which had farmed them out.¹³⁴

[These actions] were determined wholly by material considerations and by economic self-interest . . . nor was there any notable sign of support for the Jews as Jews Nazi pressure on the boycott issue encountered, therefore, no solid principled objections and no opposition from any institutions, such as the churches.¹³⁵

When . . . non-Jews in Falkenstein . . . were forbidden to patronize Jewish stores, they travelled to neighboring Auerbach, where they could still patronize the Jewish stores; in turn, non-Jews in Auerbach travelled to Falkenstein for the same purpose. For large-scale purchases, non-Jews from both towns travelled to Plauen, where there was a Jewish department store: “If you happened to know someone you ran into there, neither of you had seen the other. That was the tacit understanding.” . . . Even [Nazi] party members . . . were not deterred from doing business with Jews. . . . While hordes of party activists were beating up Jews, other party members were faithfully buying at Jewish shops.¹³⁶

The same gap between the avalanche of propaganda and the public reaction to it emerges from surveys in the Trier area. . . . Notices were posted demanding a boycott of Jewish shops, windows were smashed, and Jews were beaten up in the streets. . . . Yet . . . the majority of the population . . . continued shopping at Jewish stores. In one shop during Easter sales there were so many customers that the Jewish shopkeeper was forced to close several times, in order to serve all of them properly. . . . We rarely find rejection of Nazi antisemitism on ethical principles, or indignation based on humanitarian values. . . . The real motives . . . [were] utilitarianism or self-interest.¹³⁷

¹³⁴Ian Kershaw, “The Persecution of the Jews and German Popular Opinion in the Third Reich,” *Year Book of the Leo Baeck Institute* 26 (1981): 266. This type of subterfuge is, of course, the invariable and inevitable accompaniment of affirmative action.

¹³⁵Kershaw, “The Persecution of the Jews and German Popular Opinion in the Third Reich,” p. 268.

¹³⁶Friedländer, *Nazi Germany and the Jews*, p. 126.

¹³⁷David Bankier, *The Germans and the Final Solution* (Cambridge,

The Gestapo stations in Cologne and Düsseldorf observed, “When the worker is asked why doesn’t he support small German enterprises, he answers that he goes where things are sold cheap.”¹³⁸

Nazi party members who made large purchases at Jewish shops included Hermann Göring, and many prominent Germans continued to keep their assets in Jewish banks. High Nazi party members patronized Jewish-owned hotels despite official boycotts, and some even formed business partnerships with Jews. As a result, a Nazi administrator reported that even under Nazi rule, “In business life the Jewish presence is still getting stronger.”¹³⁹

The same situation prevailed in rural areas, where

The main issue was the remaining dominance . . . of the Jewish cattle-dealer, the traditional middle-man and purveyor of credit for untold numbers of German peasants. Despite vicious intimidation and ceaseless propaganda, . . . ideology was less important than economic self-interest. Most peasants were unconcerned with the racial origin of the cattle-dealer as long as his prices were good and his credit readily forthcoming. . . . The authorities noted with disgust the basic pragmatism and blatant economic self-interest of the peasantry, as a result of which “the Party’s long task of enlightenment is quickly brought to nothing.” . . . In the Palatinate, the mood among small winegrowers was reputedly very poor in 1935 because the Nazis were driving out the Jewish dealers and replacing them with “Aryans,” who were unable to provide the same supply of credit. Similar complaints were made in Bavaria. “Aryan” cattle-dealers had little capital and could not offer prices comparable with those of their Jewish rivals. The consequence was that . . . even as late as 1937 the Gestapo at Munich were forced to concede “shocking results” arising from their enquiry into relations of peasants and Jews.¹⁴⁰

The wholesale cattle trade in the Ebermannstadt area

Mass.: Blackwell, 1992), pp. 72–73.

¹³⁸Bankier, *The Germans and the Final Solution*, p. 93.

¹³⁹Friedländer, *Nazi Germany and the Jews*, pp. 126–28, 232–33.

¹⁴⁰Kershaw, “The Persecution of the Jews and German Popular Opinion in the Third Reich,” p. 267.

was in 1935 still “to a good ninety per cent” in Jewish hands, and enquiries in autumn 1936 came to the “regrettable” conclusion. . . . “Here the cattle-Jew trafficks just as ever in farmhouses. When questioned, the peasants explain almost in unison that the Jew pays well, and pays cash, which is not the case with Aryan dealers.” . . . Even Party members and village mayors were not adverse to keeping ideological precepts and practical profits separate. There are numerous instances on record of functionaries and local dignitaries trafficking with Jews. . . . [At] the end of 1937, a not untypical report from a village in Lower Franconia shows the position clearly. The mayor stated that it was difficult to provide a list of names of peasants dealing with Jews, as requested, since apart from Party members almost all peasants still carried out their transactions with Jews. . . . Peasant attitudes were determined almost wholly by material considerations and economic self-interest. . . . The fourfold increase in sales of the [fanatically anti-Semitic] *Stürmer* during the first ten months of 1935 . . . was testimony . . . to the fact that anti-Semitism was gradually gaining ground in popular opinion. And certainly the fact that peasants continued to trade with Jewish dealers does not make them pro-Jewish. . . . The only question that mattered was the price of the cow. . . . In one Upper Bavarian village, where some peasants were worried that the anti-Jewish notices set up by the Hitler Youth would deter Jews from coming to buy up their hops, the boards—“Jews not wanted here”—disappeared . . . [and were] replaced with an amended text: “Jews very much wanted here.”¹⁴¹

The peasantry seemed unwilling to forgo the services of the Jew as shopkeeper or cattle dealer: “because of the economic advantages they gained from dealing with Jews who paid cash and sold on credit; they [the peasants] were reluctant to make the move to the Aryan cattle dealers whom the Nazis tried to encourage.” . . . The peasants often chose to buy solely in Jewish stores . . . “because at the Jew’s it is cheaper and one has a greater choice [of merchandise].”¹⁴²

¹⁴¹Kershaw, “The Persecution of the Jews and German Popular Opinion in the Third Reich,” pp. 241–44.

¹⁴²Friedländer, *Nazi Germany and the Jews*, p. 126.

Economic self-interest prevailed not only over intensive propaganda and the long-held and nearly universal belief that Jewish economic predominance is a serious problem, but also over the danger of physical violence. To use the examples again of stores and cattle dealers: Nazi thugs “not only attack[ed] Jewish stores in broad daylight but also assault[ed] their owners, their customers, and sometimes even their Aryan employees.” Peasants who dealt with Jewish cattle dealers, like customers of Jewish stores, were denounced by name in newspapers, and, “for example, approximately one hundred SA men descended on the cattle market . . . and indiscriminately attacked both [Jewish] dealers and their customers, causing some to suffer severe injuries.”¹⁴³

The incident just described, which was typical, occurred in July 1935. Yet, in November 1935, a Gestapo report stated, “The Jews almost completely control the cattle trade . . . they have transferred their activities to late evening or to night time.” Almost a year later, a government report warned, “The peasants’ business relations with Jews have assumed such a dimension that the political leadership felt prompted to intervene energetically.”¹⁴⁴

This situation prevailed even in Middle Franconia, where the fanatically anti-Semitic Julius Streicher was *gauleiter*, and which had long been one of the most anti-Semitic regions in Germany, maybe the most anti-Semitic, and one of the few regions in which the population joined in anti-Jewish violence. It was also a region in which those labeled as “‘friends of the Jews’ were exposed to practically the same danger as Jews themselves.”¹⁴⁵

In 1936–7 the Party . . . made renewed attempts to destroy trading contacts with Jews. The revitalized boycott encountered little sympathy, it seems, even in Streicher territory. Those who stood to gain economically through trading in Jewish shops, trafficking with Jewish cattle-dealers, providing accommodation for Jewish visitors to tourist resorts, or finding work in Jewish-owned firms were not eager to . . . boycott Jews.

¹⁴³Friedländer, *Nazi Germany and the Jews*, pp. 137–38; Gellately, *The Gestapo and German Society*, p. 109.

¹⁴⁴Friedländer, *Nazi Germany and the Jews*, p. 233.

¹⁴⁵Kershaw, “The Persecution of the Jews and German Popular Opinion in the Third Reich,” pp. 235–38.

Economic self-interest clearly prevailed over ideological correctitude.¹⁴⁶

In late 1935 . . . hop-growers from communities around Hersbruck (Middle Franconia) who dared sell to Jewish traders were branded as traitors and marched through villages with signs round their necks. Such measures hardly met with instant success, for as late as mid-1937 long lists of those who kept dealing with Jews were drawn up and direct pressure applied. The situation was the same across Bavaria; districts with a tradition of Jewish cattle-dealing (which included even anti-Semitic areas such as Middle Franconia) had to be forced to give them up, and when, in 1938, Jews were finally driven from the trade altogether, the mutterings of the peasants indicated that they were missed.¹⁴⁷

A 1937 Nazi Party report still complained that “large parts of the population, and even of the Party community, do not bother . . . even about the most basic demand, namely not to buy from the Jew. This . . . [is] sabotage.” In April 1938, most of the Jewish small businesses that had existed in Berlin before the Nazi take-over were still functioning, which means that Jews were still vastly overrepresented in German business. Jewish businesses continued to operate even after the ban that Göring issued in late 1938 against all Jewish business activity. In 1939, many of the members of a German crowd, watching Jews who had been transported to the French border and sent back to Germany by the French, remarked that the Aryans who had taken over Jewish businesses “are more expensive and have poorer quality goods.”¹⁴⁸

Even Adolf Hitler bought drapery from Wallach, a Jewish textile-manufacturing firm. In fact, the curtains on the windows of his retreat, the Berghof, were clearly identifiable by their distinctive designs as being Wallach’s. (Göring was another of Wallach’s customers.)¹⁴⁹

¹⁴⁶Kershaw, “The Persecution of the Jews and German Popular Opinion in the Third Reich,” p. 240.

¹⁴⁷Gellately, *The Gestapo and German Society*, p. 105.

¹⁴⁸Friedländer, *Nazi Germany and the Jews*, pp. 233, 235, 237, 302, 317, 323.

¹⁴⁹T. Barta, “Living in Dachau: Bavarian Catholics and the Fate of the Jews, 1893–1943,” in John Milfull, ed., *Why Germany?: National Social-*

Obviously, most of these Jewish businesses could not keep functioning without Aryan employees.

Economic interest predominated over ideology also among workers who felt the threat of unemployment if their Jewish employer were ruined. Enquiries into the overwhelmingly Jewish ownership of cigar factories in Lower Franconia in 1935 met with the unanimous response that the population were [*sic*] glad to have work and did not ask whether the employer was an “Aryan” or a Jew.¹⁵⁰

The situation in music was the same.

Most Jewish musicians emigrated during the first three years of Hitler’s regime, but to the Nazis’ chagrin, it was more difficult to get rid of Jewish tunes. . . . [Arguments] that audiences often asked for such music . . . were refuted on the grounds that it was the duty of “Aryan” musicians to educate their listeners by consistently presenting non-Jewish programs.¹⁵¹

The problem that the Nazis faced in trying to force a highly anti-Semitic population to stop preferring Jews over Gentiles in business and culture was an old one. Wilhelm Marr, who founded the Anti-Semitic League in 1879,

accused women of causing the failure of the anti-Semitic effort “Don’t Buy from Jews.” The women broke the boycott by buying from (presumably cheap) Jewish stores and by filling the theaters . . . [owned] by Jews.¹⁵²

It has often been observed that Hitler did not differ from most people in his ideas, but in the absoluteness with which he held those ideas and the unsentimental thoroughness with which he put them into effect. “Hitler’s originality lay not in his ideas, but in the terrifying literal way in which he set to work to translate those

ist Anti-Semitism and the European Context, (Providence, Rhode Island: Berg, 1993), p. 56 n.16.

¹⁵⁰Kershaw, “The Persecution of the Jews and German Popular Opinion in the Third Reich,” p. 267; cf. p. 241.

¹⁵¹Friedländer, *Nazi Germany and the Jews*, p. 132.

¹⁵²Mosche Zimmermann, *Wilhelm Marr: the Patriarch of Antisemitism* (New York: Oxford University Press, 1986), p. 101.

ideas into reality, and his unequalled grasp of the means by which to do this.”¹⁵³

He told Hermann Rauschning, “I have a gift of reducing all problems to their simplest foundations,” and, “I have the gift of simplification. . . . Difficulties exist only in the imagination.”¹⁵⁴ After quoting the second statement, Rauschning, who was usually reluctant to grant Hitler any positive qualities, said,

There is no doubt that he did possess this gift of simplification, even in a creative sense, up to a point. He has a gift, like many self-taught men, of breaking through the wall of prejudices and conventional theories of the experts, and in so doing, he has frequently discovered amazing truths.

Hitler’s solution to the Jewish problem is an excellent illustration of this gift. He saw what few others did, that if the overrepresentation of a group of people in desirable occupations is a problem, biological elimination is the only solution.

Prejudice is free, but discrimination has costs.

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¹⁵⁴H. Rauschning, *Hitler Speaks* (London: Thornton Butterworth, 1939), pp. 16, 30.

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