

HENRY SIMONS IS NOT A SUPPORTER OF FREE ENTERPRISE

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The Chicago School of Economics is seen far and wide as a free-enterprise stronghold. The research programs of many of its members are extolled as supportive of capitalism, even by otherwise knowledgeable commentators.¹ This article will show that such an evaluation cannot be supported, at least in the case of Henry Simons,² one of the most eminent practitioners of economics to be associated with the economics department of the University of Chicago.

Perhaps the most disquieting aspect of Simons's treatment of political economy is his insistence on labeling his views "libertarian." It is bad enough that he promotes government intervention into the economy for a host of reasons, such as "coercive association," health, "equality," planning, and education. Such arguments are bad enough in

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¹See, e.g., John L. Kelly, *Bringing the Market Back In: The Political Revitalization of Market Liberalism* (New York: New York University Press, 1997); and Henri Lepage, *Tomorrow, Capitalism* (La Salle, Ill.: Open Court, 1982).

²See Henry Simons, *Economic Policy for a Free Society* (Chicago: University of Chicago Press, 1948). For a defense of this book on supposedly libertarian grounds, see F.A. Hayek, *The Intellectuals and Socialism* (Fairfax, Va.: Institute for Humane Studies, 1990), p. 22, n. 4. Hayek characterizes Simons's book as "one of the most important contributions made in recent times to our problem and . . . just the kind of work which is required to get discussion started on the fundamental issues. Even those who violently disagree with some of its suggestions should welcome it as a contribution which clearly and courageously raises the central problems of our time." For a critique of Hayek's own libertarian credentials, see Walter Block, "Hayek's Road to Serfdom," *Journal of Libertarian Studies* 12, no. 2 (Fall 1996), pp. 327–50.

that the world is filled with arguments for socialism, interventionism, and government regulation of the economy. Simons's claims are worse in that he does so while calling himself and his ideas "libertarian."³

To his credit, Simons is intent upon promoting "free discussion. The virtues of freedom in the pursuit of scientific truth are obvious and undisputed."⁴ But what good is free discussion if it is marred to the core by fraudulent mislabeling, characterizing as pro-freedom what is essentially a program, with some notable exceptions to be discussed below, of government intervention into the economy?

LIBERTARIANISM

There are two groups of scholars with a valid claim to the title of libertarian. First, there are the anarcho-capitalists, who maintain that it is only proper, and practical as well, that there be no government at all, since this institution necessarily violates the libertarian axiom of non-aggression against non-aggressors. All supposed state functions would be carried out, in this political economic philosophy, by private-profit making firms or by voluntary charitable organizations.⁵

³Simons, *Economic Policy for a Free Society*, reiterates his claim of being a libertarian, for example, on pp. 1, 4, 6, 7, and 8, sometimes several times on a page. When he is not characterizing his views as libertarian, he more reasonably uses "liberal" as in "classical liberal" as a synonym. His promotion of government intervention on various grounds is found all through his work, e.g., on pp. 2–6. Problematically, throughout the article, he announces himself as a proponent of economic "liberty." He entitles one of his chapters "A Positive Program for Laissez Faire," an instance of fraud and false advertising.

⁴Simons, *Economic Policy for a Free Society*, p. 7. Simons may be forgiven for this sentiment since he wrote long before the advent of political correctness and laws condemning "hate" speech.

⁵For a sampling of this tradition, see Randy E. Barnett, *The Structure of Liberty: Justice and the Rule of Law* (Oxford: Clarendon Press, 1998); Bruce L. Benson, "Enforcement of Private Property Rights in Primitive Societies: Law Without Government," *Journal of Libertarian Studies* 9, no. 1 (Winter 1989), pp. 1–26; Alfred G. Cuzán, "Do We Ever Really Get Out of Anarchy?" *Journal of Libertarian Studies* 3, no. 2 (Summer, 1979); Anthony de Jasay, *Against Politics: On Government, Anarchy, and Order* (London: Routledge, 1997); Hans-Hermann Hoppe, *The Economics and Ethics of Private Property: Studies in Political Economy and Philosophy* (Boston: Kluwer, 1993); Andrew P. Morriss, "Miners, Vigilantes and Cattlemen: Overcoming Free Rider Problems in the Private Provision of Law," *Land and Water Law Review* 33, no. 2 (1998), pp. 581–696; Larry J. Sechrest, "Rand, Anarchy, and Taxes," *The*

Block – Henry Simons is Not a Supporter of Free Enterprise

Second, there are the limited-government libertarians, or minarchists, who take the position that a proper government exists only to protect peoples' rights to personal safety and to the security of their legitimately held possessions. To this end, the sole legitimate functions of the state are to provide armies to enable us to resist aggression from abroad, police to quell domestic disturbances, and courts to determine guilt or innocence. Anything more, according to this tradition, constitutes a rights violation.⁶

In what is to follow, I will compare and contrast the viewpoints of Simons with real libertarians. As a benchmark, I choose the minarchists rather than the anarcho-capitalists in that the latter would be an almost impossible benchmark for a Chicago-oriented economist to attain.⁷ In this way, Simons has at least a sporting chance of attaining the honorific "libertarian." We start out with a discussion of those policies on the basis of which Simons can take his proper place amongst his fellow members of this philosophy, followed by an examination of the areas in which the views of Simons are greatly at odds with those of limited-government libertarians.

ISSUES ON WHICH SIMONS IS COMPATIBLE WITH LIBERTARIANISM

Fractional-Reserve Banking

Surprisingly, Simons advocates the "abolition of private deposit banking on the basis of fractional reserves."⁸ This was so unexpected

Journal of Ayn Rand Studies 1, no. 1 (Fall 1999), pp. 87–105; and Murray N. Rothbard, "Society Without a State," in *Anarchism: Nomos XIX*, ed. J.R. Pennock and J.W. Chapman (New York: New York University Press, 1978), pp. 191–207.

⁶A few examples of this position include Richard A. Epstein, *Simple Rules for a Complex World* (Cambridge, Mass.: Harvard University Press, 1995); David Boaz, *Libertarianism: A Primer* (New York: Free Press, 1997); Tibor Machan, ed., *The Libertarian Reader* (Totowa, N.J.: Rowman and Littlefield, 1982); Charles Murray, *What It Means to be a Libertarian* (New York: Broadway Books, 1997); Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, 1974); and Leonard E. Read, *Anything That's Peaceful* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1964).

⁷David Friedman is the only Chicago-oriented anarcho-capitalist of whom I am aware. See his *The Machinery of Freedom: Guide to a Radical Capitalism*, 2nd ed. (La Salle, Ill.: Open Court, 1989).

⁸Simons, *Economic Policy for a Free Society*, p. 57.

that I looked for Simons to contradict himself on this policy, or at least to severely limit its application. He does neither. Instead, he reiterates this policy by advocating:

Annulment of all existing bank charters . . . and enactment of new federal legislation providing for complete separation . . . of the deposit and lending functions of existing deposit banks. . . . Legislation requiring that all institutions which maintain deposit liabilities and /or provide checking facilities . . . shall maintain reserves of 100 per cent in cash and deposits with the Federal Reserve Banks.⁹

He reiterated this position two pages later:

The proposals with reference to banking contemplate displacement of existing deposit banks by at least two distinct types of institutions. First, there would be deposit banks which, maintaining 100 per cent reserves, simply could not fail, so far as depositors were concerned, and could not create or destroy effective money. These institutions would accept deposits just as warehouses accept goods.¹⁰

And yet again:

We must abandon and avoid a financial system under which funds actually invested in production and trade are, at the same time, legally available to creditors on demand.¹¹

While Simons does allow for the continuation of the Federal Reserve System, instead of its elimination, as would be required by the libertarian philosophy, his clear position on the abolition of fractional-reserve banking is very idiosyncratic for a Chicago School economist.¹²

⁹Simons, *Economic Policy for a Free Society*, p. 62.

¹⁰Simons, *Economic Policy for a Free Society*, p. 64.

¹¹Simons, *Economic Policy for a Free Society*, p. 80.

¹²Virtually the only economists who argue for the abolition of fractional-reserve banks are from the Austrian School. See, e.g., Walter Block, "Fractional Reserve Banking: An Interdisciplinary Perspective," in *Man, Economy, and Liberty*, ed. Walter Block and Llewellyn H. Rockwell, Jr. (Auburn, Ala.: Ludwig von Mises Institute, 1988), pp. 24–31; John P. Cochran and Steven T. Call, "The Role of Fractional-Reserve Banking and Financial Intermediation in the Money Supply Process: Keynes and the Austrians," *Quarterly Journal of Austrian Economics* 1, no. 3 (Fall 1998), pp. 29–40; Jesús Huerta de Soto, "A Critical Analysis of Central Banks and Fractional-Reserve Free Banking from the Austrian Perspective," *Review of Austrian Economics* 8, no. 2 (1995),

Block – Henry Simons is Not a Supporter of Free Enterprise

Price Controls

There is no doubt that Simons is a steadfast and eloquent opponent of price controls. His continual warning against the interference with freely-arrived-at relative prices gives ample testimony to this perspective.

Political determination of relative prices, of relative returns from investment in different industries, and of relative wages in different occupations implies settlement by peaceful negotiation of conflicts too bitter and too irreconcilable for deliberate adjudication and compromise.¹³

Chicagoans, whatever their other deviations from economic freedom, can traditionally be counted upon to oppose rent control, minimum wages, usury laws, profit limitations, and all other such attempts on the part of government to rig markets, and Simons is no exception to this general rule. For this, libertarians are no doubt in their debt.

Unfortunately, the same cannot be said with regard to regulatory bureaus. Here is what our “laissez faire” advocate Simons had to say about one of the most egregious of these: “We have developed in the Interstate Commerce Commission an unusually competent and scrupulous public body.”¹⁴

pp. 25–38; Hans-Hermann Hoppe, with Jörg Guido Hülsmann and Walter Block, “Against Fiduciary Media,” *Quarterly Journal of Austrian Economics* 1, no. 1 (1998), pp. 19–50; Ludwig von Mises, *The Theory of Money and Credit*, trans. H.E. Baston (Indianapolis, Ind.: LibertyPress / LibertyClassics, 1983), pp. 29–37, 97–154, 399–406; Murray N. Rothbard, *What Has Government Done to Our Money?* (Auburn, Ala.: Ludwig von Mises Institute, 1990); and Mark Skousen, *The 100 Percent Gold Standard: Economics of a Pure Money Commodity* (Lanham, Md.: University Press of America, 1977).

There are, however, numerous otherwise-in-good-standing Austrian economists who have yet to see their way clear to the pellucid understanding of property rights which underlies this position. For example, see Kevin Dowd, *Laissez-Faire Banking* (New York: Routledge, 1996); Roger W. Garrison, *Time and Money* (New York: Routledge, 2000); Steven G. Horwitz, “The Political Economy of Inflation: Public and Private Choices,” *Durrell Journal of Money and Banking* 3, no. 4 (November 1991), pp. 26–37; and George Selgin and Lawrence H. White, “In Defense of Fiduciary Media,” *Review of Austrian Economics* 9, no. 2 (1996), pp. 83–108.

¹³Simons, *Economic Policy for a Free Society*, p. 44.

¹⁴Simons, *Economic Policy for a Free Society*, p. 50. For more on this, see the discussion below in the section “Redefinition of Laissez Faire.”

The Hoover New Deal

Simons is also to be credited with realizing that Hoover's policies were the logical antecedent to FDR's New Deal. Most commentators fall into the trap of thinking that the New Deal began with Roosevelt; yet, virtually all of FDR's policies were begun by Hoover (although Roosevelt pursued them with greater alacrity and ferocity). Further, Simons condemns the anti-market tendencies of both presidents, making him something of a rarity. He writes:

One cannot criticize the policies of the present administration without seeming to approve those of its predecessors. In fact, one must condemn the Democrats mainly for their wholesale extension of the worst policies of the past. The N.R.A. is merely Mr. Hoover's trust policy and wage policy writ large. The agricultural measures and many other planning proposals are the logical counterpart and the natural extensions of Republican protectionism.¹⁵

ISSUES ON WHICH SIMONS IS INCOMPATIBLE WITH LIBERTARIANISM

Although there are several points upon which Simons and libertarians are congruent, it is unfortunate that, on most issues, there is a sharp divergence between the two.

Free Trade

Simons is generally, but not entirely, sound on free trade.¹⁶ He vociferously and frequently criticizes tariffs, quotas, and other such

¹⁵Simons, *Economic Policy for a Free Society*, p. 75. For an elaboration of these themes, see Murray N. Rothbard, *America's Great Depression* (Kansas City: Sheed and Ward, 1975); and Murray N. Rothbard, "Herbert Hoover and the Myth of Laissez Faire," in *A New History of Leviathan*, ed. Ronald Radosh and Murray N. Rothbard (New York: E.P. Dutton, 1972), pp. 111–45.

¹⁶His treatment is marred somewhat by his claim that "[t]he norm in all voluntary economic association is commutative justice. Such justice connotes exchange of equal values, as measured objectively by organized markets." See Simons, *Economic Policy for a Free Society*, p. 4. But this is more than passing curious. It is an insight of the Austrian School that trade connotes exchange of *unequal* values. For example, if I buy your shirt for \$10, I must value it at a *higher* rate than that amount at least *ex ante*, or I would lack all motive to purchase it. Alternatively, you must rank the money you receive more favorably than the merchandise you give up, otherwise why would you sell it?

Block – Henry Simons is Not a Supporter of Free Enterprise

interferences with international trade. For example, he writes that “Liberalism is also notorious for its uncompromising opposition to governmental restraint or manipulation of foreign trade,” and characterizes this as liberalism’s—and, by extension, his—“categorical free-trade prescription.”¹⁷

One wonders whether he would have favored a NAFTA, GATT or WTO-type semi-demi free trade (e.g., customs union), or the far more radical libertarian unilateral declaration of immediate free trade with all nations. There is but a hint in his writings that he would not have been this radical:

Free trade is an essential feature of stable federation. Real international organization, removing sovereign national prerogatives of trade manipulation, must come slowly out of discussion, experiment, and compromise. . . . International organization must be pursued opportunistically on every front.¹⁸

But this emphasis on supranational institutions and denigration of national sovereignty is logically incompatible with his adherence to subsidiarity and local control.¹⁹

Notwithstanding this failure to articulate a truly radical libertarian perspective on free trade, there is no doubt that, at least, he is an ardent advocate of economic freedom in this arena. He writes:

With the disappearance of the vestiges of free trade among nations will come intensification of imperialism and increasingly bitter and irreconcilable conflicts of interest internationally. With the disappearance of free trade within national areas will come endless, destructive conflict among organized economic groups—which should suffice, without assistance from international wars, for the destruction of Western civilization and its institutional heritage.²⁰

He also maintains that “opposition to tariffs is, of course, a cardinal element in the liberal creed.”²¹ But then he fails to carry through on his insight, which is why I list this topic as a negative one for him

¹⁷Simons, *Economic Policy for a Free Society*, p. 24.

¹⁸Simons, *Economic Policy for a Free Society*, p. 26.

¹⁹See Simons, *Economic Policy for a Free Society*, pp. 11–14; see also the discussion of “Federalism,” below.

²⁰Simons, *Economic Policy for a Free Society*, p. 45.

²¹Simons, *Economic Policy for a Free Society*, p. 69.

as far as earning his free enterprise credentials is concerned. He mars his seemingly staunch opposition to interferences with international trade with the following concession:

The way to reduce the tariff is simply to reduce it. There is, to be sure, a decisive case in favor of gradualness. One must recognize legitimate vested interests in even the most objectionable subsidies. An ideal program would call for a continued scaling-down of duties, with the announced objective of getting rid of them all, over, say, a ten-year period.²²

This is hard to square with the philosophy of free enterprise. From that perspective, “legitimate vested interests” would be no less a contradiction in terms than “justified theft,” or “proper murder.” It cannot be denied that if someone were to purchase a position in a subsidized industry at a price that capitalizes the continuation of this program, and the program is suddenly ended, that he would suffer a financial loss. But *caveat emptor* must be served. The buyer of such a firm is speculating that the subsidy will be long continued, and he will suffer no unexpected losses if it does. But this is a far cry from thinking, as Simons evidently does, that these vested interests therefore have a *right* that the program not be pulled out from under them too quickly.

To paraphrase Republican presidential candidate Barry Goldwater, “gradualism in the elimination of evil tariffs is no virtue; immediate eradication is no vice.” A person who has the power to rescind an abominable policy at time t_0 , and waits to do so until time t_1 , might almost be considered guilty of the continuation of this program for the intervening time period. Although Simons talks loudly against tariffs, he refuses precipitous action in ending them, thus blunting his opposition to them.

The Chicago School economist’s insistence on gradually rather than immediately eliminating what even he sees as an unconscionable program stands in stark contrast to the views of limited-government libertarians who are a bit more consistent in their adherence to these principles. For example, Leonard Read writes “[i]f there were a button on this rostrum, the pressing of which would release all wage-and-price controls instantaneously, I would put my finger on it and push!”²³

²²Simons, *Economic Policy for a Free Society*, p. 70.

²³Leonard E. Read, *I’d Push the Button* (New York: Joseph D. McGuire, 1946), p. 3, cited in Murray N. Rothbard, *The Ethics of Liberty* (New York: New York University Press, 1998), p. 259; I owe this cite to Stephan Kinsella.

Block – Henry Simons is Not a Supporter of Free Enterprise

And, according to anti-slavery abolitionist William Lloyd Garrison, “gradualism in theory is perpetuity in practice.”²⁴

Yes, Simons advocates free trade, on a theoretical plane, but what good is this to the free movement of goods and capital across international boundaries if its own self-styled advocate refuses to implement the program when he has the chance to do so? In practice, under a Simons administration, tariffs would live on, his protestations to the contrary notwithstanding.

Freedom of Association

According to Simons:

A free society must be organized *largely* through voluntary associations. Freedom to associate or dissociate, to belong or not to belong, especially in economic activities, is an essential liberty.²⁵

This statement alone takes Simons a long way toward true libertarianism. Were this all there were to the matter, I would be including this topic under the heading of those issues upon which Simons and libertarians are in accord, instead of categorizing it as one in which Simons’s views are incompatible with libertarianism.

Unfortunately, the word “largely” is a loophole big enough to drive an eighteen-wheeler through. It is impossible to reconcile freedom of association with any number of other perspectives that earmark the Simons worldview. For example, it is difficult to see how one can square freedom of association with anti-trust; the former stipulates that any person can associate with any other person he wants to, the latter that business firms cannot do so with each other. Similarly for coerced socialism, which mandates that people join forces with one another, economically speaking, when what they may wish most is to live in splendid isolation from one another.²⁶

Monopoly and Competition

Simons writes:

²⁴William H. Pease and Jane Pease, eds., *The Antislavery Argument* (Indianapolis, Ind.: Bobbs-Merrill, 1965), p. xxxv; cited in Rothbard, *Ethics of Liberty*, p. 260; I owe this cite to Stephan Kinsella and Karen DeCoster.

²⁵Simons, *Economic Policy for a Free Society*, p. 3, emphasis added.

²⁶See below for a discussion of each of these topics.

Journal of Libertarian Studies

Economics properly stresses competition among organizations as a means to proper resource allocation and combination and to commutative justice. But effective competition is . . . requisite to real freedom of association—and to real power dispersion. All monopolies, and all very large organizations of sellers (or buyers), are impairment of that freedom and . . . must tend to be governmentalized, not only because they involve exploitation . . . and diseconomies, but also because adequately strong government cannot tolerate usurpation of its coercive powers.²⁷

There is so much wrong here it is hard to know where to begin. First, there is the confusion between size, or numbers of competitors, and actual competition. There is no competition permitted between the taxi-cab drivers of New York City, even though there are tens of thousands of them, while there are only two people competing with one another in the boxing ring, and yet their competition can become pretty intense. Mere nose counting is no guarantee of rivalrousness in competition. Were Simons to consistently follow through on his viewpoint, moreover, he would have to characterize monogamous marriage as bi-lateral monopoly, and then ban it by law. For in this case, each of the two parties “forfeits” all others; no one else is allowed to compete for the sexual and emotional “services” of either of the spouses, nor are either of them enabled to involve themselves in any such activity with outside “competing” parties.²⁸

²⁷Simons, *Economic Policy for a Free Society*, p. 4.

²⁸Nor can it be argued in Simons’s defense that his economic insight applies only to commercial activities, not personal ones. If there is anything to which the career of Gary Becker (a fellow Chicago School economist) is devoted, it is to the notion that economics applies, holus bolus, to *all* realms of human endeavor, particularly including sex. See Gary S. Becker, *Altruism in the Family and Selfishness in the Market* (Chicago: Center for the Study of the Economy and the State, 1982); Gary S. Becker, *Accounting for Tastes* (Cambridge, Mass.: Harvard University Press, 1998); Gary S. Becker, *A Treatise on the Family* (Cambridge, Mass.: Harvard University Press, 1991); and Gary S. Becker, *A Theory of Marriage* (Chicago: Center for the Study of the Economy and the State, 1975), where he applies economics to issues of family, sex, etc. Richard Posner is another Chicago School economist who adopts similar subject matter for his analysis. See Richard A. Posner, *Sex and Reason* (Cambridge, Mass.: Harvard University Press, 1992). On these grounds, Becker and Posner join with the Austrians, who maintain that all “human actions” are the proper province of the dismal science. See Ludwig von Mises, *Human Action*, scholar’s ed. (Auburn, Ala.: Ludwig von Mises Institute, 1998).

Block – Henry Simons is Not a Supporter of Free Enterprise

Second, economics has nothing whatsoever to say about “commutative justice” or any other kind of justice. This claim bespeaks a conflation between the normative and the positive elements of economics.²⁹

Third, there is a mix-up between coercive power and large size. Here is yet another indication that Simons’s concept of coercion is not that of the libertarian. He states that “[a] moral order imposed by force or fraud, by authorities, or by threats of punishment in this world or the next is a contradiction in terms.”³⁰ On the contrary, it all depends upon what the moral order is. If it consists of proscriptions against murder, rape, and theft, then it is entirely justified that this be imposed by violent means. Even if the moral order comprises no more than you should do (legal) things my way, it is licit to impose this, too, if the threat of punishment is that I, as your employer, fire you. Further, banning threats about the next world seems to indicate forced atheism. Have not religious people the right to propound their views? Likewise, an organization with many members is not necessarily a coercive one, nor does it take many people to act in an intimidating manner; a small gang will do quite nicely in this regard, as will even a single hold-up man.

Then there is the issue of what happened to the “freedom of association” that is much-vaunted in Simons’s lexicon? As we have seen above, our author is on record as supporting this freedom. But a cartel, or a conglomerate, or a vertically or even horizontally integrated industry is merely a voluntary association all of whose members have freely joined. How Simons can be in favor of freedom of association, but opposed to, and willing to use the forces of law against, a cartel, can perhaps only be understood in Chicago, where the laws of logic apparently operate in a different manner than they do everywhere else.

Can it be argued that I am being too harsh on Simons, in that he sees anti-trust legislation only as a transitory measure? After all, he writes:

Public regulation of private monopoly would seem to be, at best, an anomalous arrangement, tolerable only as a temporary expedient. Halfhearted, sporadic, principle-less

²⁹Leland B. Yeager, *Ethics as Social Science: The Moral Philosophy of Social Cooperation* (Cheltenham, U.K.: Edward Elgar, 2001), correctly argues that economics sets the limits for moral reasoning in that, for something to be moral, it must at least be possible, and economic reasoning can often show that the typical socialist nostrum is infeasible.

³⁰Simons, *Economic Policy for a Free Society*, pp. 7–8.

regulation is a misfortune for all concerned; and systematic regulation, on the basis of any definite and adequate principle, would leave private ownership almost without a significant function or responsibility to discharge. . . . We may endure regulation for a time, on the dubious assumption that governments are more nearly competent to regulate than to operate.³¹

But no. For what he means to follow this “temporary expedient” is not a return to the laissez-faire policy of no anti-trust regulation at all; rather, he is calling for a general public takeover of industry!

In general, however, the state should face the necessity of actually taking over, owning, and managing directly, both the railroads and the utilities, and all other industries in which it is impossible to maintain effectively competitive conditions.³²

For Simons, any industry in which the concentration ratio is higher than he thinks it should be is one which does not maintain “effectively competitive conditions.” However, concentration ratios are wildly subjective matters, depending upon, among other things, how widely or narrowly an industry is defined. Thus, in principle Simons’s principles offer virtually no limit to the percentage of the economy that can be nationalized.

With regard to railroads, Simons seems particularly unhappy about the “preposterous system of relative charges (freight classification), and the disastrous rigidity of freight rates.”³³ Yet, these stem not from anything intrinsic to this or any other industry, but from the legal limitations imposed upon all potential railroads to set up as competitors.

Taxation

What would taxes be like in the relatively free society of the minarchists? For some, there would be no taxes at all, and government services would be financed through voluntary contributions.³⁴ For others, tax levels would be minimal, yielding at most 10% of GDP, similar to the amount of the tithe which was sometimes imposed, and

³¹Simons, *Economic Policy for a Free Society*, p. 51.

³²Simons, *Economic Policy for a Free Society*, p. 51.

³³Simons, *Economic Policy for a Free Society*, p. 50.

³⁴See, e.g., Ayn Rand, *The Virtue of Selfishness* (New York: New American Library, 1962).

Block – Henry Simons is Not a Supporter of Free Enterprise

sometimes requested, by the church of its members.³⁵ As to the level of taxation, Simons would appear to pass the minarchist test at least adequately, when he calls for “arrangements whereby something like 10 per cent of the whole national income would pass, via personal income taxation, into the hands of government.” But this moderation is more apparent than real, in that in addition to taxing income at this relatively low rate Simons would also maintain other excises:

Levies like the gasoline taxes might well be retained indefinitely. . . . Taxes upon real property also might properly be retained without diminution of long-established rates.³⁶

His justification for these confiscations is also problematic:

Such property has long been bought and sold subject to the prospect of continued taxation; to reduce the levies would involve a large gift by the community (through increase in capital value) to persons who happened to be in possession at the time.³⁷

But this is no less than appalling. If we follow Simons’s “logic” in other areas, the police should not try to reduce crime either, for homes will have been purchased assuming such continued depredations, and if they are reduced, property values will undoubtedly tend to rise, *ceteris paribus*, and this would constitute an unwarranted “gift” from society as a whole to those people fortunate enough to own land in the previously dangerous neighborhoods.

What forms of taxes are compatible with minarchism, the philosophy we are using as a benchmark to analyze the views of Simons? There are four main possibilities: progressive, proportional, regressive, or equal (such as a poll or head tax, where each citizen pays the same absolute amount of money to the government). My claim is that they are compatible with free enterprise in reverse order to that specified above: a head tax is the most compatible with libertarianism, next comes the regressive, after that the proportional, and the least consistent with the free society is the progressive tax.³⁸ Why is this?

³⁵Most of the limited-government advocates listed in ft. 6 *supra* would favor limited taxes of this sort.

³⁶Simons, *Economic Policy for a Free Society*, p. 68.

³⁷Simons, *Economic Policy for a Free Society*, p. 68.

³⁸See on this Murray N. Rothbard, *Power and Market: Government and the Economy* (Menlo Park, Calif.: Institute for Humane Studies, 1970).

It is because the emblem of the market place is the price system. A wealthy man, such as Microsoft's Bill Gates, pays *exactly the same price* for a loaf of bread as I do. Therefore, if we are to model taxes on the basis of prices, and there is no other alternative that is even remotely a reasonable candidate to emulate for this purpose, then this computer whiz must pay exactly what I do in the form of taxes. This implies a poll tax, where all citizens pay identical amounts to the revenue agents. Next best, from this perspective, would be any regressive tax where the rich paid more than the poor in absolute dollars, although less in percentage terms, because this most closely replicates the equal tax. Third best would be a proportional tax, and last, the progressive, because these resemble, less and less, the price system.

It will come as no surprise to the reader to learn that Simons favors the progressive tax. He writes:

Our proposal with reference to taxation is based on the view (1) that reduction of inequality is per se immensely important; (2) that progressive taxation is both an effective means and, . . . the only effective means to that end.³⁹

This element is so important that even if it were Simons's only deviation, it would extinguish his claim to be a free-enterprise advocate.

Under his tax proposals, Simons gives a prominent place to attacking inheritances, going so far as to advocate the inclusion of gifts in this regard.⁴⁰ What he has in mind is monetary assistance or large consumer durables (e.g., houses, cars) that parents give to children. But why single out these instances to the exclusion of other sorts of aid? Surely, if we adopt the Simons philosophy on this matter, we should also include penalties for love and affection, for reading stories to children at bedtime, for having books and music in the house, for scintillating dinner time conversation, etc. For these things also, and maybe even more effectively, contribute to the well being of the next generation. And this must perforce be "unfair," as the rich tend to give more of these to their children than do the poor.

Money

It is Simons's considered opinion that:

[t]olerable functioning of a free enterprise system presupposes effective performance of a fundamental function of

³⁹Simons, *Economic Policy for a Free Society*, p. 65.

⁴⁰Simons, *Economic Policy for a Free Society*, p. 67.

Block – Henry Simons is Not a Supporter of Free Enterprise

government, namely, regulation of the circulating medium (money).

But this is not easy to understand, given his highly critical account of the way the U.S. government has actually acquitted this task.

We should characterize as insane a governmental policy of alternately expanding rapidly and contracting precipitously the quantity of paper currency in circulation—as a malevolent dictator easily could do, first issuing currency to cover fiscal deficits, and then retiring currency from surplus revenues. Yet that is essentially the kind of monetary policy which actually obtains.⁴¹

Simons's implication is that if the government were a stabilizing instead of a destabilizing force in monetary matters, then all would be well. But this would not be good enough for the libertarian, who would still insist upon free-enterprise money. Since gold was always chosen whenever people were free to determine the monetary commodity for themselves, it is hard for the libertarian to resist the call for a return to this standard.⁴² Even if government could be trusted with so delicate and important an institution as money, which it cannot be, it would still be a rights violation for the one group in society with a legal monopoly of violence to exceed its proper role, which is limited to safeguarding our persons and property.

Compulsory Egalitarianism

Simons refers to “the real problem of inequality,” and maintains that “we may and properly do sharply modify the distributional results of free exchange.” His opinion is that “the best mitigation of inequality

⁴¹Simons, *Economic Policy for a Free Society*, p. 54.

⁴²For the Austrian case in favor of market money, such as the gold standard, see, e.g., Richard M. Ebeling, “The Gold Standard: Ludwig von Mises and the Austrians,” in *The Gold Standard: An Austrian Perspective*, ed. Llewellyn H. Rockwell, Jr. (Lexington, Mass.: Lexington Books, 1985); John B. Egger, “Arthur Marget in the Austrian Tradition of the Theory of Money,” *Review of Austrian Economics* 8, no. 2 (1995) pp. 3–23; Ron Paul and Lewis E. Lehrman, *The Case for Gold* (Washington, D.C.: Cato Institute, 1982); George Reisman, *Capitalism: A Treatise on Economics* (Ottawa, Ill.: Jameson Books, 1996), pp. 503–41, 895–966; Murray N. Rothbard, *The Mystery of Banking* (New York: Richardson and Snyder, 1983); and Joseph T. Salerno, “Ludwig von Mises on Inflation and Expectations,” in *Advances in Austrian Economics*, vol. 2, ed. Peter Boettke and Mario J. Rizzo (Greenwich, Conn.: JAI Press, 1995), pp. 297–326.

will involve progressive equalization of personal or family contributions to the social income,” e.g., a progressive income tax. Moreover, this author posits that “Freedom and equality convey, among libertarians, similar and complementary meanings.”⁴³

Left unexplained, however, is why any advocate of free enterprise should have such a fetish for income or wealth equality that he is willing to invoke the power of the state to this end. It is one thing to have this taste as a matter of personal preference, completely divorced from political economy. This is certainly compatible with laissez-faire capitalism, as long as the means toward this end were all voluntary; Simons would not lose any market credentials if he advocated egalitarianism through private charity, but this is not at all his view. Instead, he elevates this into one of his bedrock principles, something no legitimate free-enterprise advocate could possibly do.

Why not egalitarianism for non-monetary characteristics, such as beauty, intelligence, sense of humor, musical ability? How many of his own or that of his children’s IQ points would Simons be willing to give up to those in more need of them for the cause of social justice?⁴⁴ I suspect not a one, which renders his obsession with equality rather hypocritical, as is usually the case in such matters.

Federalism

Simons’s adherence to federalism would, for the most part, be applauded by libertarians.⁴⁵ After all, long-suffering citizens have more alternatives to a pernicious local municipality than they have to

⁴³Simons, *Economic Policy for a Free Society*, pp. 5, 6, 7.

⁴⁴Kurt Vonnegut’s short story “Harrison Bergeron,” in *Welcome to the Monkey House* (New York: Dell, 1968), suggests just such a situation. The story’s title character is better looking, smarter, stronger, better coordinated, more musically inclined, and so on than are other humans. Thus, he is the nemesis of the “Handicapper General,” whose job is to ensure that everyone is “equal.” Bergeron is fitted with clunky and asymmetric weights, ill-fitting shoes, eye-glasses with distorting lenses, and other remedial responses, all in the name of “equality.”

⁴⁵Simons, *Economic Policy for a Free Society*, pp. 11–14. However, I have argued elsewhere that decentralization is at best a presumption which can be overcome by other libertarian considerations. See Walter Block, “Decentralization, Subsidiarity, Rodney King, and State Deification: A Libertarian Analysis,” *European Journal of Law and Economics* 16 (2003); Robert Lawson and Walter Block, “Government Decentralization and Economic Freedom,” *Asian Economic Review* 38, no. 2 (December 1996), pp. 421–34.

Block – Henry Simons is Not a Supporter of Free Enterprise

a pernicious state. Likewise, if the laws of one state become onerous, citizens can go to another state under our federal system. With a unitary system, citizens have fewer options to avoid government despotism.

This is akin to the Catholic social thought teaching on the importance of subsidiarity, e.g., placing the most reliance on the smallest local elements of government (villages, towns, counties), and the least upon the federal government. According to Michael Novak, subsidiarity is based on the idea that “human life proceeds most intelligently and creatively when decisions are made at the level closest to concrete reality, and when next-higher levels of decision-making are invoked only as a last resort.”⁴⁶

The only problem with Simons’s advocacy of federalism is that he is not really serious about it. For example, he advocates “Transfer, to the federal government of the exclusive power to charter ordinary, private corporations, and subsequent annulment of all charters granted by the states.” So that there can be no mistake about this, he also claims that “The right to charter large corporations must be vested exclusively in the federal government.”⁴⁷ This economist is supposedly an advocate of competition, but, seemingly, this does not apply to that between government entities. If one state acts inappropriately with regard to chartering corporations, there are 49 others at least potentially able to offer other options; if the federal government acts mischievously in this regard, there are no other alternatives, at least domestically.

Coercion

Simons’s grasp of the difference between coercion and voluntary cooperation is rather tenuous.⁴⁸ He avers that “local [governmental] bodies are themselves largely voluntary associations,” and that:

modern democracy rests upon free, responsible local government [Such f]ree responsible local bodies correspond,

⁴⁶Michael Novak, *The Spirit of Democratic Capitalism* (New York: Simon & Schuster, 1978), p. 179.

⁴⁷Simons, *Economic Policy for a Free Society*, pp. 58, 81.

⁴⁸He is joined in this flaw by others who also mistakenly characterize themselves as libertarians. See James M. Buchanan, “An Economic Theory of Clubs,” *Economica* 32 (February 1965), pp. 1–14; and Randall G. Holcombe, *The Economic Foundations of Government* (New York: New York University Press, 1994). For a rejoinder, see Walter Block, “National Defense and the Theory of Externalities, Public Goods, and Clubs,” in *The Myth of National Defense*, ed. Hans-Hermann Hoppe (Auburn, Ala.: Ludwig von Mises Institute, 2003), pp. 299–332.

Journal of Libertarian Studies

in the political system, to free responsible individuals or families and voluntary associations.⁴⁹

But anyone who cannot distinguish between a private club, voluntary association, or condominium council on the one hand, and a town or municipal council on the other, is reckoning in the absence of the most important dissimilarity in all of political economy. There are similarities between a swimming pool run by the local Y.M.C.A. and one managed by the village government, but the differences are crucial. In the one case, dues or fees are entirely voluntary; in the other, if you refuse to pay, you go to jail. That such a stark difference can be overlooked by an otherwise astute political commentator must always be a source of amazement.

Simons buys heavily into Lord Acton's refrain to the effect that "Power corrupts, and absolute power corrupts absolutely," but fails to distinguish between aggressive and defensive power. Ideally, the former should be completely obliterated,⁵⁰ but the same does not apply to the latter. Libertarians are not pacifists, after all. Simons is mistaken when he writes that a "cardinal tenet of libertarians is that no one may be trusted with *much* power."⁵¹ The point is that no one should have *any* offensive power whatsoever. This is completely apart from whether they should be *trusted* with it. Further, they may have as much *defensive* power as they wish, since this is per se unobjectionable.

Simons's views on the evils of large concentration of business are so deeply embedded in his philosophy that they permeate his views on many other issues as well, particularly including the present one under discussion. To wit, he equates "despotism" and "monopoly."⁵² This means that if an industry is highly concentrated, it is to that extent guilty of violating the libertarian non-aggression axiom.

Contrast this with Mises, who wrote with regard to the anti-trusters who accuse large firms of holding back on production, that is, of not producing enough: "If the grumbler knew better, why did he not himself fill the gap and seize the opportunity to earn profits?"⁵³

⁴⁹Simons, *Economic Policy for a Free Society*, pp. 12, 13.

⁵⁰This is the agenda of the anarcho-capitalists, see ft. 5, *supra*.

⁵¹Simons, *Economic Policy for a Free Society*, p. 23, emphasis added.

⁵²Simons, *Economic Policy for a Free Society*, p. 27.

⁵³Ludwig von Mises, "Profit and Loss," in *Planning for Freedom*, 2nd ed. (South Holland, Ill.: Libertarian Press, 1962), p. 114. I owe this cite to Joe Salerno and John Bratland.

Block – Henry Simons is Not a Supporter of Free Enterprise

Private Property

Simons favors the institution of private property, so there is a case for placing this topic among those upon which his views are compatible with libertarianism.⁵⁴ But his advocacy of property rights is so hemmed in and qualified by his support for egalitarianism and opposition to business concentration that this is not possible. Consider the following statement:

The libertarian good society lies . . . in the maximum dispersion of property compatible with effective production or, as process, in progressive reconciliation of conflicts between equality and efficiency.⁵⁵

In the Simonsian system, in other words, property is not at the bedrock. It will be tolerated, but only to the extent that it does not conflict with, of all things, “equality.” To say that this is a stark difference from real libertarianism would be a strong understatement.

Simons continues: “Property in one’s own services . . . is a secure, substantial right only where there are many possible buyers.”⁵⁶ At the time of this writing, I have just come across the invention of a new shirt. According to the announcement of its availability,⁵⁷ it never has to be ironed, but comes with a hefty price tag: about \$5,000.00. Apart from perhaps a few rock stars and professional athletes, not only will there not be “many possible buyers,” it is exceedingly possible that there will be no buyers at all for this product. Simons’s statements imply that the owners of this innovative shirt have less than full private property rights in their investment, since there are very few buyers for this product. Such a determination seems difficult to maintain, however. This is surely a confusion between security of property—which we have no reason to question in the case of the shirt—and the numerous potential buyers required by the perfectly competitive model—who are completely lacking.⁵⁸ What one thing has to do with the other is

⁵⁴Simons, *Economic Policy for a Free Society*, pp. 32–33.

⁵⁵Simons, *Economic Policy for a Free Society*, p. 27.

⁵⁶Simons, *Economic Policy for a Free Society*, p. 27.

⁵⁷http://portal.telegraph.co.uk/news/main.jhtml?xml=/news/2001/07/26/ws_hirt26.xml, 7/27/01.

⁵⁸I should say, in “defense” of Simons’s views on property, that they are far superior to those of his fellow Chicagoite Ronald Coase. At least for Simons, there is such a thing as private property, no matter how severely truncated. For Coase, this does not at all hold. For a critique of Coase’s views on property, see, e.g., Walter Block, “Private Property Rights, Erroneous Interpretations, Morality, and Economics: Reply to Demsetz,” *Quarterly Journal of Austrian*

an insight vouchsafed, it would seem, only to those who occupy postal code 60617.

Socialism

One would think that whatever Simons's deviations from libertarianism, he would at least distinguish his own views from those of socialists.⁵⁹ Instead, here is what he had to say on that topic:

(Socialist) intellectuals have finally begun to face the task of drafting positive proposals and an intelligible platform for action. . . . Socialism has thus almost ceased to be distinctive ideology. . . .

Socialism, of necessity, has been deeply corrupted by liberalism and conversely, for they have been contemporaries in a world of free discussion and have been catalyzed by the same evils and guided by much the same aspirations. Indeed, it is now hard to see how socialists and libertarians can long sustain intellectual differences. . . . Modern socialism is avowedly concerned mainly about inequalities of wealth . . . and about industrial monopoly—both major concerns of libertarians.⁶⁰

The first reaction of the true libertarian must be “Speak for yourself, Simons; don't drag us into the socialist morass.” This is not only moral equivalence (the same aspirations indeed!), but it is economic

Economics 3, no. 1 (Spring 2000), pp. 63–78; Roy Cordato, “Time Passage and the Economics of Coming to the Nuisance: Reassessing the Coasean Perspective,” *Campbell Law Review* 20, no. 2 (Spring 1998), pp. 273–92; Elisabeth Krecke, “Law and the Market Order: An Austrian Critique of the Economic Analysis of Law,” *Journal des Economistes et des Etudes Humaines* 7, no. 1 (March 1996), pp. 19–37; and Murray N. Rothbard, “Law, Property Rights, and Air Pollution,” in *Economics and the Environment: A Reconciliation*, ed. Walter Block (Vancouver, B.C.: Fraser Institute, 1990), pp. 233–79.

⁵⁹We must be ever mindful of the distinction between voluntary and coercive socialism. In the former case, the Marxian notion of “from each according to ability, to each according to need” is entrenched in a voluntary manner, as in the case of the family, the monastery, the nunnery, the kibbutz (counterfactually, I assume that these are not supported through general tax revenues), the cooperative, or the commune. In the latter case, this aphorism is upheld (or, rather, lip service is paid to it) but on a compulsory basis, as is done in the old U.S.S.R., “Red” China (during previous decades), North Korea, Cuba, etc. In the text, it will be the latter sense of socialism that is utilized.

⁶⁰Simons, *Economic Policy for a Free Society*, pp. 29–30.

Block – Henry Simons is Not a Supporter of Free Enterprise

equivalence to boot (both are concerned with egalitarianism and opposition to large-scale industry). Let it be said once and for all, loudly and clearly: libertarians are not at all “concerned” with equalization of wealth or income. It is just as much theft when a poor person steals from a rich one, whether on an individual basis or through the intermediation of the state, as when the reverse occurs. The libertarian opposes theft, period. There are no two separate problems of production and distribution. To say that there are is to elevate naked robbery into an arm of political economy. Nor are libertarians “concerned” about industrial concentration. As long as the strong market position of the large firm was earned honestly, by producing a better product at a lower price, his property is as honestly earned as that of anyone else. True, if the dominant size came about through government grants of special privileges, denied to competitors, it is illegitimate. But it is the antecedents of the holdings of the large business concern that is the problem, not the size per se. If these special privileges eventuated in a small firm, they would be equally improper.

Socialism has laid waste to vast numbers of people; it has brought in its train inefficiency, inability to rationally calculate, and countless deaths. To compare it favorably with capitalism is to be guilty of an astoundingly atrocious error.⁶¹

Labor Unions

Organized labor has one legal power denied to virtually all other institutions in society, bar government: a legal ability to initiate violence

⁶¹This is in sharp contrast to the Austrian total and utter dismissal of socialism. See David Gordon, *Resurrecting Marx: The Analytical Marxists on Freedom, Exploitation, and Justice* (New Brunswick, N.J.: Transaction Publishers, 1990); Trygve J.B. Hoff, *Economic Calculation in the Socialist Society* (Indianapolis, Ind.: Liberty Press, 1981); Hans-Hermann Hoppe, *A Theory of Socialism and Capitalism* (Boston, Mass.: Kluwer Academic Publishers, 1989); Yuri N. Maltsev, *Requiem for Marx* (Auburn, Ala.: Ludwig von Mises Institute, 1993); Peter Murrell, “Did the Theory of Market Socialism Answer the Challenge of Ludwig von Mises? A Reinterpretation of the Socialist Controversy,” *History of Political Economy* 15, no. 1 (Spring 1983), pp. 92–105; Murray N. Rothbard, “The End of Socialism and the Calculation Debate Revisited,” *Review of Austrian Economics* 5, no. 2 (1991), pp. 51–70; Murray N. Rothbard, “Karl Marx: Communist as Religious Eschatologist,” *Review of Austrian Economics* 4 (1990), pp. 123–79; and Karen I. Vaughn, “Economic Calculation Under Socialism: The Austrian Contribution,” *Economic Inquiry* 18 (June 1980), pp. 535–54.

against non-aggressing individuals. The people commonly abused in this way are first denigrated as “scabs,”⁶² and then are brutalized⁶³ when they try to compete for jobs held by union members. Simons favors “competition,” but, seemingly not in labor markets. The excuse used by organized labor to beat up scabs in either this blue or white-collar style is that they are trying to steal jobs from the rank and file. But a moment’s reflection will reveal the error of looking at the matter in this way. For a job is the embodiment of an agreement between *two* contracting parties, the employer and the employee. It is just as silly to maintain that the worker owns his job as that the firm does.⁶⁴

But Simons does not at all concur in this analysis. Unions are not per se gangster organizations for him. Rather, it is their size alone, not their behavior, which is at issue, “Like corporations and up to about the same size or scale, unions have real social uses.”⁶⁵ But perhaps I go too quickly. For in another passage, Simons does focus on not their size, but their conduct: “If trade unions could somehow be prevented from indulging in restrictive monopolistic practices, they might become invaluable institutions.”⁶⁶ However, this will not do. For what

⁶²Where are our “human rights” commissions, charged with stamping out “hate,” when we need them? On a more serious note, the libertarian objection is not to name calling (“sticks and stones may break my bones but names can never harm me,” goes the childhood nursery rhyme) but to the initiation of violence that often follows in its track.

⁶³The brutalization is hidden, not ended, when a veneer of legality is placed over it by labor laws such as the Wagner Act. These require that the employer bargain fairly with the union, e.g., he is prevented from hiring scabs as surely as if physical force were still the main means of precluding the latter from competing for jobs. See Bill Kauffman, “The Child Labor Amendment Debate of the 1920’s; or, Catholics and Mugwumps and Farmers,” *Journal of Libertarian Studies* 10, no. 2, (Fall 1992), pp. 139–70; Robert W. McGee, “If Dwarf Tossing Is Outlawed, Only Outlaws Will Toss Dwarfs: Is Dwarf Tossing a Victimless Crime?” *American Journal of Jurisprudence* 38 (1993), pp. 335–58; and Morgan O. Reynolds, *Power and Privilege: Labor Unions in America* (New York: Manhattan Institute for Policy Research, 1984).

⁶⁴Pascal Salin, “The Firm in a Free Society: Following Bastiat’s Insights,” *Journal of Libertarian Studies* 16, no. 3 (Summer 2002), pp. 1–18, substantially elucidates this position.

⁶⁵Simons, *Economic Policy for a Free Society*, p. 35.

⁶⁶Simons, *Economic Policy for a Free Society*, p. 60. To buttress this point, he again likens “trade-union monopoly” to that pertaining to business. Simons, *Economic Policy for a Free Society*, p. 48.

Block – Henry Simons is Not a Supporter of Free Enterprise

Simons is now castigating organized labor about is precisely that for which he finds fault in business: deviating from the tenets of perfect competition. In other words, the concept “restrictive monopolistic practices” has two entirely different and incompatible meanings. On the one hand, it can mean having too few buyers or sellers, e.g., being insufficiently perfectly competitive. On the other it can mean using physical force (beating up scabs, compulsory labor legislation).⁶⁷ But Simons never even comes remotely close to employing this concept in the second of these two meanings. Rather, for him, the problem with unions is *not* that they violate the libertarian axiom of non-aggression against non-aggressors, but rather that they, along with businesses, do not adhere closely enough to the strictures of perfect competition for his taste. When put in this way, it is difficult to deflect the view that this position, let alone being incompatible with libertarianism, constitutes no less than a moral perversity.

Goals

In Simons’s view:

There is in America no important disagreement as to the proper objectives of economic policy—larger real income, greater regularity of production and employment, reduction of inequality.⁶⁸

This might well be true if we can characterize the opinions of real libertarians as “unimportant.” But if not, then there are problems with this statement. We have already discussed the third of these goals, so we now focus on the first two.

Take “larger real income” first. This sounds like a mom-and-apple-pie desire, and to the extent that it is, it has no place in a serious tract on public policy. Who, after all, can be against greater wealth? But even here, there are difficulties, as there are always ascetics who oppose a larger pie for reasons of principle, and the basis upon which we can with impunity ignore their wishes is unclear.⁶⁹

⁶⁷McDonald’s never sends Ronald into Burger King to blow it up, nor does Col. Sanders do anything of the kind to the other fast-food emporia. Unfortunately, the same cannot be said for union treatment of scabs or of employers.

⁶⁸Simons, *Economic Policy for a Free Society*, p. 40.

⁶⁹On the dangers of interpersonal comparisons of utility, and on the importance of subjectivism in all such calculations, see William Barnett II, “Subjective Cost Revisited,” *Review of Austrian Economics* 3 (1989), pp. 137–38; James M.

In any realistic analysis, the only way to attain greater wealth in the future, other things equal, is to sacrifice more in the present. Simons's claim that the economy is not growing as fast as it should be is equivalent to an implicit claim that our social time-preference rate is too high. But he neither puts forth any evidence for this claim nor even realizes that it is incumbent upon him to do so.⁷⁰

A similar problem pertains to Simons's claim that we need "greater regularity of production and employment." Superficially, this sounds reasonable. There are surely very few people who favor the Great Depression, and Simons is objecting to that state of affairs. But the economic debacle of the 1930s was due to malignant governmental interference in the banking system in the first place,⁷¹ so it comes with particular ill grace for an advocate of regulation, such as Simons, to call for an alleviation of this difficulty.

Redefinition of Laissez Faire

If there is one thing clear on the definitional front, it is that "laissez faire" depicts a system of political economy where "that government is best which governs least." Another accurate way to denote what it is that government would do under this policy is the "night watchman state." It would be pretty much limited to the vision of the minarchist view, with which we are contrasting Simons's: armies, courts, and police.

Buchanan, *Cost and Choice: An Inquiry into Economic Theory* (Chicago: Markham, 1969); Mises, *Human Action*; Murray N. Rothbard, "Toward a Reconstruction of Utility and Welfare Economics," in *Method, Money, and the Austrian School*, vol. 1 of *The Logic of Action* (Cheltenham, U.K.: Edward Elgar, 1997).

⁷⁰See on this Roger Garrison, "The Intertemporal Adam Smith," *Quarterly Journal of Austrian Economics* 1, no. 1 (Spring 1998), pp. 51–60.

⁷¹See, e.g., John P. Cochran and Fred R. Glahe, "The Keynes-Hayek Debate: Lessons for Contemporary Business Cycle Theorists," *History of Political Economy* 26, no. 1 (1994), pp. 69–94; Roger W. Garrison, "The Austrian Theory of the Business Cycle in the Light of Modern Macroeconomics," *Review of Austrian Economics* 3 (1989), pp. 3–30; Rothbard, *America's Great Depression*, pp. 11–38; Gene Smiley, "Can Keynesianism Explain the 1930s?" *Critical Review* 5, no. 1 (1991), pp. 81–114; Richard K. Vedder and Lowell Gallaway, "The Great Depression of 1946," *Review of Austrian Economics* 5, no. 2 (1991), pp. 3–33; and U. Witt, "The Hayekian Puzzle: Spontaneous Order and the Business Cycle," *Scottish Journal of Political Economy* 44, no. 1 (1997), pp. 44–58.

Block – Henry Simons is Not a Supporter of Free Enterprise

According to our author, however, this is wildly mistaken.

The representation of laissez faire as a merely do-nothing policy is unfortunate and misleading. . . . The state is charged, under this “division of labor,” with heavy responsibilities and large “control” functions: the maintenance of competitive conditions in industry; the control of the currency (of the quantity and value of the effective money); the definition of the institution of property . . . not to mention the many social welfare activities.⁷²

For Simons, the promotion of competition indicates something along the lines of anti-trust law, an issue with which we have already dealt. Similarly, money, mentioned previously, can function quite well in the absence of any government involvement whatsoever.⁷³ Likewise, “social welfare” is just a polite term for robbery of the rich on behalf of the poor and middle class.

If laissez faire is to connote an activist government a la Simon, then we shall need another word, entirely a different one, to indicate what this phrase formerly depicted, previous to the “contribution” of that author. Very much to the contrary, however, it is Simon who is attempting to hijack laissez faire so as to suit his own interventionistic proclivities. Rather than taking the honest course of admitting that he can in no way, shape, manner, or form be considered an advocate of laissez-faire capitalism, he attempts to capture this word for his own use, after emptying it of virtually all its original content. He cannot be allowed to get away with this trick of verbal legerdemain.

The Corporation

It would appear that there would not be much use for corporations in the version of laissez-faire capitalism that Simons peddles.

We may recognize, in the almost unlimited grants of powers to corporate bodies, one of the greatest sins of governments against the free enterprise system. There is simply no excuse, except for a narrow and specialized class of enterprises, for allowing corporations to hold stock in other corporations—and no reasonable excuse (the utilities apart) for hundred-million-dollar corporations, no matter what form their property may take. Even if the much-advertised economies of gigantic financial combinations were real,

⁷²Simons, *Economic Policy for a Free Society*, p. 42.

⁷³Apart from, for the limited-government statist, protection against fraud (e.g., counterfeiting).

sound policy would wisely sacrifice these economies to preservation of more economic freedom and equality.⁷⁴

It is safe to say that Simons would not recognize “economic freedom” if it bit him on the nose. When he “sacrifices” the freely chosen decisions of the business community to use their economic freedom and freedom of association to amalgamate into large units, he is doing the *opposite* of “preserv[ing] more economic freedom.” To think that this is a way of defending economic freedom indicates only the more that Simons simply has no understanding of this concept.

What “powers,” apart from limited liability, does Simons think are granted corporations? Surely, limited liability on the part of a corporate entity is well known enough to the general public that if someone did not want to deal with one of them, he would not be forced to do so.⁷⁵ And why should one corporation be prohibited from taking a position in another? To disallow this is to undermine the rights of private property, which Simons is on record as defending. That crack about large size being per se improper would be more appropriate coming from an avowed Marxist than from a member of the “free enterprise” Chicago economics department. This corporation bashing is symptomatic of died-in-the-wool leftists.⁷⁶ One would have thought that a University of Chicago economist would have been free from at least this anti-business prejudice. Unfortunately, not.

Marketing

Never is our indictment of Simons as a left liberal, not a free market advocate, on stronger ground than when it comes to marketing. In words eerily reminiscent of that other laissez-faire advocate, John K. Galbraith,⁷⁷ Simons writes:

It is a commonplace that our vaunted efficiency in production is dissipated extravagantly in the wastes of merchandising. . . . Profits may be obtained either by producing

⁷⁴Simons, *Economic Policy for a Free Society*, p. 52.

⁷⁵For an antidote to this know-nothing-ism attack on the corporate form of business, see Robert Hessen, *In Defense of the Corporation* (Stanford, Calif.: Hoover Institution Press, 1979).

⁷⁶See, for example, A.A. Berle, Jr., and Gardner C. Means, *The Modern Corporation and Private Property* (New York: Commerce, 1932).

⁷⁷John Kenneth Galbraith, *The Affluent Society* (Boston: Houghton-Mifflin, 1958).

Block – Henry Simons is Not a Supporter of Free Enterprise

what consumers want or by making consumers want what one is actually producing. The possibility of profitably utilizing resources to manipulate demand is, perhaps, the greatest source of diseconomy under the existing system. If present tendencies continue, we may soon reach a situation where most of our resources are utilized in persuading people to buy one thing rather than another, and only a minor fraction is actually employed in creating things to be bought. Firms must spend enormous sums on advertising, if only to counteract the expenditures of competitors; and finally, all of them may end up with about the same volume of business as if none had advertised at all.⁷⁸

Could it be that we have discovered the inspiration for Galbraith's attack on advertising?

A moment's reflection will disabuse us of the idea that there is any rationale in this view. First, if advertising is prohibited, this will give an unfair advantage to those firms already in business vis-a-vis start-up companies. After all, the former are already known, and the latter are not. Without aggressive marketing of the sort the former previously enjoyed, it will be impossible to launch any of the latter.

Second, evidence indicates that rather than keeping all companies on the same even keel that would have obtained had there been no advertising, the practice of advertising is actually associated with lower prices, due to economies of scale.⁷⁹

Third, this "dependence effect" argument is dead from the neck up.⁸⁰ Of course people have to be introduced to new products; no one comes in to the world, for example, with a demand for Mozart, or shoes for that matter. If consumers are not made aware of these products, e.g., "making consumers want what one is actually producing,"⁸¹ they will have to do without them.

⁷⁸Simons, *Economic Policy for a Free Society*, p. 71.

⁷⁹Lee Benham, "The Effect of Advertising on the Price of Eyeglasses," *Journal of Law and Economics* 15 (October 1972).

⁸⁰F.A. Hayek, "The Non Sequitur of the 'Dependence Effect'," in *Studies in Philosophy, Politics, and Economics* (New York: Simon and Schuster, 1967).

⁸¹Again, Simons fails to sufficiently distinguish coercion from non-coercion. "Making" consumers purchase what you are producing sounds perilously close to going out and threatening them with physical violence if they do not make the purchases you wish they would. Nothing could be further from the truth.

Fourth, advertising is much more prevalent than is appreciated in Simons's philosophy. Every time a girl applies make-up, or a boy brushes his hair, they are advertising themselves in the marriage market. Whenever Simons himself, if truth be told, put on a suit and tie, he was engaged in the nefarious business of fooling people into believing he was more powerful, intelligent, etc., than he really was.⁸²

Last but by no means least, the aphorism in the bathrooms of the nation attest that "the job's not finished until the paper work is done." In commerce, the job is not over when the item is manufactured or produced. Until it is in the hand of the consumer, it might as well not have been produced at all, for all the good it can do; it is still merely part of inventory. Merchandising is not merely a frippery, added on to the true task of production.⁸³ In a real sense, it is the essence of the production process.

CONCLUSION

Although a case can be made on the basis of his views on fractional-reserve banking, price controls, and the Hoover New Deal that Simons is a representative of the libertarian, or classical liberal, or free-enterprise school of thought, this claim is totally vitiated by his views on numerous other issues. We have examined his analyses of free trade, freedom of association, anti-trust, taxation, money, egalitarianism, federalism, coercion, private property, socialism, and labor unions, and have found them incompatible with this political economic philosophy. Rather, they are typical of a leftist, a moderate socialist, or a member of the right wing of the Democratic Party. Moreover, we have looked at his goals for public policy and have found them to be yet another example of the wide disparity between his views and those of free-market advocates. His attempt to redefine the nature of laissez-faire capitalism indicates that he realizes just how wide and unbridgeable a gap exists between him and this perspective. Rather than attempt to bridge it by withdrawing some of his more extreme socialistic views, he tries to bridge it by changing the rule of the game in midstream. Nor do his perspectives on corporations and marketing cause us to change this assessment.

⁸²Walter Block, *Defending the Undefendable* (New York: Fox and Wilkes, 1991), pp. 68–79.

⁸³Israel M. Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973).

Block – Henry Simons is Not a Supporter of Free Enterprise

It would be a fascinating question to determine how such a leftist could attain a reputation as a rightist. It would be informative to learn why he felt the need to hide his views—which do, concededly, have a thin veneer of pro-market sentiment—under the banner of laissez faire. But these are questions for another day.

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