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# TECHNOLOGY IS GOOD

*By Daniel D'Amico*

The vast majority of pollutants in the earth's atmosphere are the result of power plants, industrial sources, and motor vehicles, and the top impurities destroying our oceans and water systems are caused by pesticides, landfill runoffs, gasoline, detergents, and animal wastes from farm land.<sup>1</sup> From an anti market environmental point of view industrialization and technological advancements are the major causes for the earth's currently jeopardized status. As populations grow larger and civilization becomes more industrialized every year, the demand for technologies increases as does the threat to the earth's natural environments, and environmentalists have had no trouble exploiting this relationship.

The free market economic system is similar to the political structure of democracy. The policies, procedures, and representatives are reflective of the opinions and demands of the whole society. Rather than casting actual votes, in the free market system, an individual has the ability to express his opinions through his dollar votes. Each purchase that he makes is a direct vote for a specific company and against others. The most efficient firms at raising public demand are thus the most profitable (and vice versa), and those firms incapable of doing so go bankrupt. In order for an item to be included in the market system, people (consumers) need to be capable of assigning a price to it. The earth's natural environment is no exception; everything must have its price. This single concept is the source of conflict between traditional anti market environmentalists and traditional free market capitalists.

Left wing environmentalists would like to argue that the environment is invaluable. All life is dependent upon the delicate balance that exists within the complexities of the earth's natural state. According to left wing theory, natural environments hold much more value than mere profits gained from burning fuel, creating lumber, or extracting minerals. Things like aesthetic value, inspiration

for enlightenment, and a place for our children to play, are all things that allegedly do not get measured into the economic process when land is purchased or when pollutants are released. Free market theory refutes this because all things within the realm of knowledge are included when making a purchase or decision. One can say that the true problem is education or awareness. Of course such concepts will be held outside of the market system decision-making process if they are unknown to the common consumer.

Rather than attacking pollution itself, the environmentalist movement is broadening its battle to the larger front of capitalism. Refusal to participate in the market system by means of government regulation and protection is hindering the free market system from working properly and forcing inefficiencies in the distribution of resources. By attacking capitalism, the environmentalist movement is attacking all of the products of capitalism, especially technology. Technology is a good thing. It is the means by which society advances to faster more efficient means of production.

For the sake of simplification, pollution and its ability to destroy and disrupt the natural environment will be viewed as the specific example of environmental concern for the remainder of this paper. When viewed from opposite sides of the economic spectrum, pollution can be explained in two different ways. Left wing environmentalists see pollution as a market failure or a negative externality. That is to say, the additional negative effects caused by a firm or product, are not felt by either the firm itself or the consumer but rather by a third party. This scenario thus results in an excess of supply. The purchasers of a product are not made to feel its full costs thus the market fails to provide an adequate equilibrium price. The price is set too low, too much is purchased, and too much pollution occurs.<sup>2</sup>

Right wing, free market theory possesses an explanation and possible solution for the problem of

pollution. Pollution is not an externality. Pollution is a form of trespassing. Right wing theory is dependent upon the concept of private property. A complete acceptance of private property rights would result in every firm being held responsible for the costs inflicted upon any third party's property through pollution, and thus alleviating the supposed market failure. The cost of production for the firm would be greater and they would incorporate this in the form of higher prices, forcing the demand down.

As was stated before, environmentalism has pitted itself against capitalism instead of pollution itself. True capitalism and the support of privatization and upholding of property rights can alleviate excesses of pollution. Privatization and environmentalism are not intrinsically opposite. Privatization and the free market system facilitate the efficiency of companies on all levels including environmental efficiency. Firms profit when they are successful in operating, producing, and selling a product or service. In the market system it is within the firms best interest to act most efficiently on all of these profitable levels. The more freedom that firms are allowed to operate in accordance with the demand and market systems the more efficient they will become and thus the products that the systems produce will be of higher quality and more technologically advanced. By inhibiting the abilities of companies to operate efficiently, environmentalism has inhibited the advancement of technology.

When one addresses issues involving education, freedom, technological advancement, and economics it is not surprising to delve into the concept of a nation or societies overall wealth. If one can go so far as to say that technology facilitates profit and efficiency, than one can further look at the relation between wealth of a nation and its environmental problems. As a matter of observation it is no question that wealthier countries have a better environmental condition, concern, and awareness than developing or impoverished countries.

Anyone who has lived in a household with a personal computer can vouch for the fact that technology makes the educational process faster and easier. This observation establishes the definite positive relationship between technology and education that is vastly under estimated by left wing

theory. Technology not only eases the education process, it demands it, and the relationship obviously works in the opposite direction as well. Understanding that advancements in the educational process results in people who are more educated, leads to new discoveries and understandings of technology and science. With this in mind one sees how the technological and educational cycle tends to provide synergistic benefits.

Now, it is easy to understand the tendency of society's size and demands to increase as time passes by. This endless building and growing, is the very aspect of technology that tends to scare the anti market environmentalist movement. There appears to be no end to the insatiable demands of the ever-advancing human mind, yet the resources of the earth are limited, scarce, and currently inefficiently used. "The world economy will be brought to the brink of catastrophe by the exhaustion of the resources on which that economy depends (Frielander and Leiter 15)." What does technology have to show for its pillage of the earth's natural resources but unenlightened television sitcoms, infomercials for pasta makers, and cars that can start themselves with the push of a button? "In terms of the growth of electronic media, we could say that the expansion of television viewing in the past couple of decades corresponds to a growth in information transfer predominantly relating to entertainment (Hills 154)." This market system just seems to eat and eat and eat and eat, and continue to get more and more hungry. The market system is reliant and limited to the fact that the human race is in a constant attempt to satisfy its insatiable demands with limited resources.<sup>3</sup> It is the environmentalist's responsibility to utilize this system, that society has grown to love so much, to their advantage. Marketing, education, communication, and technology are the means by which one can influence what it is that the system is feeding itself.

By embracing the concepts of privatization, environmentalism can better voice its vote in the market system. Technology should be utilized in detecting and measuring the impact that different processes of production, distribution and consumption have on the environment. With this knowledge, independent environmentalist organizations may raise awareness, funding and conservation abilities.

“Case studies conducted in American firms usually have shown that technological advance creates a moderate number of new jobs with very high requirements of skill and knowledge (Mueller et al. 176).” Technological advancements tend to increase the necessity for education. Communication technology is one of the fastest growing and most profitable industries in today’s market. The same market system that is apparently destroying the environment is also harboring the most influential educational devices to spread environmental awareness. Living in the age of the internet, information is as easy to obtain as pointing, clicking and typing versus times gone by when the amount of information anyone could find on a given subject was the depth of their local library system. In an educated nation, citizens have more abilities, awareness, time and effort to devote to environmental causes. Labor and human capitals are the most valuable contributors to a nation’s wealth. Technology and education are simple means to maximizing the efficiency of these valuable resources.

These characteristics of technology’s ability to educate are the possible answers to the alleged market failures previously mentioned. For example, a company produces a certain good, and within the process of production, the firm billows thousands of tons of poisonous gas into the atmosphere, which the human race, inhales into its lungs. No one currently owns the atmosphere, and no one is aware of the toxicity of these gases.

Right wing theory would have a few suggestions for an immediate response of attacking the pollution problem. First, would be a stricter adherence to the concepts of private property rights and an understanding of the term trespassing. As stated by left wing theory pollution affects third parties. These parties thus own property being affected by the given pollution at hand. By strictly adhering to the concepts of trespassing, pollutants would be removed or alleviated at the cost of the polluter. Second, privatizing the atmosphere, to make an individual person or organization take a personal interest in the quality of air we breathe, and diminish the tragedy of commons, which exists in the currently over-abused public air system.

Left wing solutions would primarily focus on blaming the market system for the pollution and pressuring government regulations into the industry

making technology more difficult to advance. By attacking all of capitalism, left wing theory is also attacking the aspects of capitalism that possess the ability to aid environmental progress. Inhibiting the free market system from functioning in its own operation and self-regulation causes set backs in efficiency, profit, wealth, and environmental conditions.

From a left wing perspective, technology will have its first impact on pollution by detecting the negative influence that the gases have upon the environment. In today’s current society, the environmentalist movement is already concerned, so one does not need to explain what caused such an investigation. The investigation would utilize scientific instruments honed and produced with precision from an industrialized society. These findings would then be shared with the masses by embracing those same telecommunications techniques previously accused of being petty and unenlightened. “The education process is defined as those interactions which take place between teacher and students, and those between the student and the materials available to him (Hills 37).” In such an instance, the environmentalist movement needs to take on the role as teacher and maximize those instances of interaction between the population as students and the technology as means to introduce the learning materials of environmental awareness. Greater levels of technology result in greater levels of communication, education, and understanding, thus making the concept of environmental awareness more efficient and easier for private environmental firms attempting to gain support for their cause.

In their current methods, most environmental concerns have a similar structure. They consist of an environmental disruption (specifically pollution), a cause (typically some capitalist corporation operating to further society along the road to technological supremacy further and further away from what nature had intended), and finally the message, which is a dire need for awareness and a call to action. This is most ironic. Environmentalist theory initiates concern by blaming the technological aspects of society’s advancement yet fails to realize its reliance upon the same aspect of society (technological advancement) for solutions. Anti market environmentalism blames technology for pollution but then uses and

relies upon it to spread awareness. Left wing speakers travel the world preaching for action to be taken against the same industries and technologies that accommodate them in their travels such as air travel, the Internet etc.

Blaming technology for environmental problems doesn't seem to be getting the movement very far. After all, not too many people are actually willing to give up their sport utility vehicle and ride a bicycle to work every day in the name of saving the environment. The environmentalist movement should embrace technology's ability to assist its cause through scientific research, education, and communication.

No one can be expected to care about a hole in the ozone layer if he does not know that it is there. Scientific technology is needed to even detect such environmental problems, and further communication technologies are required to raise education and awareness about such problems. "The cost of telecommunication must continue its downward trend. Sending and receiving equipment must be sufficiently sophisticated to permit rapid, and therefore low-cost communication (Hills 108)." De-industrializing society will make technology that much more difficult to obtain, develop and utilize to improve the environment.

Finally, the environmental movement needs a marketing makeover. The intentions of privatization are of good merit. It can be said, that through creative marketing processes the same goals of attributing ownership over even the most public of goods, such as air, could be achieved. *The earth is yours; the earth is ours, so why do we let them mess it up? Support your local clean air agency.* In a broad symbolic sense, privatization has been accomplished through a simple slogan. The effectiveness of such marketing efforts will be what separates successful environmental agencies from those that go bankrupt, just like in the normal market system. Those firms that are most efficient and most profitable will succeed while others fail. These marketing efforts should raise awareness of the full costs of the polluting firm's production process. By recognizing and internalizing such costs of the product the markets demand will be affected to account for any excess of the good being produced and purchased, and alleviating the appropriate amount of strain the process has on the environment.

In the past, the environmental movement has ignored the affects it has had on public opinion and given credit to government sanctioning for successful changes in environmental impact.

In 1970 Congress, prodded by the new populism reflected in events such as Earth Day, passed a far-reaching set of amendments to the 1967 act, giving the federal government the power to set national air quality standards and to require states to develop implementation plans for attaining these standards (Crandall 7) ...

The text where this quotation was taken goes further to explain the positive effects that these legislations supposedly caused in emissions through a number of charts and tables. These charts show the declining nature of air emissions, a trend that had been increasing until such legislation was passed.<sup>4</sup>

With this accreditation the environmentalist movement has completely ignored the market's impact on new technologies demanded that should also be given credit to the ease in air toxins. Honda Corporation is a perfect example of one such automobile manufacturer that responded, not to government legislation, but to the pre-existing market demands that fueled such legislation. Environmentalism, rising rates of air pollution, and rising prices of gasoline had successfully swayed public opinion to want new, smaller, economical, gas efficient automobiles with lower emission rates.

This opinion existed before the government's legislation. As stated before the market system and democracy are quite similar. They both operate as responses to public opinion and demand forces. It is just too hard to believe that the government would create such legislation without public influence. The real question is, would these diminished exhaust measurements have occurred by the effects of the market's demand alone with out such legislation. Honda's success implies that they would. They provided fuel-efficient automobiles, at reasonable prices, while maintaining a high quality product. The demand of

large gas guzzling, sedan vehicles declined and the technologically superior Hondas prospered.

Other examples of public opinions being swayed by the findings of science and technology occur everyday without government interference. Medical science has shown a direct link between the eating of red meat and risks of heart disease. Over the years, more and more people are making healthier decisions in selecting the foods that they choose to eat and companies once dependent on the red meat demand are suffering and adjusting their practices to accommodate this new demand. McDonalds has recently switched their cooking oils and is now offering a larger variety of menu items in attempts of being a more health conscious fast food establishment.<sup>5</sup>

Many industries though front running technological advancement are slow to be commended for their environmental impact. "These systems (word processors) help achieve improvements in editorial quality of manuscripts and they provide faster and more reliable input. However, their most direct advantage comes from substantial reduction in secretarial costs (Hills 101)." Facts exposing the money saved by eliminating the printing and copying process from the office environment by converting to digital text devices is prevalent and a key technique to the selling and marketing of such technologies. Yet the data on the environmental impact of such technologies are nearly impossible to find, hence their lack of quotation within this paper. Scanning, digital paper, digital photography, and computer transactions have greatly reduced office's reliance upon paper, but little information is given on how much less forestland is being used thanks to this innovation. Maybe there is no significant effect, but more is obviously getting accomplished within the same old amounts of paper resources, and that is what efficiency is all about.

When addressing the issue of efficiency one must be sure to state in definitive terms that when efficiency is referred to, one is speaking in terms of the betterment of the human race in a combined aspect of economics and environment. Neither one of these factors is viewed as being dominant over the other, because such radical opinions tend to result in obvious inefficiencies of profit. The private property argument also stands to gain strides in embracing the concepts of technology and

education. Possessing private property rights, grants one the incentive to be as informed as possible as to the quality of said property. Advancements in technology can ease this process for the property owner just as they can expose the effects of pollution in the environmental setting.

The functions of technology have been discussed inside the terms of both the left and right wing positions. Now the shift in focus to demonstrate the effects of environmentalist left wing opinions developing from within the self-feeding cycle of technological advancement, previously mentioned, is easier to see and understand. "With the simple act of recycling, every day Americans can help protect ecosystems, reverse environmental damage, and insure the health of our planet and our communities for future generations (National Recycling Coalition)." Paper, aluminum, steel, and oil are all industries that are being heavily influenced by the technological developments of recycling programs. Science has discovered new methods of reprocessing and reusing what were once waste materials, into new reusable, re-sellable capital. Creating an entire new industry with new job opportunities, while simultaneously taking a bite out of the environmental problem. If technology is not allowed to grow and develop it cannot be expected to develop such advancements that can reverse the negative impact we have already had upon the earth's natural state. The environmentalist movement must abandon its attack on capitalism and shift from its traditions of being anti market. Today's call for environmentalism needs to be a call for maximum efficiency on all levels, profitable and environmental. Supporting the free market system will result in better companies both commercial and environmental, resulting in greater technologies, higher levels of efficiency, and a cleaner environment.

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<sup>1</sup> The Environmental Protection Agency, <http://www.epa.gov>, November 4, 2002

<sup>2</sup> Beaton, Russ and Chris Maser. *Reuniting Economy and Ecology in Sustainable Development*. Boca Raton: Lewis Publishers, 1999. page 38

<sup>3</sup> Environmentalism is not the only aspect of Left wing theory that has placed an all out attack upon the capitalist system. Because of many of the political structures supported by the capitalist structure, capitalism has grown to insinuate the concepts of corruption, empowerment, manipulation, and uniformity. Though all of these issues are valid concerns in any society, they cannot be directly blamed on capitalism. Political structures, regulations, policies and interference are against traditional free market capitalism. Corrupt practices of lobbying, payoffs, and bribery would not exist if the only function of the market system was the dollar votes of each individual person.

To say that capitalism leads to empowerment and corruption and not recognize the aspects of environmentalist arguments to do the same is naïve. It has been said that personal enlightenment and spiritual value are additional values associated with the natural state of the environment. To force others to accept this incalculability is in itself similar empowerment that this country fought against to gain its

independence. Spiritual value has no place in governing the policies and regulations of a society that supposedly has a separation between church and state.

Year	TSP	Sox	Nox	VOC	CO
1970	17.6	27.9	18.5	27.1	110.9
1971	16.4	26.5	19.0	26.4	110.5
1972	14.9	27.3	20.1	26.7	109.7
1973	13.9	28.4	20.4	26.2	107.4
1974	12.1	27.0	20.1	23.8	102.5
1975	10.1	25.6	19.6	22.8	98.1
1976	9.4	26.4	20.9	23.7	100.4
1977	8.5	26.4	21.3	23.8	97.8
1978	8.6	24.8	21.5	24.4	96.7
1979	8.5	25.3	21.5	23.4	92.6
1980	7.8	23.7	20.7	21.8	85.4

The headings of the columns in the above chart represent chemical abbreviations of toxic gases polluted into the earth's atmosphere predominantly from automobile emissions such as Carbon Monoxide, Nitrogen and Sulfur gases.

Crandall, Robert W. *Controlling Industrial Pollution: The Economics and Politics of Clean Air*. Washington D.C.: The Bookings Institution, 1983. page 23

<sup>5</sup> Eisenberg, Daniel. "Can McDonalds Shape Up?" Time Magazine, 30 September 2002 pages 52-57

# Reason for Optimism: *A Primer on the Oil Crisis*

By *Shashank Anand*

The world consumes “64.81 million barrels” of oil per day and roughly 23.66 billion barrels per year (www.NationMaster.com, 1 November 2004). These numbers are capable of striking a chord of fear and panic in even the most optimistic reader. Furthermore, they beg the following questions: How long can we possibly sustain such heavy consumption? When will we run out? Will civilization, as we know it, end? Doomsday theorists would have us believe that the world is heading towards a state of calamity<sup>1</sup>. This is simply not the case, for cynics have failed to consider one absolutely imperative element: the power of the market. Only through the market will the correct price of oil surface and, at this market price, civilization can have all the oil it wants.

Before further discussing what the preceding statement means, it is essential to explain the view of those who believe we are facing an eminent oil shortage, which will allegedly lead to a crisis. It is true that consumption is increasing while production is decreasing. “The global demand has been growing at 1.5% a year over the past five years, while production capacity has been inching ahead at 0.2%” (Helman, 2004, 90). Furthermore, the top five oil companies in the world only have enough oil to satisfy the world for 2.5 years’ (95). Based on such numbers, Doomsters claim that we are on the brink of exhausting all feasible oil sources. Some even go as far as asserting that “humanity’s way of life is on a collision course with geology...the flood of crude from fields around the world will ultimately top out, then dwindle...few doubt that [the day] is coming (Appenzeller, 2004). Therefore, according to alarmist David Goodstein, the solution is to “[wean] ourselves off of fossil fuels. He also claims that we need higher gasoline prices and we must use hybrid cars, insulate our homes better, redesign our cities, improve public transportation, and move towards other energy sources such as nuclear and solar power”(Brandly, 2004, par.8). Others, such as Alexander Max, call

for quick home fixes, such as patching up interior and exterior leaks, in order to conserve energy (Max, 2004, 97). Clearly such alarmists fail to realize that the market can provide a solution to their so-called crisis. Their opinions are not the result of past experience or extensive research; rather they are the result of economic illiteracy and idle speculation.

Perhaps the greatest example of such inept negativism is the Club of Rome, a government organization of scientists, economists, bureaucrats, and businessmen who believe in the limited availability of natural resources, particularly oil. In their 1972 report, *The Limits to Growth*, the group predicted that oil would cost \$100 a barrel by 2000 (Moore, 1999). However, this proved to be radically incorrect, as the price of oil did not even reach \$35 a barrel in 2000

(www.worldgameofeconomics.com, 1 December 2004).<sup>2</sup> The Club of Rome bases its oil calculations primarily on known reserve-production ratios versus consumption rates (Meadows, Meadows and Randers, 2004, 89-92). However, the organization fails to consider the scope for new discoveries. Predictions like this should always be taken with a healthy dose of skepticism because markets work.

Under a free enterprise system, where market forces are open to respond to changing supply and demand, the world will never run out of energy. The world can confidently rely on the free market for the following reason: the price system. Free enterprise is the savior of society and prices are its magical weapon. Higher oil prices provide incentives for producers to find more black gold, or energy substitutes. The market will work in the multiple ways to alleviate any shortage, and adequate amounts of petroleum will be produced so long as government does not meddle with prices. “Prices are to the economy what maps and traffic signs are to the roads.”(Block, 2004)<sup>3</sup> Specifically, they serve as guides, thus the only meaningful prices are those that are formed in the market through the interaction of consumers and producers.

Markets are the only institution capable of generating correct prices. How will the market thwart oil tribulations?

First, as the demand for energy increases, oil prices will rise. These higher prices serve three important purposes. One, they are warning signs that petroleum is now relatively scarce. Two, high oil prices encourage people to use less. It is elementary economic knowledge that people economize on scarce resources. Three, they set off chain of events, the first being that they induce increased exploration and the discovery of new oil sources. Chicken Littles maintain that oil scarcity will only increase and that we will soon exhaust the world's sources<sup>4</sup>. The truth is we have not even begun to explore the world's potential petroleum reserves because until now, it has been economically impractical. For example, according to Christopher Helman, Russia and its onetime republics pump 13% of the world's oil, 9 million barrels a day, and there exists 77 billion barrels of proven reserves in this region. What's more is that the majority of this enormous landmass is unexplored. But this is soon to change, and the reason is the potential paybacks, which are the result of increasing oil prices. The prospective profits for Western oil companies like British Petroleum and ConocoPhillips outweigh the risk, namely political, of going forward with new exploration (Helman, 2004, 94). Now "oil companies are searching for new supplies and braving high costs, both human and economic," because they have motivation, namely huge paybacks, to pour investments into overseas projects (Appenzeller, 2004). Consequently, we will not just run out of oil once known reserves are empty. That is akin to glancing at gasoline your gasoline needle, realizing you only have a quarter of a tank left, and saying that once the gas runs out, you will never be able to drive your car again. Obviously this is incorrect. You will acquire more gas before you are stranded on the side of the road with an empty tank. So, as the demand for oil increases, new oil fields will be added.

Next, higher prices provide incentives for producers to come up with more technologically advanced production and exploration methods, making it easier to uncover more oil and increase the reserves in existing fields<sup>5</sup>. In response to

increasing prices, oil companies are employing highly sophisticated and complex machinery in hopes of extracting the highly demanded black gold. According Helman, currently, the world's deepest producing field, a Shell/British Petroleum project, is in 7,000 feet of water. This venture, known as Na Kika, utilizes cutting-edge equipment, such as a 20,000-ton submersible floating platform loosely tethered to the seafloor, which is strong enough to support the weight of 1.5 miles of pipe and the oil running through it. (Helman, 2004, 93).

Although this project proved successful, attempting to drill deeper poses problems. Take, for example, the Toledo Project. ChevronTexaco employed state of the art equipment to drill the deepest well ever (past 10,000 feet) in November 2003. Among the technology employed were GPS devices, sonar positioning signals, thrusters to steady ships in even 95mph winds, blowout preventers that weigh 300 tons controlling 15,000 pounds of oil per square inch, and finally enough juice (37 megawatts) to power a city of 35,000 (Helman, 2004, 93). Despite using this machinery to mine the 200 million barrels of oil that were thought to exist in the Gulf of Mexico's Alaminos Canyon area, the project was a bust because companies do not presently have sufficient knowledge on how to produce the oil. According to George Kirkland of ChevronTexaco, this likely to change: "If we find a 1-billion-barrel field in 10,000 feet of water, we'll move quickly to get any technological gaps filled to make that happen. I don't think we're that far off"(94). Perhaps the most astonishing action taken by oil companies is the drilling that occurs at 30,000 feet below sea level. The oil exists inside porous rock several hundred feet thick; now companies are engineering a production platform that can support the weight of the pipes and processing gear needed to bring all the oil to the surface (92-94). This illustrates the point that potential profits provoke companies to go to whatever lengths necessary in order to produce enough oil to meet current demand.

In addition to investing money in exploration and production, more money is being used to improve technology on the consumption side. Higher oil prices lead to smaller, more energy efficient cars and improved gas mileage even for larger vehicles. For example, Bjorn Lomborg

claims that the typical US automobile has improved its mileage by 60 percent since 1973, and home heating in Europe and the US has improved by 23-43 percent. (Lomborg, 2004, 125) These examples are just the tip of the iceberg. Technology is a magnificent tool that allows man to accomplish more with less. Imagine telling George Washington how advanced America would be today. Not even science fiction movies from 100 years ago could predict the standard of living the world now enjoys. Now envision what the world will be like in 10, 50, or even a 100 years. To underestimate the power of human ingenuity would be a mistake. In the words of Ronald Reagan, "there are no great limits to growth because there are no limits of human intelligence, imagination, and wonder"(www.QuotationsPage.com, 1 December 2004). It is highly conceivable, if not apparent, that with technology, energy will not be scarce in the future.

Let us put technology aside for a moment. Another critical effect of price increases is that as it becomes more profitable to recover oil reserves, more will be extracted from previously discovered sources, thus the world will have a greater supply even with no technological advances. David Johnson illustrates this point: one can look at East Kashagan, where in May 2000, a confident estimate of 20 billion barrels of oil existed. At the time, the addition of 20 billion barrels would have increased world oil reserves by 2%, which is quite significant. However, knowledge of the oil's existence did not ensure any action on the part of Western companies for the following reason: in order to transport the oil to international markets, huge risks were involved, mainly political. The problem in this particular case was with the countries bordering the Caspian sea-Iran, Turkmenistan, Kazakhstan, Russia, and Azerbaijan. All of these countries must be pleased in order for any kind of oil deal to occur (Johnson, 2000, sec.1-3). Political obstacles are the main impediments that exist with regards to securing present oil reserves. When petroleum prices are low, companies have minute motivation to incur such high risks. However, going back to fundamental economics and human nature, the greater the potential reward, in this case profits for oil companies, the greater the risk they are willing to incur.

The final reason there is no energy predicament is that there exist many unconventional oil reserves and energy substitutes that are currently economically unviable, but may become feasible if oil prices increase. First, let us begin with unconventional oil reserves. It was previously only practical to pursue oil reserves that were relatively shallow in depth. They presented fewer natural obstacles, thus were less time consuming, used less technologically advanced machinery, and required a smaller amount of investment in exploration and production. These easy reserves are finite, and it is now time to tackle more challenging ones. Helman says that oil companies are discovering that the majority of existing oil is very deep below the earth's surface, in fact, "over the last two years 65% of all new reserves worldwide were found in deep water (depths of 1,200 feet or more)" (Helman, 2004, 94). Although these missions seem arduous, they are projected to make available 1.3 billion barrels, or 5% of global oil demand. What's more impressive is that the percentage supplied by deep-water wells will double by 2010, according to a Wood Mackenzie study cited by Helman (94). The potential petroleum from these deep sources is enormous. Recovering oil deeper than 10,000 feet was once unheard of, let alone conceivable. Soon, with higher oil prices and the advent of groundbreaking technology, drilling to depths of 30,000 will become commonplace (92-93).

We now turn our attention to energy substitutes, which are becoming sound alternatives to oil. Although oil is our most dependable form of conventional energy, this was not always the case. In the 1900s, particularly during the Industrial Revolution, coal was the primary source for energy. As the demand for coal increased, so did the price, and among other things, so did the incentive for finding other energy sources such as oil.<sup>6</sup> Despite what naysayers would have us believe, we are well on our way to finding alternative energy sources. One key resource is natural gas. Take British Petroleum and ExxonMobile: for these two oil giants, methane accounts for 45% of hydrocarbon production and could surpass oil within a decade (Helman, 2004, 95-96). Also, natural gas consumption is projected to increase during the next five years in all of the following countries: USA, Japan, China, Germany, Russia, and India

(Alexander, 2004, 94). As with oil, gas poses significant obstacles in terms of transportation<sup>7</sup>. However, given a free market, energy companies can overcome issues surrounding gas, coal, or any other oil substitute. Those who worry about an energy crisis have failed to realize that we can substitute. Doomsday theorists, such as the Club of Rome, stress that stocks of fossil fuels are “continuously and inexorably going down,” and that a resource is “a concept related to the amount of the material in the crust of the earth”(Meadows, Meadows and Randers, 2004, 89). However, it is naïve and absurd to have such a myopic view. “Resources are not known, fixed things; they are what humans employ to service wants at a given time. What are resources today may not be tomorrow, and vice versa.”(Bradley Jr., 2004, par. 9). Oil itself does not have much intrinsic value. It is sticky, dirty, and smelly. According to Lomborg, it is not the oil itself that society so badly wants, rather we demand the services that oil can provide, such as heating, energy, fuel, etc. Through these functions, oil powers our homes, cities, and industry, but other energy sources can do the same. Society will “swap to other energy sources if they show themselves to be better or cheaper” Furthermore, it is merely a matter of time before scientists will be capable of harnessing nuclear power, wind and solar power, biomass and shale oil (Lomborg, 2001, 126).

Any compelling, conceivable reason why we will not run out of energy is contingent on unbridled capitalism, meaning no government intervention in the market. Many energy problems can be attributed to the interference of government in the market process. One compelling example, proposed by Steve Hanke, is that “government’s buildup of oil stocks has added at least \$10 to the price of a barrel” (Hanke, 2004, 240). The United States government, via its Strategic Petroleum Reserve, possesses the self-granted privilege and ability to purchase and store up to 700 million barrels of oil. According to Hanke:

In November 2001, George W. Bush ordered the government to purchase oil and fill its reserve to full capacity of 700 million barrels. The reserve, at 670 million barrels, now accounts for 70% of U.S. oil

inventories. While the stockpile’s growth has left the nation’s total oil inventories 10.6% higher than in December 2001, it has crowded out private stock-building, with private stocks declining by 9.2%. The government’s weight in the market for storage has been significant in pushing prices to such extraordinary levels (240).

Another gripping example is the energy crisis of the 1970s that accompanied the Yom Kippur War<sup>8</sup>. In Mark Brandly’s opinion, because the U.S. government lent its support to Israel in 1973, the Arab nations of Organization of the Petroleum Exporting Countries (OPEC) restricted its oil production, and prices roughly quadrupled within 90 days from \$3 to \$11 per barrel (Brandly, 2004, par.26). If that was not bad enough, the U.S. government decided to intervene in the market, implementing price controls on oil and gasoline, which lead to domestic madness, such as long lines at the pumps. Instead of the allowing the market to alleviate the quandary, the government exacerbated the dilemma by artificially maintaining low gas prices, in the process creating a massive shortage. Once these price controls were lifted in 1980, heavy oil and gasoline taxes and environmental regulation ensued, stifling oil production and exploration (27). These deleterious government actions impaired U.S. oil production and strengthened OPEC’s market power (28). According to Mark Brandly, similar intervention is hampering present exploration and production by reducing projected prices through taxes and regulations and restricting exploration in certain areas of the world, such as the Arctic National Wildlife Refuge and the Outer Continental Shelf. Government intrusion also occurs in foreign countries, which results in less future oil. Political interest and instability have been major impediments to oil production and exploration in Iraq and the former Soviet Union (26-30). If government truly wants to ensure that its citizens have adequate energy sources for years to come, it is critical that it step out of the way and leave this undertaking to the market, for it is the sole mechanism for providing us with the most satisfactory solution for whatever particular problem we may have to face, whether it be energy or automobiles. The most essential condition for the

existence of markets is the freedom for individuals or groups of individuals to make exchanges without coercion. This voluntary cooperation of individuals, which is only possible via no government intervention, brings about coordination and reconciliation of their desires.

To claim that civilization is inevitably heading towards an energy crisis would be a premature, economically ignorant assertion. As the price of oil rises, we will increase exploration and production, discover new and better ways of exploiting oil, and find energy substitutes. The United States' energy policy should be the free market. There is absolutely no need for price controls, and "efforts to intervene in the oil markets display massive ignorance of the role of prices play in allocating scarce resources" (Westley, 2000, par.5). Given the right price, one established by the free market, society will have all the energy it wants.

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<sup>1</sup> One of the most noteworthy pessimists is geophysicist M. King Hubbert who came up with the Hubbert Peak, a theory employing a mathematical model created in 1956, which deals with the long-term rate of conventional oil production and depletion. Given past oil production data the model predicts the date of maximum oil production output for an individual oil well, multiple oil fields or an entire region. This maximum output is referred to as the peak, and the period after the peak is referred to as depletion. In 1971 Hubbert predicted that global oil production would peak between 1995 and 2000. However, this proved to be incorrect. The truth is that the curve of oil production since 1971 does not match Hubbert production in that production of oil has remained roughly constant from 1971 to 2004. Recently the Hubbert model indicated a peak in global oil production anywhere between 2004 and 2015. The validity of the Hubbert model is widely debated ([www.Wikipedia.com](http://www.Wikipedia.com), 3 November 2004).

<sup>2</sup> One of the biggest concerns with escalating oil prices is the effect on gasoline prices. As of 12/07/04, gas prices averaged \$1.91 nationwide in the United States ([www.TheDay.com](http://www.TheDay.com), 7 December 2004). Consider the following: an individual who purchases a 20-ounce Coke product from a machine pays \$1.00. There are 128 fluid ounces in a gallon, meaning 6.4 Coke bottles. Thus, the individual is paying \$6.40 for a gallon of Coke, which is more than three and a third times as much the price of gas. Perhaps government should intervene in the soft drink industry.

<sup>3</sup> Although this is a quote from an Environmental Economics class lecture, it was also stated in "Environmental Problems, Private Property Right Solutions," which is included in the Works Cited section. Dr. Walter Block gave me permission to quote his lecture rather than the publication.

<sup>4</sup> Chicken Little is a fictional character who was hit on the head with an acorn and believed that the sky was falling. In other words, he is a confirmed pessimist, particularly one who warns of impending disaster ([www.Dictionary.com](http://www.Dictionary.com), 7 November 2004).

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<sup>5</sup> Currently oil removal is not very efficient, and many technical aspects need improvement. For example, an initial drilling of a reserve typically extracts 20% of the total oil, and even with the most advanced machinery, more than half the resources remain unexploited. Also, it is estimated that the ten largest oil fields in the United States will still contain 63% of their original petroleum when production closes down. In turn, the latest US Geological Survey estimated that technical improvement is expected to yield more than a 50 percent increase of identified resources (Lomborg, 2001, 125).

<sup>6</sup> In the 1900s, as the price of coal increased due to the increasing demand, the incentives increased to search for more efficient uses of coal, to search for more coal reserves, and find cheaper ways to transport coals. Even then, there were pessimists who thought society was doomed. One notable one was the highly esteemed scientist Stanley Jevons who thought the Industrial Revolution would be forced to a halt due to the deficiency of coal supplies. Of course, he failed to take into account the forces of the market, which toward the end of the nineteenth century gave way to oil (Lomborg, 2001; 124).

<sup>7</sup> Gas is difficult to move across oceans. Such a task requires tankers that can handle liquefied natural gas, and a port with neighbors that can tolerate the sight of the huge tankers (Helman, 2004; 96).

<sup>8</sup> The US government supplied Israel unrestrictedly with the most up-to-date assault weapons in the world ([www.Wikipedia.com](http://www.Wikipedia.com), 1 November 2004, sec. 2). This is relevant because it instigated and prolonged the energy crisis on the 1970s.

# Freedom Should Include Freedom of Association

*By Nicholas Snow*

Discrimination simply put is an expression of preference. Thus any kind of discrimination law is an attack on freedom. “In practice, discrimination law limits the freedom of property owners to use their money as they see fit” (Rockwell 2003). The problem seems to be that many people forget that the employees do not have any claim to the property of the employer. So, it is the right of the employer not the employee to employ whoever they wish. To force an employer to employ someone is an attack on the employer’s property.

The preeminent issue is property rights, the foundation of liberty and prosperity. The employee has no legitimate ownership over property seized in the course of a complaint. His only legitimate ownership is over the contractually agreed-upon wage or income stream due him in course of providing agreed-upon labor services. To the extent an employee grabs more than that, it is nothing more than theft under the cover of law (Rockwell 2003).

To view discrimination as something that is intrinsic and evil is absurd. “This skewed vision does nothing short of steal an individual’s most vital of liberties, their right to self-ownership” (Mattei 2004). No one would argue that consumers should be forced to shop at certain stores but this is also a form of discrimination. The reason that this so-called discrimination should be allowed is because it is an aspect of freedom of association. Yet lawmakers and civil rights activists don’t seem to view freedom of association as a part of freedom. It is for this reason that, “Freedom of association – in business or academia – no longer exists. It was abolished in 1964, and the rest was just a mopping-up operation” (Rockwell 1998).

Freedom of association states that, “all interaction between people shall be voluntary; no one should be forced to deal with another person against his will” (Block and Whitehead 2001). The

idea here is that you may do whatever you wish with your own property; this includes associating with whomever you wish. To force someone to hire or to keep employing someone against his will is a form of theft. The advocates of discrimination laws are fighting for employment rights but what they fail to see is that rights stem from property rights, which the employee has no right to in this instance. As Murray Rothbard said,

“Liberals generally wish to preserve the concept of ‘rights’ for such ‘human’ rights as freedom of speech, while denying the concept to private property. And yet, on the contrary the concept of ‘rights’ only makes sense as property rights. For not only are there no human rights which are not also property rights, but the former rights lose their absoluteness and clarity and become fuzzy and vulnerable when property rights are not used as the standard” (Rothbard 1982, pg. 113).

The issue of discrimination is often a very emotional one and thus is difficult to discuss dispassionately. Most people think it’s morally wrong to discriminate against others based on race, sex, age, etc... however; morality is subjective and should be kept separate from the law. The libertarian answer would be that because it does not break the non-aggression axiom it should not be illegal. This states that,

“All acts are legitimate, except those that transgress against a person or his legitimately owned property. That is, murder, kidnapping, rape, theft, trespass, fraud, assault and battery, all such other invasive acts should be illegal, but no other victimless crimes such as pornography, prostitution, gambling, drug abuse, homosexuality, etc” (Block and Whitehead 2001).

Under the non-aggressive axiom there is no such thing as a positive obligation. A person is free to do whatever he wishes as long as it does not violate this axiom. Discrimination does not violate it; so to

say that one must associate with another against his will is to state a positive obligation, which is a restriction on freedom.

So does this mean that, in a completely free society, racism, sexism, and other discriminations will run wild? The answer is no, because the free market has mechanisms that prevent such things.

Except in rare instances, people's preferences are not absolute. Rather, they are malleable over a fairly wide range. Under different circumstances, different choices would be made. One circumstance that has a substantial effect is the cost or benefit of making that choice. In general terms, the higher the cost (the lower the benefit), the less likely the choice will be made (Block and Walker 1985, pg. 5).

In basic terms this means that it would be a very bad move, in terms of business, to discriminate because you may be giving up the most productive worker and that loss of productivity would result in a loss of potential profits. Due to the competitive nature of businesses, other companies will seek out these employees and if they are as productive as the others then this will lead to more profits to them. Then eventually the wages of these employees will be bid back up. The fact is that in a free market it is costly to discriminate.

It is held within both sound theory and empirical evidence that markets only falter when they have been unnaturally constrained. When individuals are forced to employ, or interact with, other individuals they do not deem fit for a position, or a trade, qualified, or preferred, individuals are pushed out of the market (Mattei 2004).

It is true that, due to the subjective nature of values, there maybe some individuals who will refuse to hire on the grounds of some discriminatory explanation, because they value being a racist (who whatever they are discriminating against), but it is

their property and they have that right. Also, these discrimination laws in effect today may actually cause more hate and resentment. This may never disappear completely but intervention in the market causes more problems then they help. The best course of action to reducing discrimination is to let the market work.

In conclusion, discrimination laws, while the idea may seem right, are actually an attack on freedom. To imply that others cannot discriminate in any manner that they wish is a form of slavery.

To say that they do not have the freedom to associate with whomever they wish is actually to claim the legitimacy of outright slavery. For the only thing wrong with that "curious institution" was that it violated the rights of rights of freedom of association of the slaves (Block and Whitehead 2001).

The difference between the slavery in the United States before the civil war and the slavery of today is that instead of forcing people to work for an owner, now the employer is forced to hire those he/she does not wish.

Employment discrimination', like all of the other fabrications of market critics, is nothing short of a bastardization of the excise of individual property rights. It mandates a form of involuntary servitude expressly prohibited by the 13<sup>th</sup> amendment to the US constitution. Discrimination, or the demonstration of preference, is merely the acting out on some distinguishable property (Mattei 2004).

As we stand right now, with the laws in place, freedom does not include freedom of association. And if people cannot choose whom they interact with then they are in fact enslaved. So, even though discrimination on the basis of race, sex, age, etc... maybe looked down on socially or morally, it does not infringe on anyone's property

rights, while the laws that are put in place to prevent this do. No one has that the right to force anyone to interact with another against his will and that includes the government.

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# A Case For Market Philanthropy: Conscientious Patronage, Profits, and the Taco Bell Boycott

*By James Ianelli*

Led by the Coalition for Immokalee Workers (CIW)<sup>6</sup>, many Americans have rallied to snuff Taco Bell's profits due to the corporation's present wages and working conditions provided for Immokalee tomato pickers. The boycott of Taco Bell has drawn the ire of many laissez faire economists. The adversaries of the CIW<sup>7</sup> argue that demonstrations against Taco Bell are self-defeating and such attacks on corporations infringe upon free markets, consumer choice, and the efficient allocation of resources. As a principled laissez-faire economist *and* compassionate individual, however, I must object to the contentions of my intellectual peers. While they nobly reject coercive redistributions of wealth, students of free enterprise ought to at least remain indifferent to the Immokalee movement, as it constitutes a natural feature of open markets. Furthermore, the CIW's efforts to elicit voluntary acts of charity pose a refreshing alternative to the coerced welfare state.

Before advancing the argument, one must examine the motives of the cohorts and their counterparts of the Taco Bell boycott. Both groups seek to increase the standard of living for those on the lower rungs of the economic ladder. Moreover, *both* groups advocate free markets to accomplish such an end. The expressly capitalist contingent wants to enhance wealth of all actors in the market through an unregulated, laissez-faire economy. On face value of their presentation, the boycott advocates also seek to enhance wealth through free markets, particularly the wealth of Immokalee tomato pickers. Thus, it is inappropriate to condemn the Immokalee coalition's desire to improve the present wage and working conditions of Taco Bell's Immokalee employees.

The CIW endeavor is a natural attribute of the marketplace. To understand why this may be, we must focus on the specific function the boycott plays in the economy. The boycotters occupy a role in the market similar to that of a marketing firm. They attempt to "sell" the product of high wages and working conditions for Immokalee tomato

pickers. Without advocating the use of coercion to solve so-called market failures, the coalition seeks to influence the subjective utility of consumers in terms of the production processes of Taco Bell. The coalition aims to increase the demand for Taco Bell food with tomatoes picked by Immokalee workers with adequate working standards.

Much like the Taco Bell advertising and marketing departments attempt to enhance consumer utility derived from purchasing a Gordita through emotional and psychological appeals, the CIW makes essentially the same attempt. In 2001, the CIW held a hunger strike to draw national attention to their cause and compel people to associate a greater value on tomatoes picked by workers with higher wages, lower exposure levels to pesticides, and more temperate management than the present employment provisions. Opposition to the coalition's appeals to consumers is economically equivalent to opposing Taco Bell's use of a Chihuahua to make similar appeals for the broader interests of the firm. For all intents and purposes, the coalition strives to make it profitable for Taco Bell to increase wages for Immokalee workers by influencing the tastes and preferences of consumers through non-coercive means.

In this sense, the hunger strike staged by Immokalee workers in California to attract attention can be seen as an investment. The strikers sacrifice their foregone earnings, feelings of discomfort provided by not eating, and an opportunity cost to draw national attention to their cause in hopes that people will sympathize via their purchasing power in their future patronage of Taco Bell products and demand these products include the satisfaction of charity.

Typically market savvy scholars, like Fr. Robert Sirico, criticize the boycott for hurting poor people and consequently defeating its philanthropic purpose. Sirico claims that lowering Taco Bell's profits will lead to curbs on its production, fewer tomato purchases, which will lead to diminished earnings for growers and thus lower wages and layoffs.<sup>8</sup> This causal chain, however, does not

contradict the boycott's purpose as Sirico attempts to explicate. As seen above, the CIW seeks to decrease the demand for Taco Bell products made under present working conditions while increasing the demand for such goods produced by *Immokalee* workers under improved conditions. The point that Sirico misses here is that the boycotters are not marketing higher wages for *all* poor workers but higher wages for *Immokalee* workers specifically.

Thus, the argument against the boycott for not raising wages of all low-wage workers is similar to arguing against Pepsi advertisements for not raising the profits of all soda manufacturers. The coalition competes for the disposable income of consumers with other market suppliers out of their own self-interest, much like any other participant in a free market. It's absurd for any *laissez faire* proponent to criticize one type of economic agent for competing with other agents--and possibly beating them--in their attempts to best satisfy the tastes and preferences of consumers.

The push to alter the tastes and preferences of consumers in terms of the production processes of a firm is prevalent throughout free markets. For example, the perceived advantages associated with consuming Newman's Own products include acquiring a sense that the consumer simultaneously acts charitably.<sup>9</sup> Paul Newman attributes the extraordinary success of his food company partially to top-quality foods but, of at least equal significance, to the fact that he gives away all profits, after taxes, from the sale of the products to educational and charitable organizations. Newman's flair in successfully combining business and philanthropy has proven to increase revenue through the endorsement of many customers, who satiate both their appetites for food and a sense of benevolence.

Newman's flair is not unique. The CIW hopes to reign in the profit incentive incumbent in the experiences of venture philanthropy practiced by Newman and multiple other enterprises. While the *Immokalee* tomato pickers used boycotts and hunger strikes to create a higher demand for Taco Bell to pay so-called just wages, many corporations have already responded to the market for venture philanthropy. One of the most lucrative aspects of the "noisy charity" market, which the *Immokalee* coalition urges Taco Bell to adopt, constitutes fair

trade certification. To meet the demand of consumers for better working conditions of impoverished employees, nonprofits associated with the Fair Trade Labeling Organizations network, oversee a certification process that attaches a "Fair Trade Certified" label to certain products, thus, appealing to consumers who value higher wages while helping educate consumers who are unaware, yet potentially concerned, with the present employment standards of the lower echelon of production.

Unlike government licensing, certification organizations occupy a valuable niche in the marketplace and are wholly compatible with *laissez-faire* economic advocacy. Market participants hold a substantial interest to acquire as much information as they can when engaging in exchange and production. Furthermore, markets send various signals serving as self-regulating mechanisms that include various types of classifications as signals of quality. Certification organizations, like the Fair Trade Labeling Organization, are privately run and require those who wish to join that profession to pass rigorous exams (The test for individuals to become certified public accountants, for example, is notorious for its difficulty).<sup>10</sup>

However, government licensing, while purportedly a "signaling" mechanism, repeatedly demonstrates that it constitutes nothing more than a scheme to restrict entry into the market (i.e. New Orleans Taxi Licensing). Milton Friedman's *Free to Choose* eloquently illustrates the true reason for a lot of regulation and state-licensing policies exists to shield inefficient firms and industries from competition, thus, allowing the politically privileged to reap the benefits of monopoly power and consumer subjugation. The *Immokalee* coalition, on the other hand, chooses not to argue that Taco Bell employment ought to be regulated through licensing procedures like a minimum wage but through attaining certification from offering wages and working conditions that meet the standards of reputable private enterprises like the Fair Trade Labeling Organization.

This is not to say that the boycott will necessarily work as intended. Like any other producer, other things being equal, Taco Bell seeks to maximize the return from their factors of

production. In a free market, they can *only* do so by serving consumers because their profits result *only* from the voluntary choices of consumers.<sup>11</sup> If the boycott does not succeed in creating a sufficient profit incentive for Taco Bell to reallocate their factors of production to improve Immokalee working conditions and appease consumers accordingly, then the automatic feedback mechanism of profit and loss will prove the boycott futile. The risk taken by the boycotters of failing to create such a profit incentive is very real.

Risk, however, is a *necessary* component of every marketing investment. No economic agent holds perfect information. The Immokalee coalition faces the dilemma confronting all entrepreneurs: the possibility that their forecast, backed by their investment, may fail to correct market discrepancies. It may very well be the case that the tomato-picking factor of production was not underpriced and that the general expectations of the market did not err by underestimating the future rents of the Immokalee workers. The coalition accepts this possibility; as does every other entrepreneur that predicts via investment that certain factors' prices don't adequately reflect their potential discounted marginal value product (DMVP).

While it's obviously socially and individually optimal if the coalition succeeds in allocating the Immokalee workers from production of lower DMVP to production of higher DMVP for Taco Bell, the failure of their attempt to predict where Taco Bell's factors of production can prove more valuable also reaps important benefits for the market as a whole.

Demand for certification organizations and acquiring their labels continue to swell because corporations increasingly realize the strategic importance of integrating philanthropy in their long-term plans. Sponsorship involving nonprofits has become the fastest growing piece of marketing budgets as corporations gradually realize that consumers are now looking beyond the immediate product. The Immokalee coalition assumed much of the marketing burden for their cause via employing the hunger strike to draw national attention and, consequently, put pressure on Taco Bell to realize the profitability of supporting the cause of their tomato pickers and obtaining

certification from an established organization that reviews employment conditions.

The coalition's efforts are not insignificant considering the modern consumer's psychography (the science of perceived marketplace reality that tells you why a customer buys) is very discriminative and anything negative can influence him to alter his subjective utility calculations of the goods and services they buy based upon the production processes association with such a purchase. For example, if the flower buyers in Wal-Mart learn of the undesirable conditions present for many flower farm workers in Naivasha, Kenya, and that some of them have gone blind or contracted asthma, they would be more likely to cut down consumption of "bloody" flowers and demand flowers produced by farmers with less deplorable working conditions. The Delmonte Corporation met a similar fate when reports surfaced that they possessed a disregard for labor and security standards in Thika, Kenya farms. Consumers snubbed their products and Delmonte lost considerable revenue because they didn't provide consumers with a conscientious extension of their products.

The claim that a boycott of Taco Bell would manifest itself as a decrease in the demand of their products paralleled by a decrease in the demand of tomatoes and, thus, decreasing the demand of the labor needed to produce such tomatoes, further resulting in a lower wage for such labor is accurate yet misleading in the context of the aims of the boycotters. The marketing of the Immokalee coalition condemnation of Taco Bell's current employment conditions for tomato pickers will cause consumers to demand less Gorditas with tomatoes produced by low wage workers and demand more Gorditas with tomatoes produced by Immokalee workers with higher wages. The Immokalee movement seeks to decrease the demand for the former type of production while simultaneously increasing the demand for the latter type of production by appealing to the conscience of consumers, firms, and institutions.

Further research shows that people do not mind paying an extra fee not only for quality but to be associated with good deeds as well. The Body Shop expressly incorporates with its products the extension that the firm seeks to hire marginalized

groups and contract them because of their lower status. To market and profit from this effort to improve the lives of downtrodden groups of workers by supplying above market-clearing wages, the flap of numerous Body Shop products include the inscription that, “This product was manufactured by a women’s group in Machakos in Kenya, or Choibalsan in Mongolia in aid of a village dispensary...”<sup>12</sup> Body Shop executives contend that the firm’s social endeavors have contributed significantly to their profits by enabling consumers of Body Shop beauty products to feel they are helping such unfortunate women while attending to their own vanities.

The argument of free-market advocates against the boycott loses further credibility due to the refreshing means to redistribute wealth via non-coercive methods of marketing to increase consumer awareness and compassion instead of coercive methods like welfare payments and minimum wage legislation. The Immokalee coalition does not mention any form of government intervention to buttress or constitute their ends of higher wages for tomato pickers. As an alternative, they employ means of open market interactions and the invisible hand (namely, influencing the subjective utility of consumers and, thus, affecting demand and supply curves for Taco Bell’s products) to improve the present employment standards of a particular group. The fact that they seek to empower individual consumers to voluntarily express sympathy for their cause instead of forming an interest group or making campaign contributions to a cash-strapped Florida Congress candidate bent on acquiring new constituencies should elicit the praise of laissez-faire thinkers, not the scorn.

The Immokalee coalition represents a broader movement to circumvent and marginalize government intervention into the economy by making social causes profitable for corporations and further establishing markets for venture philanthropy. The premise underlying the Immokalee movement and the profits of charitable-minded firms constitutes the existence of a strong demand for social fulfillment and the well-being of all, regardless of socioeconomic status. The increases in supply of socially conscious extensions to products should not be condemned due to the sublimations of individualists frustrated by the size

and role of government in the economy, but applauded for their moral and principled value to society. Free market advocates ought to encourage the success of groups like the Immokalee coalition as proof that social wealth is not a market failure, but a reality.

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<sup>6</sup> <http://www.ciw-online.org/>

<sup>7</sup> <http://www.mises.org/fullstory.aspx?Id=1707>

<sup>8</sup> [http://www.acton.org/press/pdf/2004-6-5\\_Sirico.pdf](http://www.acton.org/press/pdf/2004-6-5_Sirico.pdf)

<sup>9</sup> [http://www.newmansown.com/5\\_good.html](http://www.newmansown.com/5_good.html)

<sup>10</sup>

<http://www.mises.org/fullarticle.asp?printFriendly=Yes&control=892&month=41&%20title=Regulation%2Band%2BReality&id=41>

<sup>11</sup> <http://www.mises.org/rothbard/mes/chap10a.asp>

<sup>12</sup>

[http://www.ccbriefing.co.uk/pages/briefexchange\\_archive.php?id=8](http://www.ccbriefing.co.uk/pages/briefexchange_archive.php?id=8)

# Social Security Trust Fund

By Karl Weis

The basic idea of Social Security is a simple one: during working years employees, their employers, and self-employed people pay Social Security contributions into special trust funds. When earnings stop or are reduced because the worker retires, dies or becomes disabled, monthly cash benefits are paid to replace part of the earnings his family has lost.<sup>13</sup>

In 1976, the Social Security Administration passed out pamphlets to the American people containing this text. Milton Friedman described the pamphlet as such. "I would be hard to pack a greater number of false and misleading statements into a single paragraph"<sup>14</sup> The extent to which the government has lied, broke promises, changed law, and manipulated the public into putting their retirement in the hands of this higher power are far too vast to fit into a single report. However, the concept of the mythical trust fund sits like a bomb that may be diffused by the coming changes to Social Security, or be set off to the great detriment of the public, young and old. This report will cover the creation of the trust fund, the selling of it to the public, and its potential to destroy the United States economy if its concept is used improperly.

During the initial inception of the Social Security Act, unused benefit funds were theoretically supposed to be placed in a reserve account. Critics of the Social Security Act accused the government of embezzlement, and that the reserve fund was simply IOUs taxing the people first to put money into the fund and second to take it back out.<sup>15</sup> In response, on January 1, 1940 the reserve account was "transferred" to a trust fund. Both are Treasury accounts, so the effect was as if someone had found the shoebox of bonds labeled 'reserve accounts' and relabeled it 'trust fund'.<sup>16</sup> Officials clearly defended the change to a trust fund for exactly what it was, to console the minds of the people rather than make an economically sound improvement.<sup>17</sup> As Chairman of the Social Security Board, Arthur Altmeyer was requested to defend the trust fund to the Senate Finance Committee. When

asked the purpose of a trust fund, he responded, "Well, to allay the unwarranted fears of some people who thought Uncle Sam was embezzling the money."<sup>18</sup> Others agreed the change was merely a new name for the same process. When asked what changes would occur with the trust fund, Altmeyer claimed he believed there would be changes, but someone from the Treasury Department would have to explain the new process.<sup>19</sup> This is not a confident answer from the Chairman of the Social Security Board.

To use reserve account and trust fund interchangeably is a distortion of terms in itself. Here is an accepted legal definition of a trust fund.

A trust is a separate legal entity that holds property or assets of some kind for the benefit of a specific person, group of people or organization known as the beneficiary/beneficiaries. The person who creates a trust is called the grantor, donor or settlor. When a trust is established, an individual or corporate entity is named to oversee or manage the assets in the trust. This individual or entity is called a trustee. A trustee can be a professional with financial knowledge, a relative or loyal friend or a corporation.<sup>20</sup>

The first inaccuracy is the idea of a grantor, donor, or settlor. All three terms by definition require some sort of voluntary effort by the property holder to create the account. Congress has no claim on the reserve fund bonds that first created the account, nor does Congress even claim ownership of incoming assets. Further, the true grantors are grantors by coercion, making the fund more of a compulsory bond rather than a donation.

Further, there is no property being held for the benefit of a specific person. Granted, the very implication of the Old-Age Survivors and Disabilities Insurance (OASDI) implies that there is some sort of ownership involved by the fact that it is an insurance policy. Social Security has been routinely sold as a contractual insurance policy by the its supporters in the government and media. However, this simply is not the case. In Supreme

Court case *Helvering v. Davis*, proponents of the trust fund made sure to emphasize that there would be no ownership of those who pay in and those who receive benefits. This case was brought by George Davis in 1936, claiming that the Social Security taxes levied against Edison Electric Illuminating Company of Boston, MA, of which he was a stockholder, were unconstitutional.<sup>21</sup> Assistant Attorney General Robert Jackson argued for Social Security with the claim,

These benefits are in the nature of pensions or gratuities. There is no contract created by which any person becomes entitled as a matter of right to sue the United States or maintain a claim for any particular sum of money. Not only is there no contract implied but it is expressly negated, because it is provided in the Act, Section 1104, that it may be repealed, altered, or amended in any of its provisions at any time.<sup>22</sup>

This distinction was contrary to what had been previously advertised by Social Security's promoters, but it was necessary due to several smaller compulsory insurance schemes rejected by the Court before *Helvering v. Davis*. Davis' representation, Edward McClennen, argued if it truly was merely a tax to raise funds, a regressive tax<sup>23</sup> was certainly a "peculiar way to generate revenue".<sup>24</sup> The opinion of the court was 7-2 in favor of *Helvering*. Justice Cardozo wrote the opinion of the court.<sup>25</sup> "The proceeds of both taxes are to be paid into the Treasury like internal-revenue taxes generally, and are not earmarked in any way."<sup>26</sup> Justice Cardozo specifically recognizes here that the taxes levied under the Social Security Act are simply to raise funds and there is no contractual agreement between the government and the people if they will ever have these contributions returned to them. This argument will never be presented outside of a courtroom or congressional hearing, and the exact opposite will be stated in a massive advertising campaign by the newly created Social Security Act. Justice Cardozo continues,

Whether wisdom or unwisdom resides in the scheme of benefits set forth in Title II, it is

not for us to say. The answer to such inquiries must come from Congress, not the courts. Our concern here as often is with power, not with wisdom...One might ask with equal reason whether the system of protective tariffs is to be set aside at will in one state or another whenever local policy prefers the rule of *laissez faire*. The issue is a closed one. It was fought out long ago.<sup>(10)</sup> When money is spent to promote the general welfare, the concept of welfare or the opposite is shaped by Congress, not the states. So the concept be not arbitrary, the locality must yield. Constitution, Art VI, Par. 2.<sup>27</sup>

Justice Cardozo upholds the Social Security Act on the basis that it is welfare, not insurance. The opinion does not specifically address one argument made by FDR's administration to the people, but addresses the argument made to the Court, arguments denied once again when extolling the benefits of Social Security to the people after the case. In fact, Altmeyer approved a staff memo the day of the decision stating, "because of the decision we could now call the old-age benefits program old-age insurance".<sup>28</sup>

The Social Security Board, led by Altmeyer, made it painfully clear that the soon after renamed Old-Age, Survivors and Disabilities Insurance was not intended to be an insurance at all. In a 1960 case, *Flemming v. Nestor*, the Supreme Court upheld that "No contractual obligation on the part of the Government and no contractual right of a beneficiary could coexist with this reservation of power".<sup>29</sup> Therefore, the so called Trust Fund fails to meet the criteria of benefiting a specific person. There is no required beneficiary or beneficiaries unless one counts the general welfare of the people. Even then, the funds may be used to foster the general welfare of another generation regardless of the contributors wishes, therefore there exists no beneficiary.

Because there is no allowable means of enforcement by the already non-existent beneficiary, the existence of a trustee also disappears. To summarize, OASDI claims to hold a trust fund, yet there exists no trust, grantor, beneficiary, contract, or voluntary contribution from

which to derive a trust fund. The trust fund was an invention of FDR's administration solely to manipulate the public of the true nature of the "social insurance" initiative.

So regardless of the nature of the trust fund, the debate has modernized to whether or not there is actually money in this fund from which to sustain Social Security, at least in the short run.

Economists Dean Baker and Mark Weisbrot of the Economic Policy Institute have been at the forefront of the defense of Social Security's present state. In their book, Social Security: The Phony Crisis, Baker and Weisbrot accuse the 'privatizers' of manipulating the public to the extent of this problem. There is evidence of this. For example, proponents of Bush's proposal have been instructed to keep the numbers small by using trillions instead of billions, because 1 Trillion looks easier to deal with than 1,000 Billion to the average American.<sup>30</sup> Further, proponents are asked to use personal accounts in place of private accounts, clawback in place of offset when referring to funding lost income from private accounts for today's retirees, and unfunded liabilities in place of unfunded obligations when referring to the trust fund.<sup>31</sup>

Baker and Weisbrot admit that the government will have to borrow to make good on its government bonds. They argue if the trust fund were invested in private stocks and bonds, when the surplus shrank, the government would simply cash in on its portfolio to help pay benefits. Now what better bonds to invest in than US Treasury bonds, one of the safest bonds in the world?<sup>32</sup> They claim that the trust fund is a separate entity from the US Treasury because the nature of the trust fund is that contributions are paid in and taken out through this fund. After all, in 1999, borrowing from the trust fund is not considered part of the national debt.

But this is merely an accounting convention: in reality, the federal government will simply begin to replace some of the money that it previously borrowed from the trust fund with money borrowed from other sources.<sup>33</sup>

Therefore, if the trust fund falls, the government merely adds to the budget deficit.

There are numerous fallacies connected with this belief. First, as stated before supporters of the original transition from the reserve accounts to the trust fund admitted it was merely a re-labeling of a US Treasury securities. To say that the trust fund is a separate entity to the US Treasury is absurd. Consequently, a private bank would not invest its money into its own account and pay interest to itself. In order to collect interest, the funds would have to be at some point invested elsewhere in order to make a profit.

This leads to the second fallacy. The trust fund has not been invested, it has been spent. President Johnson spent the trust fund on the Vietnam War.<sup>34</sup> President Reagan spent the trust fund surplus on the budget deficit. President Bush spends the Social Security surplus on the current budget deficit caused by, among other factors, the war in Iraq.<sup>35</sup> Investing the trust fund in private accounts could not have done any worse than the US Treasury has done with it. The surplus is not sitting in the bank collecting interest, it is paying for tanks in Iraq, and the tanks are probably not going to pay the investment back with interest.

This leads to the third fallacy in Baker and Weisbrot's argument. Where are these other sources we are going to borrow from? The United States is sitting on a national deficit of 6 trillion. Medicare is in worse shape than Social Security, and Social Security borrowing has already depleted the Disability Insurance and Hospital Insurance funds.<sup>36</sup> The main source of "borrowing" that is going to occur is through taxes in one form or another.<sup>37</sup>

Therefore, the trust fund has been repeatedly abused by the very lawmakers that extol its values.<sup>38</sup> However, in the pay-as-you-go Ponzi scheme that the United States OASDI employs, the trust fund is a minor part of the system as a whole. Most of the money that goes into the trust fund is immediately paid back out to the recipients, three benefiter to every benefitee. However, the trust fund exists to lessen the blow when a baby boom retires so as to keep the 'obligation' made to each generation. A substantial deficit is projected to occur in the near future, no matter how the numbers are manipulated. Baker and Weisbrot dismiss the projected shortfall, claiming both that Social Security is not a pension system and that the

government does not necessary 'owe' anything, and that from a normative side, today's retirees provided the jobs and economy that the young have inherited, and the young therefore owe the past generation a secure retirement.<sup>39</sup> However, the Ponzi scheme will eventually fail when one generation fails to convince the next generation to take part in the scheme.<sup>40</sup>

The result is; reform must take place. The numbers do not lie, and few deny Social Security's looming problem. The role of the trust fund could become nominal, or it could possibly ruin the economy as a whole.

Peter J. Ferrara predicted the shortcoming of Social Security by 2030 in a book written in 1980, Social Security: The Inherent Contradiction. He approves of a complete privatizing of the OASDI, but is wholly against the idea of letting the federal government invest the trust funds in the market rather than the people. His reasoning is as such:

Such a government trust fund could serve as a new and powerful source over the free market. Many special interest groups would try to use the fund's investments for personal or ideological gain. The government would inevitably use these investments to impose a whole new set of regulations and controls on private industry. There would also be the constant political temptation to raid the trust funds to pass out free benefits. There would be no end to proposals to commandeer the trust fund for some so-called urgent national priority.<sup>41</sup>

It seems ironic that an effort to privatize the Social Security system could socialize a large part of the US economy, but that is just how powerful the trust fund can be. Many mutual fund companies are assisting Bush right now in his push to privatize a portion of social security, because the addition of millions of investors mean billions in potential profits if such a scheme were introduced. Social Security accounts for 26% of the national budget. The potentials for profit with any change make government corruption almost a given. One cannot dismiss the idea that Congress would use a privatized trust fund to manipulate the stock market.

Congress has a history of changing laws, and it has a history of abusing the trust fund as it is.

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- <sup>14</sup> Ferrara, 1980 p. 67

<sup>15</sup> Attarian, John “The Roots of the Social Security Myth” Ludwig Von Mises Institute, Auburn. 2001 p. 20

<sup>16</sup> Ibid p. 20

<sup>17</sup> John Attarian’s book, Social Security: False Consciousness and Crisis (2002), is one of many historical reports of the many actions by the government to deliberately cover the true nature of Social Security from both the public, the courts and Congress. The language used throughout the report may seem brazen but many of my sources have numerous citations by leading official admitting manipulations and outright lies. Some would argue the actions of those officials have nothing to do with the actual solvency of the program, and I would agree. However, the creators of Social Security saw it for what it was, the progression of a paternalistic style government. The very fact that the government felt compelled to manipulate public opinion by changing phrasing implies that they are going against the will of the people. Citing these examples dispel any arguments that even a majority of Americans really desired the type of system they have been duped into supporting.

<sup>18</sup> Attarian, John Social Security: False Consciousness and Crisis Transaction Publishers, New Brunswick. 2002 p. 133

<sup>19</sup> Ibid p. 133

<sup>20</sup> USLegalForms.com “Trust Fund Law and Legal Definition” 2004 [http://www.uslegalforms.com/lawdigest/legal-definitions.php/US/US-TRUST\\_FUND.htm](http://www.uslegalforms.com/lawdigest/legal-definitions.php/US/US-TRUST_FUND.htm) Cited 03/30/05

<sup>21</sup> Social Security History: Supreme Court of the United States *Helvering v. Davis*. Social Security Administration <http://www.ssa.gov/history/supreme1.html> Cited 03/30/05

<sup>22</sup> Attarian, 2001 p. 14

<sup>23</sup> The Social Security tax was regressive in that there was a cap on taxable income. Therefore the wealthy would pay a smaller percentage of their income into Social Security than one less well off. Current plans to revise OASDI involve raising the payroll cap from its current place at \$90,000 to as much as \$200,000. More radical plans involve removing the cap altogether.

<sup>24</sup> Ibid p. 15

<sup>25</sup> Although this decision occurs after the famous “a stitch in time saves nine” decision, the possibility of FDR’s court stacking strategy was still very much a reality. It was only after this case that the court was able to rest easy in its current numbers. It is interesting to note that neither of the dissenters of the case wrote opinions stating their dissension.

Furthermore, the opinion’s language is very similar to that of the Act that was presented to the court. McClennen’s arguments are for the most part not even addressed in Justice Cardozo’s opinion. It is clear that the Court was still working under the threat of maintaining its independence from the other branches.

<sup>26</sup> SSA *Helvering v. Davis*

<http://www.ssa.gov/history/supreme1.html>

<sup>27</sup> Ibid

<sup>28</sup> Attarian, 2001 p. 17

<sup>29</sup> Ibid p. 35

<sup>30</sup> Republicans deliberately manipulating information is not new either. Since the IRS began collecting this payroll tax, members of both sides have taken opportunities to manipulate

the facts in their political favor. FDR boasted about how once Social Security would be in place, it would be politically impossible to end it. Probably the worst series of politically played misinformation occurred during the 1972 presidential election between Nixon and McGovern. The result of the creation of Cost of Living Adjustments and the 20% increase on Social Security benefits created the Social Security crisis in 1983, and led to the urgency we are now experiencing to save the program for the retirees who are depending on it. To read more on the 1972 election, see Bresiger, Gregory. “The Disastrous Deal of 1972” Ludwig Von Mises Institute 12/07/99 <http://www.mises.org/story/344> Cited 03/28/05

<sup>31</sup> Calmes, Jackie “Social Security Debate Uses Code Words” The Wall Street Journal. Sunday, 02/13/05

<sup>32</sup> Baker, Dean and Mark Weisbrot. Social Security: The Phony Crisis UP Chicago, Chicago. 1999 p. 28

<sup>33</sup> Ibid p. 30

<sup>34</sup> Tynes, Sheryl T. Turning Points in Social Security: From ‘Cruel Hoax to ‘Sacred Entitlement’ UP Stanford, Stanford. 1996 p. 120

<sup>35</sup> Wessel, David. “Social Security’s ‘Trust Fund’ Problem” Wall Street Journal Thursday 02/17/05

<sup>36</sup> Attarian 2001 p. 44

<sup>37</sup> There will undoubtedly be taxes in one form or another to close the gap between those paying in and those taking out. Bush has rejected raising the payroll tax, but has instead considered raising the payroll cap, as mentioned in footnote 2. Other possible ways to get around not raising the payroll tax are simply paying itself through the Treasury, exacting an inflation type tax, eliminating the Cost of Living Adjustment, raising the retirement age for new retirees, and cutting benefits. All of these methods essentially lower the benefit one receives from his contribution, thus indirectly raising taxes.

<sup>38</sup> It would be interesting to research the similarities between the actions of government with the trust fund and Enron’s actions with its stockholders.

<sup>39</sup> Today’s retirees left working class like myself with a \$6 Trillion national deficit. Who’s to argue the retirees do not owe me money to pay this inherited deficit?

<sup>40</sup> Block, Walter and David Lorch, Bobby Midkiff, and Keith Reed. “Let’s End, Not Mend, Social Security” Institute of Economic Affairs Blackwell Publishers, Oxford. 2002

<sup>41</sup> Ferrara, 1980 p. 395

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