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Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.
All over the United States, if you are reading this in a daylight hour, there is a ceaseless downpour of new laws. Every day some of us, somewhere, are being encumbered or shackled by still more restrictions. There are just too many laws.

But how do we tell how many laws are too many, and which ones are pernicious?

Let us begin with some elementary considerations. A law may be defined as an edict which either forbids you to do something or compels you to do something. Sometimes, it is true, it may be merely a guiding rule which tells you how to do something, or defines procedures or standards, like weights and measures. But such standard-setting laws are few in number. Most laws are prohibitions or compulsions—in short, commands.

Why are laws necessary? They are necessary, first of all, to prevent people from injuring or aggressing against their neighbors; to prevent theft and fraud, vandalism and violence. On the more positive side, they are necessary to lay down rules of action, so that others may know what to expect of us and we of others, so that we may anticipate each other’s actions, keep out of each other’s way, and work and act so far as possible in cooperation and harmony.

In a modern society, the traffic laws epitomize law in general. When they instruct us to keep on the right side, to drive within a specified
speed limit on a given street or highway, to stop at a red light, to signal our intended turns, they may seem to an impatient driver to be restricting his liberty, to be preventing him from getting to his destination in minimum time. But because these restrictions apply to everyone else, they are, if they are well-conceived, helping not only him but all of us to get to our multitudinous destinations in the minimum time in which this can be done smoothly and safely.

How many traffic laws do we need? That is a difficult question to answer numerically. A general traffic code need consist only of a few simple rules, but they could all, it would seem, easily be embodied in a single statute. In any case, if the government confined itself to enacting a code of laws simply intended to prevent mutual aggression and to maintain peace and order, it is hard to see how such a code would run into any great number of laws.

**England in 1854**

Now let us look at the situation we actually face. In order to get an adequate picture, let us begin by comparing it with the situation as it existed more than a century ago in, for example, England. Let us take the year 1854, when the British philosopher, Herbert Spencer, wrote an essay on “Overlegislation.” Some of us are apt to assume that the mid-nineteenth century in England was perhaps the time and place when a great nation came nearest to a laissez-faire regime. Spencer did not find it so. He found the country buried under needless legislation, and piling up more. With the change of a few details, his essay sounds as if it were written yesterday:

“Take up a daily newspaper and you will probably find a leader exposing the corruption, negligence, or mismanagement of some State-department. Cast your eye down the next column, and it is not unlikely that you will read proposals for an extension of State supervision. . . . Thus, while every day chronicles a failure, there every day reappears the belief that it needs but an Act of Parliament and a staff of officers, to effect any end desired.”

Spencer went on to refer to mid-nineteenth-century England’s “20,000 statutes, which it assumes all Englishmen to know, and which not one Englishman does know.” He found officialdom systematically slow, stupid, extravagant, unadaptive, and corrupt; and yet given more and more duties to fulfill. Instead of being confined to its primary duty of protecting each individual against others, the State is asked in a hundred ways to protect each individual against himself—“against his own stupidity, his own idleness, his own improvidence, rashness, or other defect.”
“It is in the very nature of things,” he continued, “that an agency employed for two purposes must fulfill both imperfectly . . . . And if an institution undertakes, not two functions, but a score—if a government, whose office it is to defend citizens against aggressors, foreign and domestic, engages also to disseminate Christianity, to administer charity, to teach children their lessons, to adjust prices of food, to inspect coal mines, to regulate railways, to superintend housebuilding, to arrange cab-fares, to look into people’s stink-traps, to vaccinate their children, to send out emigrants, to prescribe hours of labor, to examine lodging-houses, to test the knowledge of mercantile captains, to provide public libraries, to read and authorize dramas, to inspect passenger-ships, to see that small dwellings are supplied with water, to regulate endless things from a banker’s issues down to the boat-fares on the Serpentine—is it not manifest that its primary duty must be ill discharged in proportion to the multiplicity of affairs it busies itself with?”

Let us now pass over a century and a quarter, and see how our situation today compares with England’s then.

It is the individual states that enact the laws that affect their citizens most often and most intimately in their daily living. A figure averaging the number of laws passed each year in each of the fifty states would be hard to compile on a continuing basis and perhaps mean less than particular examples. Let us take our two most populous states, New York and California. During 1975, 1976 and 1977, the New York state legislature passed, respectively, 870, 966 and 982 public laws. (“Private laws” are not included here, as these individually affect only a handful of people.) During these same three years the California state legislature passed 1280, 1487 and 1261 public laws.

**Prohibitions or Rule-Changes**

Now let us look at the implications of this. What does a new law do? It either puts a new prohibition or a new compulsion on each of us (or a large number of us), or it changes the rules under which we have hitherto been acting. So on the basis of these figures the citizens of individual states are being subjected to an average of about a thousand new prohibitions or rule-changes every year. No one is excused from not knowing what every one of these new laws commands. I leave it to the reader to picture what all this means in terms of human liberty.

But we have not even got to Federal laws. Supposedly, these are only needed to cover such matters as interstate commerce and are subject to severe limitations by the Con-
stitution, so an innocent reader of that document might not see the need for many such laws. Though the Federal books were presumably blank when it started, the First Congress, which began on March 4, 1789, did not see the need for many Federal laws. It enacted only 94.

But then, as more and more laws were piled up, succeeding Congresses were convinced that more and more additional laws were necessary. The 85th Congress, which opened in January, 1957, enacted 1,009 laws; the 94th, which began in January, 1975, enacted 588. The ten Congresses during that period enacted an average of 735 laws each, which means an average of 367 new Federal laws a year—or one new law every day. The reader should be reminded that individually many of these laws ran to well over 100 pages each.

**Congressional Promises**

The mania for piling up additional laws—new compulsions or prohibitions or changes of the rules—seems to be endemic in our democratic process. Every two years, when a new Congress is chosen, the rival candidates are eager to convince the voters that they can shower more blessings upon them than their respective competitors. "There ought to be a law," they tell the voters, to forbid this or that, or to give you this or that. "If I am elected, I will introduce a bill"—to guarantee you this or that. So almost every Congresswoman introduces at least one bill with his name attached to it.

In the 94th Congress, which began in January, 1975, 3,899 bills were introduced in the Senate and 15,863 in the House—an average of 37 bills per member. These are by no means unusual figures. In the 93rd Congress, 4,260 bills were introduced in the Senate and 17,690 bills in the House. It is at least one stroke of luck for the country that only about one in every thirty or more such bills survives to enactment. But the individual Congressman who introduces it has made his point. He has "carried out his promise" to the voters.

It has been estimated that American legislative bodies ranging from city councils to Congress pass 150,000 new laws every year.¹ This total does not mean too much, because only a small section of the total applies to the residents of any given town or state. But a very meaningful figure would be the total number of live laws that still do apply to American residents of any given city or state.

Since its beginning Congress has enacted more than 40,000 laws. It is a fair assumption that most of these are still operative in some form.

When we come to the individual

¹*Newsweek*, January 10, 1977.
states we get to some really formidable figures. For Connecticut I am officially informed that: “We do not have information on the 'live' laws now on the books, but it is our understanding that there are about 3,500,000 words in the eleven volumes of the General Statutes.” 2 The legislative authorities of California regret that so far as the number of “presently operative statutes” of that state are concerned, “no such enumeration is readily obtainable,” though “most (but not all) enactments of the California legislature are codified in one of twenty-eight codes.” And the Department of State of New York informs me that so far as the total of live laws on the state’s books are concerned, “unfortunately, we don’t have the answer to this question.” So far as the “consolidated” (as distinguished from the “unconsolidated”) laws are concerned, however, these can be found in “six volumes covering 6,891 pages.” No one is allowed to plead ignorance of any of these state laws, of course, if he happens to violate one.

**Local Ordinances**

When we come to the number of town and city ordinances to which each of us is subject, it is difficult to say precisely what would be an average figure. But in Boston, for example, the Building Code alone contains about 500 pages; in addition, the City of Boston code consists of approximately 300 pages of ordinances and 300 pages of statutes. The Administrative Code of New York City consists of ten volumes running to a total of 8000 pages. There are also 23 thick volumes of ring binder notebooks containing the rules and regulations of city agencies published since 1967.

But on top of all of these laws—Federal, state, and local—is piled the greatest mountain of all—the endless orders, regulations and edicts issued by the Federal and state “independent agencies.” There are eighty-nine separate Federal independent agencies listed in the Congressional Directory for 1977. These are in addition to the innumerable commissions, “offices,” “services,” and “administrations” listed under the twelve cabinet departments. As long ago as 1954 the Hoover Commission found that the Federal government embraced no fewer than 2,133 different functioning agencies, bureaus, departments, and divisions. And practically all of them were running “programs.”

It was ten years ago that Delaware Congressman William V. Roth and his staff made an eight-month statistical study and came up with the finding that “no one, anywhere,
knows exactly how many Federal programs there are”—or who is spending how much on what. According to the 1968 Roth study, the Federal government at that time had 1,571 identifiable programs. Questionnaires sent to various agencies drew spotty responses. Inquiries were made as to the purpose of some 478 programs in Health, Education and Welfare; only 21 responded.

In August 1978, Congressman Gene Taylor from Missouri, going through stacks of the Code of Federal Regulations, found that the Code ran to 19,789 pages in 1938, to 20,643 in 1958, to 73,149 in 1976, and calculated it would top 120,000 pages by the end of 1978.

Adding the Costs

How can we add up the countless costs, penalties, discouragements, delays, hazards, impediments, obstructions, that these orders place in the way of production and commerce?

Even if we give up the futile attempt to add up the government regulations numerically, we can still point to some of the costs and hardships that they impose on the taxpayer, the motorist, the businessman, the homeowner, the consumer, the worker, the investor, and the nation as a whole. In the July Tax Review of 1978, published by the Tax Foundation of New York, Murray L. Weidenbaum, a former Assistant Secretary of the Treasury, has detailed some of these costs:

• The outlays of 41 regulatory agencies are estimated to have increased from $2.2 billion in the fiscal year 1974 to $4.8 billion in fiscal 1979, a growth of 115 per cent over the five-year period.

• Federally mandated safety and environmental features increased the price of the average passenger automobile by $666 in 1978.

• There are over 4,400 different Federal forms that the private sector must fill out each year. That takes 143 million man hours. The Federal Paperwork Commission recently estimated that the total cost of Federal paperwork imposed on private industry ranges from $25 billion to $32 billion a year, and that “a substantial portion of this cost is unnecessary.”

• Regulatory requirements imposed by Federal, state, and local governments are adding between $1,500 and $2,500 to the cost of a typical new house.

• On the basis of a conservative estimating procedure, the aggregate cost of complying with Federal regulation came to $62.9 billion in 1976, or over $300 for each man, woman and child in the United States. On the same basis, these costs may have reached $96.7 billion in the fiscal year ending September 30, 1978.

• The minimum wage law has
priced hundreds of thousands of people out of the labor markets. One increase alone has been shown, on the basis of careful research, to have reduced teenage employment by 225,000.

- Approximately $10 billion of new private capital spending is devoted each year to meeting governmentally-mandated environmental, safety, and similar regulations rather than being invested in profit-making projects. Edward Denison of the Brookings Institution has estimated that in recent years these deflections of private investment from productive uses have resulted in a loss of approximately one-fourth of the potential annual increase in productivity.

- The nation as a whole feels the effect of government regulation in a reduced rate of innovation and in many other ways. The adverse consequences of government intervention in business decision-making range from a slowdown in the availability of new pharmaceutical products to the cancellation of numerous small pension plans.

Congressman Gene Taylor, whose figures on the extent of the Code of Federal Regulations I have previously cited, declares: “The cost imposed on the American economy by federal regulatory activity is now more than $60 billion per year. This serves to drive up the cost of consumer items, harasses small businessmen, fuels inflation, and increases the tax burden on the individual citizen.”

**An Ominous Trend**

Suppose we turn back, from our survey of the present enormous power and control now exercised by government, to a look at its growth since 1854 in England when Herbert Spencer was already expressing his alarm at the extent of that control. If the reader will glance down the list of the interferences that Spencer was then deploring, he will see that our own government is still engaged in all of them, or their equivalent (with the exception only of disseminating Christianity and sending out emigrants), but has added literally hundreds more.

In 1977 The Conference Board of New York was referring to some of that year’s economic interventions: price and income controls; limitations on profits; growing representation of workers and government on company boards of directors; statutory wage hikes; credit limitations; foreign exchange and import controls; limitations on foreign ownership; rent controls and subsidies; regulations on land-use planning; environmental, safety and consumer protection regulations; antitrust laws; direct and indirect taxes; and government ownership. But the list could have been indefinitely extended.
There are two or three ways of trying to measure the size or growth of government quantitatively. One index is the number of people that it wholly or partly supports. In 1940 all American governments, Federal, state and local, were employing 4,474,000 people. In 1977, the number was 14,624,000. The Federal government alone, in 1978, employed 2,066,000 persons in its armed forces and 1,930,100 in full-time permanent civilian employment. In addition, it was making Social Security payments to some 33 million persons, and the Congressional Budget Office was estimating that about 44 million were receiving some form of welfare aid.

The annual expenditures of the Federal government tell a succinct story. If we take them at ten-year intervals since 1929, we get the following result:

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>$ 3.1 billion</td>
</tr>
<tr>
<td>1939</td>
<td>8.8 &quot;</td>
</tr>
<tr>
<td>1949</td>
<td>38.8 &quot;</td>
</tr>
<tr>
<td>1959</td>
<td>92.1 &quot;</td>
</tr>
<tr>
<td>1969</td>
<td>184.5 &quot;</td>
</tr>
<tr>
<td>1979</td>
<td>487.5 &quot;</td>
</tr>
</tbody>
</table>

If any forecaster had dared to predict in 1929 that fifty years later the Federal government would be spending nearly 160 times as much in dollars in a single year (or 43 times as much in "real" terms), nobody would have believed him. By such a comparison, we have had a 4,200 per cent growth in the Federal government since 1929.

A Bewildering Mass of Government Interventions

Some readers may object that it is meaningless to complain about the mere number of laws; that we should carefully separate the "good" laws from the "bad," and deplore only the latter. What this objection overlooks is that the mere multiplication and proliferation of laws is itself a major evil. Every unnecessary law is itself bound to be pernicious. And almost all laws that interfere with the functioning of the free market tend to delay or prevent necessary readjustments in the balance of production and consumption and to have other consequences opposite to those that the framers intended. When the rules of the game are being changed every day, when the totality of laws and regulations reaches the tens of thousands and the hundreds of thousands, the number of legislative blunders must multiply far more than proportionately. How is it possible to talk of retaining our liberties, for example, when collectively we are subjected not only to thousands of prohibitions and compulsions but to daily increasing prohibitions and compulsions?

More than forty years ago the
Swedish economist Gustav Cassell was warning: "The leadership of the state in economic affairs . . . is necessarily connected with a bewildering mass of governmental interferences of a steadily cumulative nature. The arbitrariness, the mistakes and the inevitable contradictions of such a polity will, as daily experience shows, only strengthen the demand for a more rational coordination of the different measures and, therefore, for unified leadership. For this reason planned economy will always tend to develop into dictatorship."

Whatever the outcome may be, the future seems ominous. By whatever standard we measure it—the number of laws, the rate at which new ones are enacted, the multiplication of bureaus and agencies, the number of officeholders, pensioners, and relief-recipients the taxpayer is forced to support, the total or relative tax load, the total or per-capita expenditures—there has been an accelerative growth in the size, arbitrary power, and incursion of government, and in the new prohibitions, compulsions, and costs it keeps imposing upon us all.

### Self-Discipline

As I grow older, it becomes increasingly distasteful to me to impose my will upon any being. With the passing of the years, I have discovered that I have quite enough to do in disciplining myself, my thoughts and emotions and impulses—in keeping my own house in order. Self-discipline is the only kind that is of much worth. So long as we are self-disciplined we are free. When we must be disciplined by others, or are called upon to discipline others, we fall into one kind of bondage or another; in the first case we are held down by others, in the second case we are pulled down by others.

The lust for power is the most pernicious of human weaknesses, the cause of more misery than any other. Power through political position, power through social status, power through wealth, power over our children, power over our employees, power over our domestic animals—is not the craving for any of these a manifestation of the same spiritual frailty? The enlightened man seeks to guide others by rational persuasion, by example; by the contagion of his enthusiasm; he shrinks in spiritual stature when he must resort to compulsion. Although we are sometimes forced to use force, we should for our spirit’s sake avoid such occasions to the limit of our ability. Humility is a virtue difficult to define, and the attempt to cultivate it has led to some strange paradoxes. But if we mean by humility reluctance to impose our will upon others, it is one of the foremost among all of the moral virtues.

EVERY DAY of the year acts of terrorism are striking fear into the hearts of innocent people. Commercial airliners are hijacked with hundreds of people aboard, hostages are taken, private property is destroyed, and political foes are murdered. In the U.S. alone in 1975, a total of 1313 bombings were recorded, killing 69 people and injuring 326.¹

Terrorism is threatening the social, political and economic order of Western societies. Terrorists attack the very system of peace that promotes social cooperation and division of labor, the system that offers the highest levels of comfort and well-being man has ever enjoyed. They strike in small groups like the Charles Manson family, or in regimetal strength, like the guerrilla troops in the Middle East, Africa and South America.

Some terrorists might be classed simply as common criminals who indulge in unlawful activity, commit violations for which punishment is imposed. The guerrilla movement welcomes such recruits who faithfully execute orders of destruction. But there is a risk that they may cause problems of discipline and may embarrass the movement through senseless acts of violence that are devoid of any ideological justification.

The world leaders of terrorism do not seek destruction for its own sake. They aim to destroy the private property order and build on its ruin a political command order. But they freely make use of the ever-
willing criminal element of society which they seek to indoctrinate and organize in the service of "the cause." The writings of the great leaders of world communism reveal their deep concern about unprincipled guerrilla action. V. I. Lenin, the Russian revolutionary and first premier of the U.S.S.R., repeatedly warned against it:

We would not for one moment assert that individual strokes of heroism are of no importance at all. But it is our duty to utter a strong warning against devoting all attention to terror, against regarding it as the principal method of struggle, as so many at the present time are inclined to do. Terror can never become the regular means of warfare; at best, it can only be of use as one of the methods of a final onslaught.²

It is asserted that partisan actions lower the class-conscious proletariat to the level of drunkards and bums. This is correct. But from this follows only that the party of the proletariat never should consider partisan warfare to be its only or even its chief means of struggle. This particular technique must be integrated with other tactics and be in harmony with the most important methods of combat. Partisan warfare should be ennobled by the enlightening and organizing influence of socialism.³

Mao Tse-tung, the chief theorist of the Chinese Revolution and party chairman, frequently reminded his guerrillas of the importance of party discipline and central leadership. In the words of the Chairman: "Unorganized guerrilla warfare cannot contribute to victory and those who attack the movement as a combination of banditry and anarchism do not understand the nature of guerrilla action."⁴

Leon Trotsky, the Russian revolutionist and theorist of worldwide revolution, openly called for terrorism:

The revolution "logically" does not demand terrorism, just as "logically" it does not demand an armed insurrection. What a profound commonplace! But the revolution does require of the revolutionary class that it should attain its ends by all methods at its disposal—if necessary, by an armed rising; if required, by terrorism.⁵

... the first condition of salvation is to tear the weapons of domination out of the hands of the bourgeoisie. It is hopeless to think of a peaceful arrival to power while the bourgeoisie retains in its hands all the apparatus of power... There is only one way: to seize power, taking away from the bourgeoisie the material apparatus of government.⁶

The Ideological Foundation

Why should Marxian terrorists want to seize all political and economic power? They are convinced that capitalism is unjust, that it exploits the working people for the benefit of property owners. It is unjust that some people own great wealth while others linger in poverty and despair.

The terrorists hold to a vague objective theory of value according to
which all economic exchange ought to be made objectively so that everyone gets his "fair share."

They are confident that the future belongs to them and that socialism is coming with the inevitability of natural law.

They see themselves as the vanguard of the coming age.

And finally, they are deeply convinced that socialism will not only eliminate all social injustice, but also will bring greater material well-being to all.

We need not search here for the roots of these ideas. They were planted by the revolutionaries and social reformers of the 19th century. But how do they grow to bear such violent fruit as terrorism?

In the U.S., the notion of injustice in the capitalistic system has gained millions of devotees. The majority of Americans are clamoring for social welfare and economic transfer in order to alleviate the plight of the poor. They are guided not only by economic notions, but also by religious doctrines and concepts. Many clergymen piously support the notion that everyone has an inalienable right to a "decent" life and a "decent" home. The state is responsible for a decent minimum wage, minimum health care, education, and so on. Let anyone with doubts about the ideological trend ask himself this simple question: What are the chances in the coming election for any candidate promising cuts in social spending? Many people are demanding reduction of taxes. But who is asking for reduction in social programs?

**Equalizing Incomes**

The revolutionaries make use of the religious belief that every worker is useful to society and that everyone has the same opportunity for attaining heaven. They conclude that the garbage collector is as useful to society as the engineer or the doctor, and thus entitled to the same income. Admittedly, they all are equal in the sense that all are useful. But they do not render equal services. It is one thing to believe that the Creator has given everyone an equal right for attaining heaven. It is quite different to assert that everyone contributes equally to the material well-being of society.

Marxian terrorists are convinced that economic value is imparted solely by physical labor, that to the laborer belong the fruits of all economic activity—wages, interest, profits, or whatever. Otherwise, someone is taking what rightly belongs to the worker. Most people sympathize with this notion because they are convinced that they are getting less than they deserve. Therefore, they are willing and ready to embrace the exploitation theory.

Although the terrorists have not
yet become popular “heroes” in the U.S., they certainly are no ordinary criminals. Youths of America still admire their athletes, the baseball and football heroes. But the press carefully reports the achievements of the international “liberation movements,” thereby introducing terrorist heroes to the American public.

All over the world college students display posters of “Che” Guevara and Salvador Allende next to the Christian cross. There is little awareness that “Che” never found popular support for his attempt at conquering Bolivia; the peasants rejected him and few, if any, ever joined his liberation army.

The terrorist activity in the United States is still in its first stage, the ideological stage. The people are unaware that an ideological battle is raging over the hearts and minds of their youth. The battle is fought in the schools, churches, and homes.

In Germany, a recent poll of students at Heidelberg University showed that most extreme left-wing students come from educated middle-class backgrounds. They grew up at home, enjoyed all modern conveniences and high standards of living, and were accustomed to a paternalistic society. They received according to middle-class necessity and contributed according to ability, which was very little. They were taught in school and on television that their fathers are exploiters who are feasting on the sweat and blood of the working man. Can it be surprising that children of wealthy bankers and industrialists are eager to rebel against their parents?

In Argentina, the sons of a wealthy businessman recently organized their father’s kidnaping. Other children placed bombs in their parents’ bedroom. Such acts seem inconceivable until one discovers that the director of the state university nursery school was a guerrilla leader.

**Seeds of Conflict**

In order to launch the revolution, terrorists are planting the seeds of conflict in society. Social conflict is their road to victory. They are spreading false doctrines of conflict and clamoring for a gradual realization of socialism as Karl Marx had envisioned it in the *Communist Manifesto*. This is how Leonard Read describes the procedure:

> Were I a loyal Russian devoted to the U.S.S.R.—Union of Soviet Socialist Republics—and determined to overcome, subvert, and absorb the U.S.A., what would my tactic be? Drop hydrogen bombs? Probably not! That tactic would be resisted as would an invading army. What then? Would I not try to outmaneuver resistance by attractively phrasing and propagandizing the ideas of socialism? I’d play upon such themes as “From each according to his ability, to each according to his need.” How would I
measure my success? By the extent to which the people of the U.S. adopted my creed, the ten points of the Communist Manifesto.  

The revolutionaries hold to their type of justice: “to receive according to what we need, according to our necessities.” Their concept is diametrically opposed to that of the private property order: “to receive according to what we are entitled; and we are entitled only to what others want to give us freely in exchange for what we give in return.”

Only one of these definitions can be correct. What are our necessities? If we could have an objective scale of necessities, then we could possibly find an answer. If economic goods were available in abundance, we could satisfy all our wants. But nature did not provide us with an infinite supply of material goods and services. The private property order cannot be blamed for this natural scarcity. As long as nature is meager and miserly, which forces man to value his provisions, voluntary exchange is the only fair and equitable distribution. When we recognize that economic goods are valuable and that we must give something in exchange, the exploitation theory and the labor theory of value lose any rational justification. In the market order a businessman must pay a wage equal to the worker’s marginal productivity. If a given employer refuses to bid that much, other employers would be willing to hire the worker in order to increase their profits.

It is difficult to argue with terrorists who sincerely believe that they are an enlightened minority. They cannot blame God for the world of scarcity, so they blame “evil” individuals and their economic order for man’s limitations. Man lingers in poverty because man does not behave as he should. But the revolutionaries aim to change evil men; they aim to save mankind.

Is socialism inevitable?

Its followers are convinced that they will achieve the utopian maxim “From each according to his ability, to each according to his need.” They are clinging to their beliefs, although more than sixty years have passed since the Russian Revolution and the Russian people were supposed to create the Proletarian paradise. And yet, the Russian people continue to linger in poverty and despair.

It is ideas that cause man to act. And action makes history. The coming of socialism depends on ideas. Whose ideas? Our ideas. We need to study the numerous fallacies that support socialism. But above all, we must learn to appreciate man’s work and achievement when he is allowed to be free.
The Battle Is Ideological

When terrorism is disrupting economic life and jeopardizing law and order, the state, which is social authority with power to enforce its laws, seeks to reassert itself. It mobilizes its police power and may call on its armed forces to crush the terror. But the application of brute force rests on the ideological assumption that the policemen and soldiers approve of the system they are supposed to defend. Without this approval, which grows from an understanding of the private property order, they cannot be expected to function. Why should they risk their lives obeying orders to defend a system they despise? Why should they confront the terrorists if they themselves are tempted to commit acts of terrorism? The apparatus of state disintegrates and all resistance ceases when police and military join the revolutionaries.

When the state enjoys the popular support to prevail over the terrorists, the latter usually seek and receive international reinforcement. But this international support constitutes much less a threat to society than does the ideological attack at home. National considerations predispose people against foreign ideologues and their objectives. Surely, ideas have no nationality, but people tend to relate alien ideas to foreigners. Mao Tse-tung made use of this psychological principle to wage war on the Japanese and find supporters for his movement. The Cubans and the Russians are facing the same problem today in Africa—they are foreigners.

The war against terrorism is a war without end. This ideological struggle occurs in the classrooms, in the churches, in the press, on radio and television, and on the floors of Congress. Every day the forces of individual freedom and the private property order are engaging the forces of pragmatism and the political command order. They are battling for the minds of men.

—FOOTNOTES—

6Ibid., p. 36.
The spread of communism around the world is preceded and accompanied by the spread of terror. Even that way of saying it does not put it as directly as it can be stated. The spread of communism is the spread of terror.

Terror is not incidental to communism; it is essential and organic. Indeed, terror is the *modus operandi* of revolutionary socialism. Those who will to believe in the possibilities of the revolution of our age hope that it is incidental. Apologists for communism—and they are legion—attempt to make it appear incidental. Terror was justified, they will say, because of the terror of the regime against which it was used. The terror of a communist regime arises from the history of brutal governments which have beset particular peoples in their past. Terror is made necessary by the recalcitrance of the opposition. Tales of the terror are either fabricated or greatly exaggerated by those who hate the new regime. (This, they said, of the White Russians, of the Nationalist Chinese, of Cuban emigrants, and so on.) But, above
all, apologists for communism make the terror appear incidental by treating it as isolated incidents rather than the patterned behavior that emerges when it is surveyed whole.

**Two Faces of Communism**

They are assisted in this by communist regimes. Communism is Janus-faced—two-faced—as was suggested earlier in this work. One face may well be called the Ceremonial Face, the carefully conceived and made-up face presented to the world. It is the face that bespeaks regular government, democratic elections, government provided free schools, free medical care, subsidized culture, and so on. It is the face presented by carefully engineered tours for foreign visitors. It is the face of parliaments, written constitutions, cultural achievements, housing projects, prosperous collective farms, of orderly crowds, and contented people. It is the face of justice sought and on the way to being attained, the face which draws recruits from among intellectuals around the world. All these things comprise the facade of communism.

The other face is concealed, or partially concealed, most of the time. It is the Face of Terror, a terror which outruns the imagination in conceiving it and before which many prefer to avert their eyes. Whittaker Chambers suggested that it is a terror the like of which the world had never experienced.

Other ages have known a terror equal to, or a little more than equal to, their powers to endure it. . . . Other ages have known a frightfulness equal to their imagination in inflicting or enduring it. Ours is the first age in which the havoc that men wreak on men has outrun the imagination, which can no longer cope with the plain reality and turns away, helpless, exhausted, and incredulous. . . .

Ours is the first age in history in which duly constituted governments, duly recognized by others calling themselves civilized, practise the extermination of their own people by millions, as a matter of calculated policy. Within [our] lifetime . . ., the Soviet government . . . exterminated so many of its people that it did not dare publish the census figures. . . . The same government decreed, because its peasants were hiding their grain, that they should be starved to death. So they were, from three to six million of them.¹

That, however, was but one of the cores of the terror stalking the earth.

**Terror Undergirds Power**

Terror, I say, is essential to communism. It is essential both to the gaining and exercising of power by communists. Communism is a power theory, and undergirding that power is terror. It is not simply that communism entails rule by a tiny minority. All rule, excepting that in
a direct democracy, perhaps, is rule over the majority by a minority. But communism lacks accepted sanctions for its rule. Its basic theory denies validity to government and thereby any sanction for the exercise of its authority or use of force. Its thrust to transformation pits it against the populace at large; they could only sanction it by willing their own destruction. Its sanction is only that it rules, and it rules by terror.

It may be feasible to divide the terror that stalks the earth in the wake of the spread of communism into four stages. It may be, that is, because our knowledge of communism in action is still fragmentary. Much communist activity is clandestine and secret. As yet, no entrenched communist power has fallen so that its secrets might have come into the hands of a conqueror. (Such as did so many of those of the Nazis, for example.) Thus, we rely on the reports of defectors, immigrants, counter-espionage, revelations (such as those made by Khrushchev about Stalin's rule), deductions from official pronouncements and documents, and surmise, for our knowledge of the inner workings and plans of communists.

No Precise Formula

The evidence certainly points to the fact that much of the terror is planned and coordinated. Yet there are gaps in our knowledge as to whether or not it is done according to some overall plan. Moreover, there is often no way to determine which acts of terror associated with the international spread of communism are a part of a plan and which are the result of local initiative, which are by communists and which not, or whether the motives of those who commit the acts are the same as those who order or approve of them. In short, if there is a "science" of communist terrorism, it has not become public knowledge.

Even so, a pattern of terror can be discerned from the history of communism. That it was a universal pattern did not begin to become clear until the 1950s and 1960s. Prior to World War II communism-in-power had occurred only in the Soviet Union. The Communist International, the instrument for the spread of communism, was controlled by the Kremlin leaders. Hence, the pattern was the Soviet pattern, not necessarily the communist pattern. But with the emergence of other communist powers, the pattern has been much the same, pointing toward the conclusion that it is a communist pattern. This does not mean that the use of terror falls into a rigid and unvarying configuration. On the contrary, all sorts of variations occur in it. It is rather that if it be assumed that terror is organic to communism,
that it serves certain broad and general purposes, then the general pattern is discernible.

At any rate, there is a discernible pattern of at least four stages of the terror. They frequently overlap one another, and excepting for the second stage there is no predicting in advance how or when they will occur.

**The Disordering Terror**

The first stage of the terror may well be called The Disordering Terror. It encompasses all that terror which precedes the seizure of power by the communists. It may last for months, for years, for decades, or for as long as it takes to bring communism to power in a given land.

It is disordering because the general object—as distinct from the particular object of any act—is to create the conditions of disorder which will be favorable for communists to seize power. Marx taught that the conditions would be right for revolution when capitalism had reached the stage of development in which the lot of the workers became intolerable. It followed that revolution would come first in what were then the most advanced countries. Lenin altered this doctrine by demonstrating that the conditions were right for revolution when disorder had proceeded to the disintegrating point. Hitler’s seizure of power demonstrated the same point, as did that of Mussolini. Communism spreads by bringing about conditions of disorder. Terror is the most direct means of producing confusion, arousing fear and distrust, and challenging the ruling government.

Specific dramatic examples may best illustrate this stage of the terror. Take the case of Vietnam. The Republic of Vietnam (South Vietnam) was organized as an independent country in 1954. There were communists in South Vietnam, of course, as there were throughout Indochina. At first, they went underground, but they soon began to be heard of by assassinations and became known as the Viet Cong (Vietnamese Communists). “Between 1957 and 1959 the Viet Cong killed sixty-five village chiefs who had tried to resist Communist pressures.” In 1959 radio Hanoi (the voice of the Communist government in North Vietnam) proclaimed the desirability of destroying the Diem regime in South Vietnam. In 1960, the National Liberation Front was organized at the instance of the Communist party of North Vietnam. In “1960 and 1961 village officials, schoolteachers, and health workers were being murdered by the thousands. In 1960, through harassment, plus the murder of teachers and sabotage of buildings, the Viet Cong succeeded in closing two hundred primary schools in South Vietnam, interrupting the
education of more than twenty-five thousand students. And this is when the terror was just beginning to explode with full force, warning of horrors to come.”

There is not space here to detail the story of the terror that eventually engulfed South Vietnam and sent shocks outward into much of the rest of the world. Those who will to do so may at least know the outcome of it. South Vietnam is now in the grip of a communist regime, as is much of the rest of Indochina. Terror prepared the way.

**The Story in Angola**

An even more dramatic use of terror occurred in Angola. From March 14-16, 1961, the northern portion of that large Portuguese colony was ravaged by Bakonga tribesmen from within Angola aided by their kinsmen from the Congo. These concerted assaults were organized in cold blood by Holden Roberto, among others, and fomented by Algerian, Soviet, and Chinese Communists. They were carried out, with a ferocity that can hardly be imagined, by drunken and drugged savages. All the inhabitants of whole villages—men, women, children, black and white—were murdered, the women repeatedly raped, even infants in cribs dismembered, and many people disemboweled. At one village where there was a sawmill, the victims, both dead and alive, were lashed to boards and run through the saw lengthwise.

Most of the tales by eyewitnesses are too full of horrible things to repeat. Here, however, is a snippet from what happened in the village of Fazenda:

Then the turn came for the women and the children. The beasts made no color discrimination. They slaughtered white, mulatto and Negro alike. They would throw the smaller children high into the air, let them drop on the soil to break their bones and then . . . would play a brutal game of football with the bodies of those dying children, while the poor mothers screamed like crazy in the hands of the beasts. I didn’t believe that anything so evil could exist in the world.\(^3\)

The object of this concerted terrorism was to paralyze the will of the Portuguese and drive them from Angola. Had it succeeded then, it would have brought into power men under the sway of communism.

It would be a mistake, however, to conclude from these two dramatic examples that The Disordering Terror is usually concerted or concentrated so as to accomplish such comprehensive objects. More commonly, the terror which precedes communist take-overs is sporadic, isolated and episodic, rises to a crescendo and subsides, getting nowhere as far as can be determined at the time. Even that it is going to lead to
a communist take-over is a matter of communist faith until it happens. Its immediate object may be much more restricted than that, and frequently is.

Some of the terror may not be planned or directed by communists. Yet, whether it is or not, it becomes grist for the mills of communists. There are at least two general ways this may come about. One of these is where apparently free lance acts of terrorism become a part of the disordering atmosphere which communists can utilize for their purposes. An example would be the terrorist acts by anarchists in the last decades of Czarist Russia. There were many such terrorist acts in the last decade or so of Czarist rule, usually the assassination or attempted assassination of government officials. Most of these were not coordinated or directed so far as is known. But they helped to create the atmosphere of fear and paralysis which enabled the Bolsheviks to bring off a revolution.

**Terrorizing Presidents**

A more familiar case, one much closer home both in place and time, was what we may call the terrorizing of Presidents of the United States from 1963 to 1973. It began with the assassination of President Kennedy in 1963 and subsided with the withdrawal of American forces from Vietnam. It encompassed the assassinations of John F. and Robert Kennedy, Martin Luther King, the wounding and crippling of George Wallace, and, as an epilogue, the two assassination attempts on President Ford.

So far as we know none of this maiming or killing was directed by any communist or revolutionary organization. True, the assassins of the Kennedy brothers were Marxists or communists of some stripe. But no evidence has been forthcoming that they were ordered to assassinate anyone. Indeed, the only assassin, or would-be assassin, with an ongoing revolutionary organizational connection was the would-be assassin of President Ford, a member of the Manson "Family." It is relevant to point out, however, that revolutionary socialism creates a framework both for organizational terror and for individual acts of terror. The preaching of class hatred and allegations of injustice arouse individuals to act on their own and inspire the formation of "free lance" terrorist organizations such as the Manson "Family" and the Symbionese Liberation Army.

At any rate, there was a framework for the terrorizing of Presidents provided by the spread of communism. The American participation in the Vietnamese War was the most obvious part of the framework. More broadly, there was the spread of communism into southeast
Asia, Latin America, and Africa. This, plus the fact that the United States was providing just about the only opposition by any outside nation to the spread of communism.

**Mao's Cultural Revolution**

The Cultural Revolution in Communist China during these years was also an important part of the context. That revolution spread especially to Germany, France, and the United States, where it was the model for the Youth Rebellion. The Youth Rebellion was not only inspired by Mao's Cultural Revolution spearheaded by students but also by "mind expanding" drugs, psychedelic lights, hard rock music, sexual promiscuity, and hippie lifestyles. Simultaneous with these developments was widespread rioting in the cities, mainly by blacks.

A great many people were terrorized during the turbulent sixties. At the gentler level, there was the terror felt by older people as young people began to crop up in revolutionary clothing, the men sporting Castro-like beards, and girls shedding their femininity by wearing field jackets and dungarees. The sudden change was too swift to be digested; it had the odor of revolution about it, something much more than just a fad. Parents of youth were filled with dread that their children were taking drugs, their daughters might run away from home, their lifestyles cut them off from their elders.

As demonstrations became the order of the day, many people were harassed and intimidated by them. Riots in numerous cities brought terror to shopkeepers, peaceful citizens, and policemen. Indeed, policemen along with anyone who represented authority were especial targets for terrorization. Deans of colleges, an especially benign breed inhabiting academia, were singled out for a while by their student charges to bear the brunt of terrorist acts.

**Withdrawal from Vietnam**

What brought all these things into focus as a disordering terror in the service of the spread of communism, so far as they were, was the effort to secure American withdrawal from Vietnam. It was this, too, that led to the terrorizing of Presidents. There is no mystery about why that should have been the case. American involvement in Vietnam was an undeclared war. A succession of Presidents—Kennedy, Johnson, and Nixon—took the initiative in dispatching American armed forces and conducting the war. Johnson took the initiative in the heaviest commitment of American forces, and for the last three years of his presidency he became virtually the whole focus of discontent with the war.
Johnson was terrorized. He was subjected to such vituperation as to surpass anything that had happened before. Demonstrators descended upon Washington periodically, picketing the White House, screaming epithets, carrying Viet Cong flags, quoting Mao, emulating Castro, proclaiming their affection for Ho Chi Minh, and yelling unprintable obscenities. Some civil rights leaders joined in the clamor against the war in Vietnam. Following the triumph of Eugene McCarthy—a "dove" on Vietnam, as those who wanted to wind down the war and withdraw were called—in the New Hampshire primary, President Johnson announced that he would not be a candidate for re-election. After the assassination of Senator Kennedy, the President was increasingly cautious about making public appearances. When the forces opposed to Vietnam descended upon the Democratic Convention in Chicago, Johnson declined even to attend a birthday dinner given in his honor. A President had been terrorized.

The pressure was kept up during the early Nixon years. It would mount to a crescendo following the bombing of Cambodia. How far Nixon yielded to the terrorization is uncertain. At any rate, the siege of disordering terror achieved this much. American forces were withdrawn from Vietnam. Communists came to power there and in surrounding countries. It was a settled mood in many quarters that there should be no more Vietnams. The role of the ROTC in colleges and universities was greatly reduced as a result of student pressures. The draft was suspended. Communist guerrillas continued their incursions in Africa and Latin America, and as this is being written are threatening Rhodesia, Nicaragua, and Iran, among other countries. The revolution did not follow upon that disordering terror in the United States, though communism spread elsewhere, but the softening up succeeded here.

**Provocative Actions**

The other kind of terror that is not entirely planned by communists but is utilized by them for spreading their ideology is terror they have provoked. Provoked terror from the other side is most useful for propaganda purposes and the swaying of public opinion. It creates confusion in people's minds, making it difficult to decide who is right and who is wrong. The man who became known to the world as Joseph Stalin enunciated the principle, or a part of it, after he had helped to stage a mass demonstration in 1901. In the course of the demonstration, the demonstrators were fired upon by the police. Stalin drew these conclusions: "The whips play on the backs
of all, irrespective of sex, age and even class. Thereby the whip lash is rendering us a great service, for it is hastening the revolutionizing of the 'curious onlookers.' It is being transformed from an instrument for taming into an instrument for rousing the people. . . . Every militant who falls in the struggle or is torn out of our ranks arouses hundreds of new fighters.”

Stalin described the technique as one to gain new recruits for the cause, but as it has developed it is much more than that. It enables communism to spread from behind a cloud cover of being on the side of the angels. It enables the makers of terror and consistent users of terror to point the accusing finger at their opponents, to describe the regime which opposes them as corrupt and oppressive. The development of television and satellite transmission brings the evidence of repression into the homes around the world while the provocative acts have either already taken place or are concealed.

Examples are so numerous that they can only be alluded to. In the 1930s, Edgar Snow described the Kuomintang of Chiang Kai-shek as corrupt and oppressive. He told stories in the Saturday Evening Post of such things as the burying of peasants alive by minions of the regime. In the 1950s, Americans, and others, were treated to tales of the cruel tortures in Batista's prisons in Cuba. More recently, there have been stories of terror by the Greek Colonels and the Argentine Generals. The Buddhists who burned themselves alive—who terrorized themselves, so to speak—were the cause célèbre which brought down Diem in Vietnam.

**The Kent State Event**

There is ample, even overwhelming evidence that much of the violence used against communists and other revolutionaries is deliberately provoked. The reverse terror which communists find most useful is some incident which can be magnified, dramatized and can become the symbol of the repression of a regime. “Bloody Sunday” became such an incident in Czarist Russia. The event occurred in St. Petersburg in 1905 when demonstrators marched on and massed before the Winter Palace. The throng ignored commands to turn back and the firing of blanks, so the soldiers fired into their ranks, killing some of the demonstrators. Here was the dramatic incident which could be recalled over and over again for purposes of undermining the government.

The happenings at Kent State University in the spring of 1970 provide an example of the reverse terror tactic. There is space here only to give a bare outline of what
occurred. Prior to the events that have become known as "Kent State," a radicalization of much of the student body had taken place. The Students for a Democratic Society was the organization most directly responsible. The local chapter was provided with additional revolutionary fervor from time to time by "regional travelers," adults trying to spark activity in the locals. Among the regional travelers to Kent State were Bernadine Dohrn, Terry Robbins, and Mark Rudd. Miss Dohrn professed to be a revolutionary communist, and Terry Robbins was known as "V.I.," the initials used by Lenin.6

On May 1, 1970, public announcement was made concerning a series of bombings by the United States Air Force of the access route to South Vietnam used by the Communists. This was made the occasion for student eruptions on a goodly number of campuses. Saturday, May 2, became the target day for action at Kent State. The ROTC building was burned; thugs with clubs beat off those who tried to put out the fire; and an atmosphere of terror prevailed as other buildings were threatened. The National Guard was sent in to restore order. The Guardsmen were subjected to a continual torrent of verbal abuse. A grand jury declared that "the verbal abuse directed at the Guardsmen by the students during the period in question represented a level of obscenity and vulgarity which we have never before witnessed. The epithets directed at the Guardsmen and members of their families by male and female rioters alike would have been unbelievable had they not been confirmed by the testimony from every quarter. . . ."7

The Guardsmen were confused and frustrated—terrorized—after a weekend of such psychological warfare. On that fateful Monday, as the Guardsmen began a retreat to re-group there was a large throng of rioters on their right flank. A contingent of Guardsmen turned back, pointed their rifles toward the throng, and began to fire. Four students were killed.

The revolutionaries had their event now. Hundreds of colleges and universities were closed down. A moment of reverse terror had taken place, one which could be made into a battle cry, one which could be turned into a symbol for an alleged repressive society. The symbolic fire ignited there soon subsided, but there are still smoldering coals which are fanned from time to time in the hope of kindling a flame.

The thrust of the disordering terror is toward civil war. Indeed, the disordering terror becomes regularized when sustained guerilla warfare is underway. Guerilla warfare is terrorism leading directly toward the seizure of power. Since
his death. Ché Guevara has been the symbol of this mode of operation as it has caught on in various places around the world.

The other stages of the terror can only be described in brief here. While it is important to know that they occur, they belong to the story of the consolidation of revolution rather than directly to its spread. They do help to confirm the fact that undergirding communist power is a prolonged and permanent terror. Of course, once communists have seized power they not only monopolize it but the terror as well.

**The Terror of Suppression**

The second stage of the terror is The Terror of Suppression. This is the terror which accompanies and follows upon the seizure of power. Although there is no timetable, so far we know, it has usually lasted as long as two to three years. In the Soviet Union, its dates were 1918-1921, those that are usually given for the civil war. In Hungary, it was approximately 1945-1948. In Cuba, it occurred mainly within a couple of years of Castro's seizure of power.

This terror has a specific purpose. It is to bring all power into the hands of the communists. Communists do not usually get all power directly. They usually share power with a coalition, such as other revolutionary parties, labor union leaders, peasant and other farmer organizations, and military leaders who are more or less under their sway. Moreover, the organizations through which society normally operates—business firms, churches, fraternal associations, schools, the media of communication, local governments, and so on—may be independent organizations on which hold over the central government has no immediate impact. Beyond these, there is the matter of the bulk of property being in private hands. All other political parties must be suppressed, all organs of force brought under the communists, social organizations made subservient to communist rulers, and property seized. Terror is essential for a minority to accomplish such a coup.

Such political parties as are permitted for a time are terrorized by the police whom the communists control. Any parties that remain are then fused with the communist party. The leaders are generally disposed of in one way or another. For example, "The Roumanian socialist party had always been very small and weak; it won some importance in 1945 only because it was less disliked by the Roumanian workers than was the communist party. But communist pressure, reinforced by Soviet military power, quickly brought it to heel. At a congress held in March 1946 the party split, the opponents of the communists forming a separate party.
which had but a short life. In November 1947 ‘fusion’ took place.”8 Which is to say that only the Communist Party remained.

**Absorbing Other Groups**

Other organizations survive only to the extent that they are useful to communism and can be controlled by the communists. The old leaders are subjected to such terror as may be necessary to drive them out or subordinate them. In doing this, as well as seizing private property, communists use to good effect the greedy and avaricious have-nots among the populace. Castro’s regime in Cuba illustrated how this may be done shortly after the seizure of power. Castro organized militia units to take over organizations and to bully those within them into submission. Paul Bethel says that “Almost without exception . . . the militia units . . . came from the bowels of . . . society. The least productive and the least capable were to be found there. . . .”

Dressed in militia uniforms, authority dangling from the holsters on their hips, hotel bus boys, garbage collectors, taxi drivers and office clerks found that they could intimidate their superiors and receive the support of the revolutionary regime. . . . As organization progressed, instructions began to flow through the ranks, instructions which had no other aim than to bring the whole of Cuban society under the control of government. . . .

Local labor unions began to lose their hold on laborers as militiamen usurped both power and position. Union officials were intimidated, harassed, and threatened outright. . . .

More than one business leader was jolted when a group of militiamen-employees walked unannounced into his office and flatly told him how to conduct his business. . . .

This was but prelude, of course, to the taking over of private property. Quite often this has been accomplished in a mob-like atmosphere as renters seize the places where they live, as employees seize factories, and as peasants seize the land.

**The Transformation Terror**

The third stage may be called The Transformation Terror. This is in many ways a continuation of The Terror of Suppression, but it is often enough sufficiently separate from it to constitute a separate stage. It is probable that many Russians in the 1920s and Chinese in the 1950s believed that the worst of the terror was behind them. They had undergone The Terror of Suppression. But worse lay ahead—The Terror of Transformation. This is the stage of the totalizing of power, the wiping out of the last relics of independence, the purging of the old revolutionaries, the taking of lands and factories from peasants and workers, if that has not already taken
place, and the molding of the population to the will of the rulers. Terror may be reckoned to be as essential to these tasks as to the others. This was the period of the Stalinist terror in Russia.

Its transformation character may be best illustrated by the Cultural Revolution which took place in Communist China in the mid-1960s. This revolution was promulgated and let loose by the communist leaders. It was a purge, not only within the Party but in the society at large. The instrument used for the purge was students—young people in high school and college. Its purpose was to discredit and shake from power the bureaucracy which exercised authority in China. In terms of communist ideology the bureaucracy had become corrupt and reactionary. In fact, one suspects, power had become to some degree dispersed in China. It is a natural tendency for authority to become dispersed, for those who exercise power, however acquired, to begin to do so as a matter of right. Indeed, some of the harshness of dictatorship is often reduced by the dispersal of authority. At any rate, the government sponsored a rampage by students against authority, and those who had exercised power, as well as the general populace, were terrorized for several years.

The first to be terrorized generally were school administrators and instructors. Many of these were brought before students to be judged. They were accused of being corrupt reactionaries. They were humiliated, tortured, often enough stomped and beaten, made to confess and recant, and stripped of their authority. From the schools, the revolution expanded out into factory and field. Students battled with the police and, at times, even took on the army. Civil war raged, instigated by the top leaders of China.

Mao Tse-tung and Chou En-lai had shown much greater imagination in unleashing terror than had Stalin. To set the young to terrorizing their elders must surely be the ultimate betrayal of a people by the government.

The Permanent Terror

So far as can now be determined, the fourth stage, The Permanent Terror, may be the final stage. When the populace has been terrorized into submission the terror subsides. There may, of course, be new outbreaks of terror, and the possibility of these is surely a part of the permanent terror. But the outward terror is generally greatly reduced. It can be more subtle, be psychological more often than physical, become a permanent war on the spirit of man. Terror becomes an enduring threat, an intimidating force which permeates life.

In its deepest dimensions, the ter-
ror arises from the use of force unredeemed by love. The Reverend Richard Wurmbrand tells this story. It occurred somewhere behind the Iron Curtain, in what country I do not know. Mr. Wurmbrand was no longer permitted to have the forum of a pulpit or any other formal setting for his preaching. So he went about quietly, taking the Gospel to such individuals as would hear it.

One day he fell into conversation with an army officer on the street. They talked for a bit, and Mr. Wurmbrand invited the officer to his home. When they had sat down, Mr. Wurmbrand related to him the story of the life of Jesus, and of his death on the cross, in a simple and direct manner. When he had finished, the officer's eyes filled with tears and he wept unashamedly. In explanation, he said something to this effect: I did not know that there was such a man. I did not know that there was such love.

No doubt, the army officer knew much of hate. He had during his lifetime been subjected to a constant barrage of propaganda aimed at arousing his hatred for the class enemy. No doubt, he knew something of the brutalizing use of force by the regime over him. He must have witnessed the jockeying for power and privilege. Surely, he had experienced sexual appetite, and there must have been those along the way for whom he had affection. What a relief it must have been to find himself warmed by a transcendent love, a love that had in it no element of calculation, a love that expressed itself through sacrifice, a love that somehow had reached across the ages from a carpenter in Galilee to touch an army officer in Eastern Europe!

The ultimate terror is the pervasive use of force in an atmosphere of hate. This is the permanent terror of communism.


—FOOTNOTES—

5See ibid., chs. XI-XIII.
6See James A. Michener, Kent State (Greenwich, Conn.: Fawcett, 1971), pp. 85-104.
7Ibid., p. 222.
The Market Economy VS. The Welfare State

The history of the 20th century has been the story of the growth of statism—the ever-increasing control of governments over the lives, actions, earnings, inheritances and other accumulations of their inhabitants. The underlying principle, seldom questioned, has been that those elected or appointed to official government positions are "experts." They are thought to know what is best for their trusting incompetent charges, even though, in some cases, the same incompetents are considered intelligent enough to choose their supposedly wiser rulers.

The motivating precept of this century has been the basic Marxian fallacy that in a free market society the rich grow richer and fewer in number while the poor grow ever poorer and larger in number. This in turn is based on the fallacy that employers set wage rates and producers set prices. It is thus almost universally believed that in a free society workers and consumers are totally at the mercy of rapacious business interests.

This ill-founded, but popular, concept of an unhampered economy has stimulated a demand for laws that limit the freedom of business organizations and confiscate the major part of their earnings. Such laws are expected to correct what are considered the undesired trends of a market system. By the use of democratic means, laws are passed in attempts to thwart the ultimate disaster of a plutocratic oligarchy. These laws seize more and more of the wealth of the successful minority, while allocating much of the appropriated
funds to the envious and less productive majority, with the political brokers retaining an ever-increasing share for themselves and their friends. The principles of a limited government have been superseded by the almost universal acceptance of the idea that everything must now be decided by a majority vote, even as to who should pay for the birth or non-birth of each baby and how each person’s earnings must be shared among the electorate.

This process of socialistic leveling has become so widely accepted that when a co-chairman of a Tenants for Political Action group was recently charged with using political influence to force landlords to subsidize tenants, she replied, “I see nothing wrong with having political pressure. That’s the name of the game and that’s what this country is all about.”

Stealing, i.e., taking the property of others by force, is now considered legitimate if it is done by the political process of majority vote. Such short-sighted avarice and economic ignorance are widespread. Morality and sound economics are no longer considered reasonable guides for public actions. The result has been that politicians promise voters more than they can deliver. Further seizures of the earnings of the high producers of wealth no longer satisfy the demands of those who believe they are legally and morally entitled to more than consumers will voluntarily pay for their contributions to society. So, for years now, politicians have sponsored inflation, creating by law or regulation, more and more additional monetary units with which to pay the bills. One of the effects of this inflation has been ever higher prices, a fact that alarms the public.

**Defining Inflation**

In order to relieve themselves of the blame, the politicians and pressure groups who promote our inflationary processes have succeeded...
in changing the popular definition of inflation. Historically, periods of inflation have always been considered periods of rapid increases in the quantity of money. This was so in all reports of both the American and French Revolutions. It was also so during the post World War I inflations which reached their apex in Germany in 1923. However, those who favor the deceptive processes of inflation, as a means for transferring wealth from those who earn it to those they consider more worthy of it, have changed this definition of inflation. Inflation now means to almost everyone a rise in prices. Unfortunately, such higher prices are only one of the inevitable consequences of an increased quantity of money bidding for available goods and services.

This shift in the popular definition of inflation tends to hide from most people the obvious way to end inflation. When inflation is defined as "higher prices," most people conclude that it is businessmen who raise prices. Therefore, businessmen must be responsible for inflation. The way to end inflation is then thought to be the control or legal limitation of price rises.

It is true that businessmen raise prices. They would like to raise their prices with every sale. However, it would do business organizations no good to raise their prices, if there were not some customers who could and would pay the higher prices they ask. If no one bought their wares at the higher prices, those prices would soon come tumbling down. The higher prices that we have been seeing in recent decades have been made possible solely because governments have made available increasing quantities of money to politically favored customers who then can and do pay the higher prices. This means that those who do not share in the political allocation of the newly created money find their purchasing power greatly diminished. If they believe what they read in the papers or see on television they blame businessmen rather than politicians for the higher prices which reduce the buying power of their earnings.

When inflation is defined as an increase in the quantity of money, the remedy becomes obvious. Businessmen cannot create money. Under present-day laws, only governments and their agencies can. To stop inflation, all that needs be done is for governments to stop authorizing any further increases in the quantity of money.

**Misdirection of the Economy**

Unfortunately, higher prices are not the most important consequence of the political creation of new monetary units. These monetary units are endowed with full legal tender power. This means that,
by law, they have the same purchasing power as all previously issued monetary units of the same name. New monetary units cannot be created by governments or anyone else without someone getting them and spending them first. Those who first receive these newly created monetary units are able to go out on the market and buy things they could not otherwise buy. They can and do buy things which other people would have bought with the money they had earned or saved. Thus every political creation of new money transfers wealth from workers and savers to those who are spending in the market place newly created monetary units which no one has earned.

As a result, the production facilities of the nation are gradually redirected with an ever larger percentage devoted to the satisfaction of those spending the newly created money. Those catering to the spenders of the newly created money find their sales going up and the politicians proudly point to the activity they have stimulated. On the other hand, those who can only spend what they have earned or saved find that they must reduce their purchases and their living standards.

**Why Inflation Accelerates**

As prices rise with the increased quantity of money, more and more new monetary units must be created to maintain the business activity dependent upon the creation of the new monetary units. As time passes, more and more production facilities are directed toward satisfying this demand which can only be maintained by increasing the quantity of money at an ever-increasing rate. This, of course, tends to lower the purchasing power of the monetary unit. Sooner or later, such increases in the quantity of money must come to an end, either by a deliberate action stopping the creation of more monetary units, or by continuing until the purchasing power of that monetary unit approaches zero.

When inflations come to an end, as they must, those who have been producing and catering to those spending the newly created monetary units lose their customers. They must redirect their activities toward satisfying the only consumers left, those who have acceptable funds as a result of their contributions to the market. This redirection of the economy, popularly known as a recession or a depression, is actually a correction of the prior misdirection resulting from the inflation. It is a very painful period, particularly for two groups: (1) those who have been producing for the spenders of the newly created money, and (2) those who have become accustomed to spending money they have not earned. The suffering cannot be completely avoided, but it can be
reduced to a minimum by permitting free market prices, wage rates and interest rates to direct the economy to the most efficient satisfaction of those who contribute to the economy. All political attempts to control prices, hold wage rates up and/or hold interest rates down interfere with the indicators that direct business enterprises toward the most efficient use of available capital and labor.

**Consumers Are Sovereign**

The simple facts stated above are seldom understood, because so few people have ever read or heard them. Rare are the schools, colleges, politicians or mass media who promulgate the simple economic fact that, in a truly free market society, it is the consumers who are sovereign. It is the consumers who determine the limits on the wage rates that may be paid and the interest rates that are profitable for both borrowers and lenders, as well as the ultimate prices of consumers goods. Consequently, there are very few people today who realize that when government serves only as a keeper of the peace, that is, as a protector of lives and property and a punisher of those who resort to force or fraud, it is the consumers who, by their voluntary purchases and refusals to purchase, determine the incomes of all those who contribute to the market place. It is consumers who make some actresses, football stars and businessmen rich and it is consumers who retire to the sidelines those who do not satisfy them.

Whenever government interferes with the sovereignty of the consumers, it always helps some at the expense of others. It discourages the production of wealth, not only by reducing the incentives of producers but also by subsidizing the human tendency to indolence and parasitism. The unhampered market, where everyone, protected by government, is acting voluntarily, operates according to the Golden Rule. The more one contributes to the society, the more he or she receives in return. This is an incentive for everyone to contribute more of what consumers are buying as this is the most efficient means for increasing their own incomes.

**A Society Divided**

When society forsakes the free market and the Golden Rule for the welfare state principles of transfer payments and special privileges for the politically powerful, it divides society into factions, each of which is struggling to get what that group considers its fair share of the wealth of others. No legislative body made up of human beings can ever divide available wealth in such a way as to satisfy every element of the population. So as long as funds are taken from some to give to others, there
will be perpetual political struggles among the various pressure groups, each striving to get more for their members. Such political efforts must inevitably reduce the productivity of that society. As a consequence, the living standards of all will fall. While everyone suffers, those who are hurt most are the lowest income producers. More and more people will devote their efforts to preserving their wealth or obtaining more by political means, while fewer and fewer will save, invest and produce for the market place. There will be a growing number who will resort to violence in order to survive under the existing conditions. Only a trend toward a free and unhampered market can prevent this disastrous consequence.

As man and the world exist, every human being has unlimited wants, while the goods and services available for satisfying those wants are always limited. The economic problem is one of determining how we can best satisfy more and more human wants by ever increasing the quantities of goods and services available. No political intervention can improve upon the unhampered market processes which allocate available limited quantities to those consumers able and willing to pay the highest prices. The ability of people to pay such market prices arises from the prior valuation consumers have placed upon their individual contributions. Thus consumers, by their bidding in the market place, set all prices. This competition of consumers also sets the height of the income of each worker and investor. Consumers thus establish each worker's wage rates and the amounts that can be paid for raw materials and borrowed capital.

In such an unhampered market, businessmen are merely middlemen competing for the favors of consumers, whose purchases determine those who can expand and those who must contract their activities, including their work forces. No business can long pay higher wage rates or raw material prices than those that can be paid with what they receive from their customers. Nor can any employer long make high profits by paying lower wage rates than those that customers will voluntarily repay. Those who attempt to do so soon find other employers will bid their workers away in their attempt to attract more customers with lower prices which squeeze profits. So, in the long run, it is always the consumers who determine the shares of total production allocated to each participant, be he investor, employer or employee.
Once we gave high regard to those who created great enterprises by designing desirable products, producing them at low cost, and offering them at such attractive prices that they won a large body of customers. Henry Ford, in his day, was looked upon as an industrial hero. Today, he would be regarded as a monopolizing fiend upon whom the antitrust prosecutors should be unleashed. The 1921 Ford Company, with its more than 60 per cent share of the market, would today be called a dominant firm and charged with violating the antitrust laws.

Just a few months ago, an antitrust complaint was served upon Du Pont because it developed a low-cost method for producing titanium dioxide pigments. There was no objection to the development of a lower cost method of production, but Du Pont made the fatal error of passing enough of the cost saving on to buyers to win 40 per cent of the market served by domestic producers. Not only did it do that but it is going on to enlarge its capacity, building a new plant at De Lisle, Mississippi, in order to serve even more customers (who also would like to obtain domestic titanium dioxide at low cost). Can you imagine that any enterprise would engage in such a nefarious activity? It should, according to the FTC, behave like a monopolist. It should restrict its output, instead of expanding, and charge higher prices (and let the business go to foreign firms).
Antitrust Upside Down

That is a total perversion of the intent of our antitrust law. If the FTC is not standing antitrust law on its head, then I simply do not understand what our antitrust law says. The words "every contract, combination, or conspiracy, in restraint of trade is hereby declared to be illegal" say that it is restraint of output that is in violation of the law. But the FTC contends that Du Pont is violating the law because it has "adopted and implemented a plan to expand its domestic production capacity." That quite plainly says that the FTC regards Du Pont as breaking the law by expanding trade. Is that what the law says is illegal?

In whatever way I torture the phrases in the antitrust law, I simply cannot get it to say that expanding trade is illegal despite the thunder in the FTC complaint. Whenever anyone builds more capacity and uses it to produce more product, more trade must result. I can't believe that Du Pont is building a new titanium dioxide plant just because it wants a handsome monument at which to gaze—and neither does the FTC. What the FTC is complaining about is that Du Pont intends to produce titanium dioxide in its new plant and increase its sales—and it is nasty of Du Pont to have already built enough plant to take care of 40 per cent of the needs of customers for domestic product. That makes Du Pont "the nation's dominant producer." There can hardly be anything more venal than a "dominant producer," unless it is a "shared monopoly."

"Brand Proliferation" through Hypnotic Advertising

"Shared monopoly" sounds like a label for a conspiracy among several firms to monopolize a market and share the fruits of that monopoly. But that is not what the FTC means by the label. The phrase is FTC code for a few firms winning and holding a large share of the business in some product line. The FTC staff is currently prosecuting Kellogg, General Foods, and General Mills for "sharing a monopoly" of ready-to-eat (RTE) cereals. These three firms have managed to produce and distribute cereals that taste good enough and cost consumers little enough to win more than three-quarters of the RTE business. That is their crime.

Did these three firms conspire with each other to somehow force other firms out of the industry and then conspire to reduce supplies and raise prices? The FTC disavows any accusation of any such conspiracy. It says that the crime of which these firms are guilty is "brand proliferation." The heinous conduct of which it accuses these firms is that of trying to give consumers what they
want. It is now a crime, that is, the FTC is trying to make it a crime, to follow that old merchandising maxim for success, “give the lady what she wants.”

The cereal companies should have stuck to producing corn flakes. Never mind the demand for a bran cereal, or a high protein cereal, or a vitamin enriched cereal, or a presweetened cereal. Anyway, says the FTC in its complaint, there are no differences between cereals—except those artificially created in the minds of consumers by hypnotizing them with advertising. Of course, if the new brands offered by the three firms in the 1950s and 1960s had not won a large share of the market, nothing would have been wrong with “brand proliferation.” But the new brands pleased consumers. They won for the three firms a large share of the market. That, at bottom, is the crime these firms committed. The RTE cereal industry has become “concentrated,” that is, most of the sales in the industry are made by a few firms. That is a condition which neither the FTC nor the Antitrust Division intends to tolerate.

The FTC staff also has accused the eight major petroleum refiners of engaging in a “shared monopoly” in the petroleum refining industry. It is asking that these corporations be broken into smaller companies. The major crime of which the Big Eight stand accused is that of maintaining a “noncompetitive market structure.” This phrase is never cogently defined by the FTC staff, but “concentration” seems to be the nub of it. Complaint counsel says the eight companies “are all vertically integrated firms with substantial horizontal concentration at every level of the industry” (emphasis supplied). Counsel also says the eight “own and operate refineries accounting for approximately 65 per cent of rated crude oil refining capacity in the relevant market.” Even more damning, “This figure . . . understates concentration . . . because [the eight firms] . . . utilize more of their refining capacity than other refiners. Hence [their] share of production of refined petroleum products . . . is higher than their share of rated refinery capacity . . . .”

Again, here is the accusation that these alleged monopolists are not behaving like monopolists. Instead of restricting output and restraining trade, they push their capacity harder than do their competitors and expand output and trade. Apparently they are unaware of the fact that they are monopolists who can get higher prices by restricting output. Again, the FTC is displeased by efforts to expand trade and is standing antitrust law on its head by saying that the failure to restrict trade is a violation of the law. The FTC even accuses the companies of building pipelines to provide them-
selves with “cheap transportation.” Again, as in titanium dioxide, it is apparently illegal to reduce costs and pass enough of these cost savings on to customers to win an appreciable share of the market. (In the petroleum case, we cannot say a “large” share of the market has been won since no petroleum refining firm sells as much as ten per cent of the petroleum products sold in the United States.)

These three cases are cited to show the current state of antitrust doctrine at the antitrust agencies. The question remains of whether the courts will buy this upside down view of antitrust law in view of its legislative history.4

**Antitrust Not Intended to Fragment Industry**

When federal antitrust policy began, with the signing of the Sherman Act in 1890, it was aimed at benefiting consumers. In the words of Senator Sherman, the act was to outlaw arrangements “designed, or which tend, to advance the cost to the consumer.” It was neither intended to fragment industry nor to prevent occupancy of a major share of a market by one or a few firms. When Senator George Hoar explained to the Senate the Judiciary Committee’s final draft of the bill, he declared that a man who “got the whole business because nobody could do it as well as he could” would not be in violation of the Sherman Act. As Professor Bork has pointed out in his examination of Sherman Act legislative history, “The statute was intended to strike at cartels, horizontal mergers of monopolistic proportions, and predatory business tactics.”5 As the act itself says, “Every conspiracy in restraint of trade . . . is hereby declared illegal” (emphasis supplied).

Cost and price reductions and product improvements by a firm expand the trade of a whole industry. Since firms doing this frequently win a large share of the markets in which they operate, judges in the early days of antitrust litigation did not hold “concentration” of sales in the hands of a few firms or “dominance” by a single firm to be illegal in and of itself. Standard Oil and American Tobacco were broken up in 1911 because they had been built by a very large number of mergers of monopolistic proportions with wrongful intent and had then engaged in “acts and dealings wholly inconsistent with the theory that they were made with the single conception of advancing the development of business . . . by usual methods. . . .” The defendants failed to show that the intent underlying their mergers and their acts was the normal one of efficiency and expansion of trade—they failed to show “countervailing circumstances” in Judge White’s phrase. They were,
therefore, subjected to antitrust remedies. The remedies were not applied because of their dominance but because they were formed and maintained by monopolizing acts and intent—that is, by a desire to gain control of the supply of a product and to use that control to charge a monopoly price and thereby restrain trade.

Dominant Firms Do Not Control Supply and Price

There is a distinction between controlling the supply of a product and producing or selling most of the supply of a product. “Dominant” producers who sell a major portion of a product’s supply usually have no control over the supply. They have no power to set any lower level of industry output and a higher price than that which would prevail in a market with many suppliers and no dominant firm. Usually, a dominant producer is the most efficient firm in the industry. Its large output is the result of its efficiency in supplying the market. The market price is as low as it would be with many producers—frequently lower. Any attempt by a dominant firm to restrict its own supply and increase price after reaching a “dominant” position simply results in the expansion of output by other firms, the entry of additional firms, and loss of its dominance. A dominant firm can keep its dominance only by behaving competitively. The fact that there is a dominant firm, or small group of firms, in an industry is evidence of competitive behavior—not of monopolization.

The lack of ability of a dominant firm (or group of firms) to control supply and price simply because it produces a major part of the supply of a product is illustrated by the experience of the automobile industry in 1927. From 1921 to 1925 the Ford Motor Company supplied more automobiles than all other firms combined. The Ford Company was a dominant firm. It completely shut off its supply to the market for nearly the entire year in 1927 when it closed down to retool for the change from the Model T to the Model A. If the fact that a firm supplies the majority of a market gives it any power to control supply and price, then the complete withdrawal of that firm’s supply should certainly cause a rise in price. Yet the prices of automobiles failed to rise when Ford shut down despite its having been the dominant producer. Other manufacturers increased their output and prices fell by mid-1927 despite the complete withdrawal of the Ford supply of newly manufactured cars from the market.6

The fact that a dominant producer has, at most, a very short-lived ability to influence the price of a product can be illustrated by numerous
anecdotes. The American Sugar Refining Company merged 98 per cent of the capacity for refining sugar east of the Rockies in 1891 and 1892. By cutting production it managed to raise refining margins by 40 per cent in 1893 (which raised the price of sugar by 8 per cent). Expansion of output in other firms cut sugar refining margins in 1894 to a level little higher than the 1891 margins despite further reductions in output by American Sugar. By 1894, the entry of additional capacity had forced margins back nearly to 1891 levels and had cut American's share of the sugar business by one-quarter. American was still a dominant firm by today's FTC definition, but it had lost all influence over price and output despite its 85 per cent share of capacity.7

In 1901, American Can merged 90 per cent of all capacity in the can business. It raised prices by one-quarter and lost one-third of its share of market in short order despite additional buying up of competitors and their output. Prices returned to the pre-merger level in a very short time.

These are the most successful monopolizing cases I can find aside from the Air Line Pilots Association, the Teamsters, and similar labor unions.8 What they demonstrate is that a dominant firm quickly ceases to have any influence in the market if it charges a supracompetitive price. In some cases a dominant firm willing to restrict output greatly has no ability to obtain a supracompetitive price even in the short-run.

Shifting Market Shares

Dominant firms, that is, firms which sell a major part of all product sold, remain dominant only if they charge the competitive price and are more efficient than other firms in their industries. If they are less efficient, they soon find their market share dwindling despite selling at competitive prices. The Big Four in the meat packing industry, for example, has seen its share of the market dwindle from 56 per cent in 1935 (and from an even higher share in earlier years) to 47 per cent in 1947 to 38 per cent in 1956 to 22 per cent in 1972.9 The relative inefficiency of the Big Four showed in the 1920s when their rates of return on investment ran at one-third the rate earned by smaller companies.10 That situation continued up to at least 1972, and market share of these inefficient firms fell.

The Big Four meat packers (The Big Five in the 1917 FTC investigation) originally achieved a large market share in meat packing by their efficiency—by instituting assembly line methods with complete utilization of all by-products. They became known for using everything "but the squeal." Also, their development of refrigerated packing
houses, cold storage, the refrigerator car, and an efficient distribution system created enlarged markets for meat supplied from cheaper livestock sources. They grew large by being innovative. Once their innovations were imitated by other packers, the decline of the Big Four began, accelerating with the spread of highways and the rise of trucking.

The "dominance" of the Big Four did not give them any power to restrict output or to control price. If anything, the rise of the Big Four decreased the dominance of local markets by local butchers who had to compete with fresh meat brought in by train by the Big Four, especially after state laws prohibiting the sale of "foreign" meat were ruled unconstitutional. Nevertheless, the FTC filed one of its earliest "shared monopoly" suits in September 1948 against Armour, Cudahy, Swift, and Wilson, accusing them of "conducting . . . operations . . . along parallel non-competitive lines." They had served consumers too well, thus incurring the hostility of local butchers in the late nineteenth century and the first quarter of this century. Long after local packers began out-competing the Big Four, in the second quarter of the century, the FTC, in a flagrantly anti-consumer action, rode to rescue the fair maidens who by now had grown mustaches and larger biceps than the Big Four. The FTC demanded that Armour and Swift each be broken into five companies and that Cudahy and Wilson each be broken into two firms. The FTC reluctantly dropped the suit in March 1954, nearly six years and millions in legal costs after it was brought, but only because the court ruled that pre-1930 behavior was irrelevant in a 1950s proceeding.

**Why Are Dominant Firms Being Attacked?**

The attacks on concentration, whether in the form of an attack on a "dominant" firm or a "shared monopoly," seem to be fairly episodic. The question to be asked is why large firms with a large share of the market are left undisturbed for long periods and then turned on at other times. It is not purely coincidental that the nation suffered a severe deflation from 1882 to 1890, prices dropping by 25 per cent in that interval, and the Sherman Act was passed in 1890. At that time, the declining prices were blamed on "cutthroat" and "predatory" competition—and this was also a time in which economies of scale in manufacturing, combined with a rapidly declining cost of transportation, led to centralization of production in enlarged facilities.

From 1867 to 1887, for example, sugar production doubled, from one-half to one million tons annually, and the number of refineries
decreased from 60 to 27. In the same period, railroad freight rates fell by 60 per cent. The economies of centralized production together with reduced transport costs led to larger plants supplying more distant markets at lower prices than the smaller plants resident in those markets. So the myth of "cutthroat" competition and "predatory" pricing was born in this and many other industries. Antitrust cases were brought against dominant firms such as American Sugar, Standard Oil, American Tobacco, and others.

Another deflation in which prices again dropped by 25 per cent, from 1929 to 1933, again led to animus against "Big Business" and especially against that rising innovation in marketing, the chain store. The investigations of the Temporary National Economic Committee once again directed the country's ire toward dominant firms and industrial concentration. Antitrust cases were brought against dominant firms such as Alcoa and A & P and against "shared monopolies" as in the Mother Hubbard case against the petroleum companies, the proceeding against the major cigarette companies, and the FTC case against the Big Four in meat packing.

Currently, we are trying to find scapegoats for inflation. So we have brought cases against "dominant" firms such as IBM, AT&T, and Du Pont and against the "shared monopolies" already described.

When we are troubled by deflation or by inflation, both brought on by the government's ineptness in operating our monetary and fiscal policy, the politicians export the blame to somebody else. Mr. Carter tells us in his speeches that the government is not at fault for our inflation—it is up to business and labor to bring inflation to a halt.

In this modern day, we are no longer subject to the kind of superstitions that led the early colonists to hang witches when they were troubled by forces they did not understand. Instead, in this enlightened age, when we seek to rid ourselves of the causes of inflation and other mysterious ailments, we pillory dominant firms or the Big Fours in concentrated, and not so concentrated, industries.

The Potential Losses from Deconcentration

This absurd behavior by our politicians and its acceptance by the electorate as being something more than a hunt by politicians for witches to blame for their own mistakes might be tolerable if it were nothing more than expensive entertainment of voters. But it is something more. It is counterproductive in terms of the ends we seek—less inflation, higher rates of growth, and improved levels of living.
Prices have gone up less rapidly in our most concentrated industries than in others and productivity has grown more rapidly. From 1967 to 1973, prices in our most concentrated industries rose less than half as rapidly as prices in all manufacturing. 14 From 1958 to 1965, prices in our most concentrated manufacturing industries actually fell while prices in other manufacturing industries rose. Yet it is our concentrated industries with a superior record for moderating inflation and a superb record for increasing productivity that are being cast in the role of economic villains. 15

If this witch-hunt continues, the result will be economic disaster. If we deconcentrate all our manufacturing industries in which four firms produce and sell more than 50 per cent of the product, the result will be a 20 per cent rise in costs and a 10 to 15 per cent rise in prices. 16 If we want to hasten our decline to the status of a banana republic, the attack on concentration will contribute to that end.

—FOOTNOTES—

2FTC Docket No. 8883, April 26, 1972.
3Complaint Counsel's Prediscovery Statement, In the Matter of Exxon Corporation, et al., Docket No. 8934, pp. 7-10.
4The Court did accept this upside down view in reversing the lower court in the Alcoa case. Y. Brozen, "Antitrust Out of Hand," The Conference Board Record, vol. 11, no. 3 (March 1974).
9The 1956 and subsequent figures overstate the share of market retained by the original Big Four since Cudahy was displaced by Hormel.
10Ralph C. Epstein, Industrial Profits in the United States (New York: National Bureau of Economic Research, 1934), reports that twenty-three leading meat packers earned 1.9 per cent on equity in 1928 while forty-six minor meat packers earned 10.0 per cent. In 1964, leading packers earned 3.7 per cent while small packers earned 13.6 per cent.
12The average rail rate fell from 19 mills per ton-mile to 7.5 mills.
14Steven Lustgarten, Industrial Concentration and Inflation (Washington: American Enterprise Institute for Public Policy Research, 1975), Table 2.
HAS CAPITALISM A FUTURE?

Let me begin by defining my terms. By "capitalism" I mean large-scale industrial capitalism, in which privately-financed publicly-quoted corporations, operating in a free market environment, and with the backup of the private enterprise money market, constitute the core of national economies. This is a pretty broad definition, but I think it will do.

Now the first thing to be noted is that this phenomenon is pretty recent. I would date it, in its earliest phase in England, only from the 1780s. It is thus less than 200 years old anywhere. As a widely-spread phenomenon, it is barely 100 years old. Seen against the grand perspective of history, capitalism is a newcomer. We now possess some knowledge of economic systems going back to the early centuries of the third millennium B.C. I could give you, for instance, an outline account of the economic structure of Egypt under the Old Kingdom, about 2700 B.C. Our knowledge of how civilised societies have organised their economic activities thus covers a stretch of more than 4600 years.

And in only about 200 of those years has industrial capitalism existed. Now the next point to note is the remarkable correlation between the emergence of industrial capitalism and the beginnings of really rapid economic growth.

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Mr. Johnson, a British historian and author, is a former editor of The New Statesman, a leading academic socialist weekly. His recent break from what he calls the Fascist Left in Britain is explained in his book, Enemies of Society, reviewed in The Freeman, March 1978.

This article, an address at the May 1978 Bank Credit Analyst Conference, is reprinted by permission from the September 1978 issue of The Bank Credit Analyst publication.
Throughout most of history, growth rates, when we have the statistical evidence to measure them, have been low, nil or minus. A century of slow growth might be followed by a century of decline. Societies tended to get caught in the Malthusian Trap: that is, a period of slow growth led to an increase in population, the outstripping of food supplies, followed by a demographic catastrophe, and the beginning of a new cycle.

There were at least three economic "Dark Ages" in history, in which a sudden collapse of the wealth-making process led to the extinction, or virtual extinction, of civilised living, and the process of recovery was very slow and painful.

The last of these three Dark Ages extinguished Roman civilization in Western Europe, in the 5th Century A.D. It was not until the 13th century that equivalent living standards were again achieved—the recovery thus took 800 years. Society again fell into a Malthusian trap in the 14th century and again recovery was slow, though more sure this time, as intermediate technology spread more widely, and methods of handling and employing money became more sophisticated. Even by the first half of the 18th century, however, it was rare for even the most advanced economies, those of England and Holland, to achieve one per cent growth in any year. And there is a possibility (I myself would put it higher) that mankind would again have fallen into a Malthusian trap towards the end of the 18th century if industrial capitalism had not made its dramatic appearance.

And it was dramatic. By the beginning of the 1780s, in England, an unprecedented annual growth rate of two per cent had been achieved. During that decade, the two per cent was raised to four per cent. This was the great historic "lift off," and a four per cent annual compound growth rate was sustained for the next 50 years, on average. Since this English, and also Scottish, performance was accompanied by the export of capital, patents, machine tools and skilled manpower to several other advanced nations, the phenomenon soon became international.

Phenomenal Growth

I don’t want to overburden you with figures, but some are necessary to indicate the magnitude of the change that industrial capitalism brought to human society. In Britain, for instance, in the 19th century, the size of the working population multiplied fourfold. Real wages doubled in the half-century 1800-1850, and doubled again, 1850-1900. This meant there was a 1600% increase in the production and consumption of wagegoods during the
century. Nothing like this had happened anywhere before, in the whole of history. From the 1850s onward, in Belgium, France, Austria-Hungary, above all in Germany and the U.S., even higher growth rates were obtained; and feudal empires like Japan and Russia were able to telescope a development process which in Britain had stretched over centuries into a mere generation or two.

The growth rates of twelve leading capitalist countries averaged 2.7% a year over the whole 50-year period up to World War I. There was, it is true, a much more mixed performance between the wars. The U.S., for instance, which in the 44 years up to 1914 had averaged a phenomenal 4.3% growth rate, and which in the seven years up to 1929 had increased its national income by a staggering 40%, then saw its national income fall 38% in the mere four years 1929-32.

But following World War II, growth was resumed on an even more impressive scale. In the 1950s, for instance, the 12 leading capitalist economies cited before had an average annual growth of 4.2%. In Germany it was as high as an average of 7.6%. In all the West European economies, the rate of investment in the 1950s was half as high again as it had ever been on a sustained basis. In several such countries it was over 20% of the GNP; in Germany and the Netherlands it was 25%, in Norway even higher. Moreover, this high capital formation took place not at the cost of private consumption, but during a rapid and sustained rise in living standards, particularly of industrial workers. These tendencies were prolonged throughout the 1960s and into the 1970s. So far as the mature economies were concerned, the second industrial revolution, 1945-70, was entirely painless—and largely so even in Japan, where even higher investment and growth rates were sought, and obtained, to catch up with the U.S. and Europe.

The Key Was Capitalism

In short, after nearly five recorded millennia of floundering about, in relative or absolute poverty, humanity suddenly in the 1780s began to hit on the right formula: industrial capitalism. Consider the magnitude of the change over the last 200 years or less. We all know the wealth of present-day West Germany; all of us (I am sure) have seen it for ourselves. In the year 1800, in the whole of Germany there were less than 1000 people with annual incomes of 1000 dollars a year or more. Or again, take France. France now has more automobiles per capita even than Germany, and more second homes per family than any other country in Europe. In the 1780s, four/fifths of French families
spent 90% of their incomes simply on buying bread—only bread—to stay alive.

Now I have said enough (I could say much more) to demonstrate that industrial capitalism, judged simply by its capacity to create wealth, and to distribute it, is a phenomenon unique in world history. It could be argued that it is the greatest single blessing ever bestowed on humanity. Why, then, am I giving a talk, not in any spirit of paradox either, called HAS CAPITALISM A FUTURE?

You may well ask. But I think we know the answer. I am giving it because capitalism is threatened, and we feel it to be threatened: the question is not academic. But before we go any further, I would like to clear up one important point. The idea has got around, and it is widely believed, especially among young people—and above all, alas, among young people who like to think they are well educated—that industrial capitalism is unpopular, and always has been. That is the work of a tiny, interested minority who have thrust it upon the reluctant mass of mankind.

Nothing, in fact, could be further from the truth. The storage economies of remote antiquity were often hideously unpopular. So was the slave-based economy, combined with corporatism, of the classical world. Agricultural feudalism was certainly unpopular; and mercantilism had to be enforced, in practice, by authoritarian states.

They Voted with Their Feet

But capitalism, industrial capitalism—no! From the very start it received the demonstrable approbation of the masses. They could not vote in the ballot box, but they voted in a far more positive and impressive manner, with their feet. And this for a simple reason. The poorest member of society values political freedom as much as the richest and the well educated—that is my belief. But the freedom he values most of all, the freedom which means most to him, is the freedom to sell his labour and skills in the open market. It was precisely this that industrial capitalism gave to men for the first time in history. Hence it is a profound error of fact, in my view, to see what Blake called the "dark, satanic mills" of the industrial revolution, as the enslavement of man.

The factory system, however harsh it may have been, was the road to freedom for millions of agricultural workers. Not only did it offer them an escape from rural poverty, which was deeper and more degrading than anything experienced in the cities, but it allowed them to move from status to contract, from a stationary place in a static society, with tied cottages and semi-
conscript labour, to a mobile place in a dynamic one. That was why the common man voted for industrial capitalism with his feet, by tramping from the countryside to the towns, in enormous numbers, first in Britain, then throughout Europe. And tens of millions of European peasants, decade after decade, moved relentlessly across the Atlantic in pursuit of that same freedom, from semi-feudal estates and small holdings in Russia, Poland, Germany, Austria-Hungary, Italy, Ireland, Scandinavia, to the mines and factories and workshops of New York, Chicago, Pittsburgh, Cleveland, Detroit. It was the first time in history that really large numbers of ordinary people were given the chance to exercise a choice about their livelihood and destiny, and to move, not as a member of a tribe or a conscript soldier, but as free individuals, selling their labour in the open market.

**A New Freedom**

They voted for industrial capitalism with their feet not only because they felt in their bones that it meant a modest prosperity for their children and grandchildren—and on the whole they have been proved abundantly right—but because they knew it meant a new degree of freedom for themselves.

Indeed, the success of industrialisation, despite all its evils, continues to persuade countless ordinary men and women, all over the world, to escape the poverty and restraints of rural status-society and to enter the free labour markets of the towns. Hence the growth of the megalopolises all over the world—Calcutta and Bombay, Teheran and Caracas, Mexico City and Djakarta, Shanghai and Lagos, Cairo and Johannesburg; there are now literally scores of million-plus cities all over the Third World.

This never-ending one-way flow from countryside to city is plainly a voluntary mass choice, for most governments fear and resent it and many are attempting, sometimes savagely but always ineffectively, to halt or reverse it. It is more marked in the free market economies, but it is marked everywhere. Short of evacuating the cities by force and terror, as is now apparently being practiced in parts of southeast Asia, there is no way to stop this human flood. There seems to be an almost irresistible urge in human beings to move away from the status society to contractual individualism—the central feature of industrial capitalism. And this operates even in totalitarian societies, as witness the efforts, for instance, of the Chinese and Polish governments to limit the urban explosions they are experiencing.

Well, then, if industrial capitalism is both unique in its wealth-pro-
ducing capacity, and also has the endorsement of a popular mandate, why is it under threat? And who is threatening it?

Losing the Intellectual and Moral Battle

Let me look at five principal elements. The first, and in some ways the most important, is that the free enterprise idea is losing, if it has not already lost, the intellectual and moral battle. Not long ago I went into Blackwell’s, the great book shop at Oxford University. I wandered over the huge room which houses the books on politics and economics, and having been disagreeably surprised by what I saw there, I made a rough calculation. New books extolling the economic, social and moral virtues of Communism and collectivism—and there were literally hundreds and hundreds from all over the world—outnumbered books defending free enterprise, or merely seeking to take an objective view of the argument, by between five and six to one. Now this overwhelming predominance of collectivism was not due to any sinister policy on the part of Messrs. Blackwell’s, which is a highly efficient capitalist enterprise. It was a marketing response to demand, on the part of students and teachers. And this was Oxford University, not one of the new slum universities of recent years, some of which have been virtually shanghaied by Marxist factions, but one of the free world’s greatest centres of learning, where the battle of ideas is fought under the best possible conditions.

There can be no doubt that the intellectual and moral assault on free enterprise, and the exaltation of Marxist collectivism, which is such a striking feature of the 1970s, is directly related to the huge expansion of higher education, put through at such cost to the capitalist economies, in the 1960s. Now there is in this a huge and tragic irony.

For in the 1950s, the decade when the university expansion was planned, it was the prevailing wisdom among the leading thinkers of the West, that the growth of higher education was directly productive of industrial growth—that the more university graduates we turned out, the faster the GNPs of the West would rise. This was the thesis outlined by President Clark Kerr of Berkeley, in his 1963 Godkin lectures at Harvard, and it was a thesis put forward, with immense effect in Britain, by Sir Charles, now Lord Snow. Kerr said: “What the railroads did for the second half of the last century, and the automobile for the first half of this century, may be done for the second half of the 20th century by the knowledge industry: that is, to serve as the focal point for national growth.” And Kerr added that more graduates would not only
mean a bigger GNP but act as a reinforcement for middle class democracy, with all its freedoms.

**Anticapitalism**

Now to speak of the "knowledge industry" was to ask for trouble. Knowledge is not a manufactured commodity. There is knowledge for good and knowledge for evil, as the Book of Genesis says. The 1960s, during which most Western nations doubled, and in some cases trebled, their university places, did not reinforce democratic freedoms, or enlarge the GNP or strengthen the free enterprise system. They produced the students' revolts, beginning in Paris in 1968; they detonated the Northern Ireland conflict, which is still harassing Britain. They produced the Baader-Meinhoff Gang in West Germany, the Red Brigade in Italy, the Left Fascist terrorism of Japan. They produced an enormous explosion of Marxist studies, centered around the social sciences and especially sociology and a new generation of university teachers and school teachers, dedicated by faith and by a sort of perverted religious piety, to the spread of Marxist ideas.

There are ironies within the general irony. Thus, the new university of the air, created in Britain at enormous expense to bring higher education to adults, and therefore christened the Open University, sometimes gives the impression that it has become a centre virtually closed to any teacher not of proven Marxist opinion. Nuffield College, Oxford, founded by that great capitalist pioneer, Lord Nuffield, who created the British automobile industry, has become a centre of trade union ideology, of the very ideas which, slowly but surely, are putting the British automobile industry out of world markets and out of business. Warwick University, created in the 1960s as a powerhouse of ideas and clever graduate executives for the West Midlands industrial complex, Britain's biggest, has often turned out Marxist and pseudo-Marxist agitators dedicated to the destruction of the wealth-producing machine which brought their university into existence.

I could go on. It is true, of course, that student unrest, as such, has quieted down. But the steady diffusion of ideas hostile to our free system continues remorselessly. Industrial capitalism, and the free market system, is presented as destructive of human happiness, corrupt, immoral, wasteful, inefficient and above all, doomed. Collectivism is presented as the only way out compatible with the dignity of the human spirit and the future of our race. The expanded university threatens to become not the powerhouse of Western individualism and enterprise, but its graveyard.
The Ecological Panic

There is a second threat, what I call in my book the "Ecological Panic." Now this movement, again, began with the best intentions. I well remember when Rachel Carson's work, The Silent Spring, first appeared in The New Yorker, and the surprise and concern it rightly aroused. We were tending to ignore some of the destructive side effects of very rapid industrial expansion. The wave of concern that followed was justified, and the steps then taken, notably the clean air policies, and the policies for cleansing lakes and waterways have been spectacularly successful. Thanks to smokeless fuel, London fogs, which were real killers, have been virtually eliminated. The last really serious London fog was in 1952. The Thames is now cleaner, and has greater quantities of fish, and more varieties in it, than at any time since before the days of Spenser or Shakespeare. Similar successes are now being registered in the U.S., which adopted such legally enforceable remedies somewhat later than Britain did. These are examples of what can be done by thoughtful, unemotional, systematic and scientifically justified application of conservation and anti-pollution policies.

But most of these were put in hand before the ecological panic started. Once ecology became a fashionable good cause, as it did in the late 1960s, reason, logic and proportion flew out of the window. It became a campaign not against pollution, but against growth itself, and especially against free enterprise growth—totalitarian Communist growth was somehow less morally offensive. I beg those of you who have not already read it to get a copy of Professor Wilfred Beckerman's In Defence of Economic Growth. Beckerman is one of the best of our economists, and was a member of the Royal Commission on Environmental Pollution; he knows the subject better perhaps than any other working economist and his book is a wonderfully sane and lucid summary of the entire subject.

Substitutes for Religion

I have never yet been able to persuade any committed ecology campaigner even to look at this book. Of course not. They have a faith, and they do not want to risk it. One of the most important developments of our time (I would argue) is the growth, as a consequence of the rapid decline of Christianity, of irrationalist substitutes for it. These are not necessarily religious, or even quasi-religious. Often they are pseudoscientific in form, as for instance the weird philosophy of the late Teilhard de Chardin. The ecology panic is another example. It is akin to the salvation panic of 16th
century Calvinism. As I say in my book, when you expel the priest, you do not inaugurate the age of reason—you get the witchdoctor. But whereas Calvinist salvation panic may have contributed to the rise of capitalism, the ecology panic could be the death of it.

If the restrictions now imposed on industrial development had operated in 18th century England, the industrial revolution could not have taken place. It would in effect have been inhibited by law—as of course many landowners of the day wished it to be—and in any event legal requirements would have eliminated the very modest profits by which it originally financed itself. We would still be existing at 18th century living standards, and wallowing in 18th century levels of pollution, which were infinitely worse than anything we experience today—if you want to see what they were like, visit the slums of Calcutta or Djakarta.

As it is, the ecology panic has been a potent destructive force. The panic mongers played a crucial role in persuading the Middle Eastern oil producers, especially Iran, to quadruple the price of oil in the autumn of 1973, the biggest single blow industrial capitalism has suffered since the Wall Street crash of 1929. That was the beginning of the profound recession from which we have not yet emerged. In the end, as was foreseeable at the time, the huge rise in oil prices did not do anyone any good, least of all the oil producers. But it ended the great postwar boom and robbed Western capitalism of its tremendous elan, perhaps for good. As Browning put it, "Never glad confident morning again." And it is significant that the ecological lobby is now striving desperately with fanatic vigor and persistence, to prevent the development of nuclear energy, allegedly on the grounds of safety.

**Nuclear Power**

Now it is a fact, a very remarkable fact in my view, that throughout the West (we have no figures for Russia or China) the nuclear power industry is the only industry, the only industry, which over 30 years has contrived to avoid a single fatal industrial accident. Its record is unique, and has been achieved by the efforts of the industry itself, and the responsible governments, without any assistance from the ecolobby. But of course they would like a few fatal accidents. That would suit their purposes very well.

In Britain recently, we had a long, public enquiry, what we call a statutory enquiry, into whether or not it was right to go ahead with the enriched uranium plant at Windscale. The enquiry was a model of its kind. The ecolobby marshalled all the scientific experts and evi-
dence they could lay their hands on. At the end the verdict was that there was no reason whatever why the program should not proceed. Did the ecolobby accept the verdict? On the contrary. They immediately organised a mass demonstration, and are planning various legal and illegal activities to halt the program by force. Now it is notable that a leading figure in this campaign is the man who is perhaps Britain's leading Communist trade unionist, Mr. Arthur Scargill of the Mineworkers. He has never, so far as we know, campaigned against Soviet nuclear programs, peaceful or otherwise. But the mass of the movement, in the U.S., Britain, France, Germany, and Italy, so far as I have been able to observe, is not politically motivated. They are simply irrational: but irrationality is an enemy of civilised society, and it can be, and is being exploited by the politically interested.

The Growth of Government

A third factor in the future of capitalism is the growth of government. Let me put it this way. Industrial capitalism, or rather the free enterprise economy, and Big Government, are natural and probably irreconcilable enemies. It is no accident that the industrial revolution took place in late 18th century England. It was a period of minimum government. Of all the periods of English history, indeed of European history, it was the time when government was least conspicuous and active. It was the age, very short alas, of the Night Watchman state. As a matter of fact, the industrial revolution—perhaps the most important single event in human history—seems to have occurred without the English government even noticing. By the time they did it was too late; happily—otherwise they would probably have stopped it.

It is almost inevitable that government, particularly an active, interventionist government, should view free enterprise with a degree of hostility, since it constitutes a countervailing power in the state. The tendency, then, is to cut free enterprise down to size, and this may be done in a number of ways. In the U.S. the characteristic technique is government regulation and legal harassment, and this of course has been far more pervasive and strident since the ecolobby swung into action. In Britain the technique is both through direct assault—nationalization—and slow starvation. In a way, nationalization is ineffective, since it allows the public to make comparisons between the performance of the nationalized sector and that of the free sector—nearly always to the latter's advantage. Starvation is more insidious. By this I mean the progressive transfer, by taxation and other gov-
ernment policies, of resources from the private to the public sector.

**The Starvation Technique**

In 1955, for instance, public expenditure in Britain as a proportion of GNP was just over forty per cent. By 1975, twenty years later, it has risen to nearly sixty per cent. Moreover, this rise was accompanied by a record budget deficit of about 22 billion dollars, itself a further 11\(\frac{1}{2}\)% of GNP. Of course, the taxation had to be provided, and the deficit serviced, by the private sector. We have, then, an Old Man of the Sea relationship, in which the parasitical Old Man is growing bigger, and poor Sinbad smaller, all the time. The shrinking productive sector has to carry the burden of an ever-expanding loss-making public sector. Thus Britain's nationalized steel industry will lose one billion dollars this year, and it has just been authorized by statute to borrow up to seven billion dollars, guaranteed by government and taxpayer. Now the interesting thing is that in Britain the private sector, and the civil service, generally, are now paying higher wages, providing better conditions, and giving larger pensions—which in a growing number of cases are index-linked, and so inflation-proof—than the private sector can possibly afford. And of course they are financing these goodies out of tax-guaranteed deficits—that is, from the dwindling profits of the private sector. This is what I call the starvation technique. When a private firm goes bust, provided it is big enough, the state takes over, the losses are added to the taxpayer's bill, and the private sector has one more expensive passenger to carry. This is the starvation method.

**Trade Union Disruption**

In this technique, the fourth factor, the trade unions, play an important part. In Britain it is demonstrably true that the legal privileges of the trade unions, which virtually exempt them from any kind of action for damages (including, now, libel), lead directly to restrictive practices, over-manning, low productivity, low investment, low wages and low profits. Thus trades union action tends, in itself, to undermine the performance of industrial capitalism as a wealth-creating system. In Britain, for instance, the trade unions can rightly claim that capitalism is inefficient, because they make sure it is inefficient. Ford workers in Britain, using exactly the same assembly line machinery as in West Germany, produce between 20% and 50% fewer automobiles. ICI chemicals, one of the best companies in Britain, nevertheless has a productivity performance 25% lower than its Dutch and German competitors. A recent
analysis shows this is entirely due to over-manning and restrictive practices.

The private sector is now threatened by two further union devices: the legally-enforced closed shop, which compels the workforce to join designated unions on pain of dismissal without compensation or legal redress; and new plans to force firms to appoint up to 50% worker directors, these worker directors to be appointed not by the workforce themselves, nor even necessarily from among them, but by and from the trade union bureaucracy (Bullock Report). This has to be seen against the explicit policy of some groups within the unions of driving private sector firms to bankruptcy, by strikes and harassment, so that the state will then have to take them into the public sector.

Follow the Leader?

Of course I don't want to make your flesh creep by arguing that what is happening in Britain will necessarily happen elsewhere. But certainly if the bill now before the Senate giving unions much wider and more effective powers to organize goes through, the U.S. will be well launched on the road we have travelled; and I may say there are many other ways in which the present U.S. administration seemed determined to follow Britain's example. The West Germans, too, are now beginning to adopt some of the institutions which flourish in British trades unionism, notably the shop stewards' movement. Businessmen all over the free world may despise the performance of British industry, but trades unionists all over the world admire and envy the power of British trades unionists and are actively seeking to acquire it for themselves.

The Communist Threat

Let me end on a word of warning. I have said nothing of the fifth threat on industrial capitalism and the free enterprise system—the threat from without. But of course this is bound to increase as the military superiority of the Soviet Union over the U.S. is reinforced. I have never thought that the Communist system would triumph by a direct assault. I have always assumed that it would first establish an overwhelming military predominance and then, by pressure and threats, begin to draw the political and economic dividends of it. If the U.S. opts out of the competitive arms race with the Soviet Union, while providing, as she supposes, merely for her own defence, then we must expect to see this fifth threat hard at work winding up industrial capitalism and free enterprise all over the world.

Thus, when we ask HAS CAPITALISM A FUTURE? I answer: it all depends on the U.S. West Ger-
many and Japan, it is true, have strong free enterprise economies; they also have a tradition of state capitalism, and would adapt themselves with surprising speed and readiness to a new collective order. France already has a huge public sector and a long tradition of dirigisme or etatisme. All three are Janus-faced. Britain, I believe, is profoundly anti-collective and will remain so if it continues to be given the choice. But its private enterprise system is now very weak, and its business and financial elites are demoralised and defeatist.

Is there demoralisation, is there defeatism, on this side of the Atlantic? You can answer that question better than I can. I myself think that capitalism will survive, because of its enormous intrinsic virtues as a system for generating wealth, and promoting freedom. But those who man and control it must stop apologizing and go onto the ideological offensive. They must show to ordinary people that both the Communist world, and the third world, are parasitical upon industrial capitalism for their growth technology. That without capitalism, the 200 years of unprecedented growth which have created the modern world, would gradually come to an end. We would have slow growth, then nil growth, then minus growth; and then the Malthusian catastrophe.

In short, those who wish to maintain the capitalist system must endeavour to teach the world a little history, and remind it, and especially the young, that though man's achievements are great they are never as solid as they look. If man makes the wrong choice, there is always another Dark Age waiting for him round the corner of time.

A Self-Sustaining Population

A system for the support of indigent persons in the United States was never contemplated by the authors of the Constitution; nor can any good reason be advanced why, as a permanent establishment, it should be founded for one class or color of our people more than another. Pending the war many refugees and freedmen received support from the Government, but it was never intended that they should thenceforth be fed, clothed, educated, and sheltered by the United States. The idea on which the slaves were assisted to freedom was that on becoming free they would be a self-sustaining population. Any legislation that shall imply that they are not expected to attain a self-sustaining condition must have a tendency injurious alike to their character and their prospects.

ANDREW JOHNSON
In Defense of States’ Rights

States’ Rights are usually associated with the name of Thomas Jefferson, who distrusted the centralizing tendencies that eventually put his favored yeoman farmer at the mercy of big cities. But Jefferson himself, when he was entrusted with the presidency of the newly federated republic, did more to hurt his doctrine than he did to help it.

The whole story is encrusted with a tremendous irony—and there were two Virginians of Jefferson’s day who caught the irony even as the drama was being played out. One of the mordantly skeptical Virginians was John Randolph of Roanoke; the other was John Taylor of Caroline. Randolph is the subject of Russell Kirk’s John Randolph of Roanoke: A Study in American Politics, which has just been issued in a new edition with an enlarged appendices collection of letters and speeches. Taylor, a slightly less acidulous figure than Randolph, is treated as “a Virginia Cato” in a short but pertinent biographical introduction provided by M. E. Bradford for a new edition of Taylor’s Arator.

As members of the Tertium Quids, or Old Republicans, both Randolph and Taylor believed that the federal Constitution was “a law to limit law.” As the strictest of strict constructionists, they were made uncomfortable by the behavior of the Virginia Dynasty—Jefferson, Madison, Monroe—in the era that included a stupid second war with Great Britain and the beginnings of the opening of the West.

The Louisiana Purchase, which endowed the young American re-
public with a huge trans-Mississippi area reaching well towards the Pacific Northwest, had no validating warrant in the Constitution, but Jefferson could not resist the opportunity for a glittering deal—and there are probably few today who would condemn him for his subordination of strict constructionist purity to an enlightened expediency. In the only act of his political career that might be termed an inconsistency, John Randolph of Roanoke defended Jefferson's purchase in the House of Representatives. Later, Randolph admitted the purchase was a severe blow to constitutional precedent. It helped establish the "imperial presidency."

**Foreign Entanglements**

Kirk is inclined to excuse Randolph for what could be called his one serious departure from principle. Part of Randolph's program as a Tertium Quid leader was to keep America aloof from foreign quarrels. By getting control of the mouth of the Mississippi through the Louisiana Purchase, Jefferson removed a dangerous foreign neighbor who might otherwise have menaced Kentucky, Tennessee and the territory north of the Ohio. So it could be said that the Purchase was a guarantee that the "good old thirteen United States" (Randolph's phrase) east of the Appalachians would not have to maintain a big military force to defend Western lands. This would be a plus towards keeping the central government weak and so help the States' Rights cause.

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**John Randolph of Roanoke: A Study in American Politics**
by Russell Kirk, 588 pages.
$9.00 hardcover; $3.50 paperback.

**Arator** by John Taylor
Edited and with an introduction by M. E. Bradford, 385 pages, $9.00 hardcover; $3.00 paperback. Both of these books are published by and may be ordered directly from Liberty Press/Liberty Classics
7440 North Shadeland
Indianapolis, Indiana 46250

Whether sophistical or not, the argument did nothing to keep Jefferson and Madison from becoming embroiled in the foreign quarrels of the Napoleonic period. Not content with the new Louisiana territories, the War Hawks of 1812 thought of seizing Canada. Always logical, John Randolph sided with the New England states in opposing both the Jefferson Embargo and the War of 1812 itself. Before the Embargo and the war, maritime Massachusetts and the agricultural south still maintained something of a reciprocal relationship. The farmers could
sell abroad and use the money they received to purchase goods brought to America in Massachusetts ships. But with the coming of the war, the fledgling United States felt really impelled to take Alexander Hamilton's advice and subsidize local manufacturers. The cost of the subsidy, paid for by tariffs, had necessarily to be taken out of the agricultural interest in higher prices.

Agricultural Decline in the Early Nineteenth Century

Even before the triumph of Hamilton both Randolph and Taylor knew what was coming. Taylor's *Arator* quotes liberally from an English visitor named Strickland, who noticed as early as 1801 that the plantation system of Virginia was in a visible state of decay. The old houses in the tidewater country were falling apart. "Before the revolution," said Strickland, "the capital of the country was vested in the lands, and the landed proprietors held the first rank in the country for opulence and information, and in general received the best education which America, and not unfrequently, Europe, could afford them." But by 1801 capital was "flying from the fields, to the legal monopolies, banking and manufacturing ... bribes offered to ... deserters have already produced the most ruinous consequences. Avarice everywhere seizes them with avidity, and rails at agriculture, as sordid and unpatriotic. . . ."

Randolph was inclined to put the blame for agricultural decay on the Jeffersonian repeal of the laws of primogeniture and entail, which had historically kept big plantations under the control of favored eldest sons. Taylor, though he blamed the Hamiltonian spirit for the decline of the planter class, was realistic enough to note the failure of the big planters to restore fertility, by scientific manuring, to lands worn out by excessive reliance on the cash crop of tobacco. Much of his *Arator* is given over to a learned discussion of proper manuring.

The spirit of the times, of course, was against the Tertium Quid philosophy. The West, with its untried fields, beckoned to both elder and younger sons. With or without the War of 1812, the United States, with its plethora of natural resources, would have become the home of modern industry. The tariff often distorted the pattern of growth—but even without a subsidy the Americans would have built factories to utilize Minnesota iron ore and Pennsylvania coking coal.

Weakening the Constitution

Neither Randolph nor Taylor liked slavery. But they insisted that the Constitution—the "law to limit law"—made a centrally directed emancipation of slaves illegal. The
Civil War, which came as firebrands elaborated on the Randolph-Taylor strict construction principles, ended in disaster for everything that Randolph held dear. Emancipation did not result in a bloody uprising, as Randolph and Taylor feared it would. But the decline of States' rights has had its many deleterious results as Randolph predicted.

The loose construction of the Constitution that was started by Jefferson's decision to buy the Louisiana territory has extended to the most tortuous twisting of the Commerce and General Welfare clauses to justify practically anything that a centralized Washington government desires to do. If the strict constructionists had been followed, our welfare bureaucracy would never have become entrenched. Nor would our gas deregulators have dared tell Texas and Oklahoma what they must do with gas inside their own borders.

It is sad that the slavery issue distorted everything. For, as Russell Kirk says, quoting Randolph, "change is not reform." Not in all cases anyway.

THE CRITICS OF KEYNESIAN ECONOMICS
by Henry Hazlitt
(Arlington House, New Rochelle, N.Y. 10801)
427 pages • $11.00

Reviewed by Ronald J. Berkheimer

Keynes wrote The General Theory of Employment, Interest and Money in 1936. It was a difficult book, confusing and even sometimes contradictory, but its central message was clear: The solution to unemployment and depression is increased government spending.

Such a theory is irresistible to most politicians and Keynesianism achieved widespread acceptance, providing a rationale for the New Deal. The Keynesian program failed to solve the United States unemployment problem in the thirties, but the theory was the basis for the Full Employment Act of 1946 and, despite increasing criticism, it still surfaces in efforts like the Humphrey-Hawkins bill.

The ultimate refutation of Keynesianism may be Henry Hazlitt's The Failure of the New Economics (1959). But, as a byproduct of the research which preceded his writing that book, Hazlitt has come out with some excellent supplementary reading in his companion
volume, *The Critics of Keynesian Economics*. First published in 1960, it has been reprinted with a new preface and made an alternative Conservative Book Club selection.

Hazlitt has collected criticism of Keynesianism by twenty-two writers, including some of the best known free market economists. It is fortunate that their comments are thus saved for current students and for history, because each has something instructive to say about the theories which have created more furor than anything since Marx—to borrow an expression from one of them. There is considerable range in the rigor of these analyses, and both the lay reader and serious student of economics will find articles at their level of understanding.

Contributors to this volume are men like Mises, Hayek, Roepke, Rueff, Knight and Hahn. When they are done, Keynes' theory is in complete disarray. Even so, Keynes still has his advocates, for as Mises ruefully observes, "There is no use arguing with people who are driven by an almost religious fervor and believe that their master had the Revelation."

But the general public is gradually becoming aware that years of deficit budgets have not created "full employment" and that unemployment, distressing as it is, affects relatively few people, while inflation hurts everyone.

A bill requiring the federal budget to be balanced by the year 1981 was even passed by the Senate this summer. While this may have been temporizing, a similar proposal involving a constitutional amendment has currently been passed by twenty-two state legislatures and needs only twelve more to bypass Congress and the President and bring the amendment back to the legislatures for final approval.

If and when this happens, it will perhaps be the most significant development in political economics since *The Wealth of Nations* appeared two hundred years ago, and Keynesianism will be officially dead, at least in the United States.
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Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.
Beyond Supply and Demand—

The Psychology of Inflation

When Alexander Solzhenitsyn declared in his Harvard commencement address that neither diplomacy nor military strength could abolish the danger posed by the Soviet Union, and that only a reinvigoration of moral and spiritual character would be effective in the struggle with Communism, he caused quite a commotion. To his critique of the West as weak and cowardly came a barrage of denunciations, from such varied sources as Mrs. Rosalynn Carter and The New York Times. The Times editors called him “obsessed” and summarized their view in this way:

At bottom, it is the argument between religious Enthusiasts, sure of their relationship to the Divine Will, and the men of the Enlightenment, trusting in the rationality of humankind.

Indeed, the editors of the Times had gone to the root of the issue. For Solzhenitsyn is a religious believer, sure that the Divine Will has revealed certain moral absolutes through the Judeo-Christian tradition, and convinced that they are being eroded—and that in the process our society is crumbling.

Though Solzhenitsyn’s remarks were directed primarily at U. S. foreign policy and the international conflict with Communism, they have profound implications for domestic issues, including the economic. The failings he pointed

Mr. Wolfe is a student at Hillsdale College in Michigan. This article constitutes his award-winning entry in the 1978 “Ludwig von Mises Memorial Essay Contest—The Political Economy of Inflation: Government and Money” sponsored by the Intercollegiate Studies Institute.
out—worship of material well-being, the placing of human "rights" over human obligations, the loss of personal responsibility, and the willingness to sacrifice for the common good—all are intimately connected with our economic problems, and particularly with the phenomenon known as inflation.

From the viewpoint of economics per se, inflation is readily defined: it is the governmental increase in the quantity of money and credit—an increase which has in this century far exceeded the growth in the production of goods and services. But what are the ultimate reasons why the government increases the money supply in this way? It is the contention of this essay that these reasons are directly related to the moral and spiritual failings which Solzhenitsyn discerns in the American people.

One of the great economists of our time who would have been sympathetic with that view is Wilhelm Roepke, a man with some kinship to Solzhenitsyn, both in his courage and beliefs. In his book, *A Humane Economy*, Roepke said of our age of inflation:

... it is the acute stage of a chronic pathological process fed by forces which are now permanently operative, and as such, it is not susceptible to any quick or lasting cure. The inflation of our time is intimately connected with some of its most obdurate ideas, forces, postulates, and institutions and can be overcome only by influencing these profound causes and conditions. It is not just a disorder of the monetary system which can be left to financial experts to redress, it is a moral disease, a disorder of society. This inflation, too, belongs to the things which can be understood and remedied only in the area beyond supply and demand.

**A Spiritual Illness**

Believing with Roepke that inflation is not just a disorder of the monetary system but a moral disease and ultimately a spiritual illness, we will seek here to examine this fundamental problem—to analyze the psychology of inflation. Psychology is used here in the classical sense, that of Plato and Aristotle, to mean the understanding of the order of the soul. And if, as Plato said, society is "man writ large," then inflation will only be properly understood and possible solutions arrived at through a knowledge of man's moral and spiritual disorders which cause him to constantly increase the quantity of money, and thus decrease its value.

The term "psychology of inflation" is usually connected with the attitudes of anticipation that cause workers to fight for wage increases large enough to cope with future increases in the cost of living, that cause management to set prices high enough to maintain profits despite increases in future costs—as
well as those attitudes that cause consumers to buy more or less than they ordinarily would because of their expectations about what is happening, and what will happen, to the value of their money. But this approach to the psychology of inflation assumes a long and continuous period of inflation that will go on indefinitely in the future; it is based on inflation as a "given." Our concern here is with the non-economic causes of inflation, and in particular the moral problems that prompt government to increase the quantity of money.

Some observers emphasize the moral problem of greedy citizens who clamor for more government services but are unwilling to pay higher taxes. Others point an accusing finger at selfish workers who want higher wages without increasing production. Still others indict unprincipled politicians who try to win elections by appearing to give the people more benefits without charging them more. To some commentators the moral problem centers around the hubris of intellectual planners who believe themselves capable of manipulating the money supply better than the "invisible hand" of the market place.

One thing is certain: inflation is the economy's reaction to a whole range of questionable human desires and actions which place such a strain upon the economy's resources that its money is debased. As Roepke put it:

If any man should continually sin against all the rules of reasonable living, some organ of his body will slowly but surely suffer from the accumulation of his mistakes; the economy, too, has a very sensitive organ of this kind. The organ is money; it softens and yields, and its softening is what we call inflation, a dilatation of money, as it were, a managerial disease of the economy.

It is the "sin against all the rules of reasonable living" that is, at bottom, the cause of inflation.

The Welfare State

That inflation is closely related to the emergence of the welfare state in the middle decades of this century seems almost self-evident. From the Presidency of Franklin Roosevelt and the time of the Depression (which resulted, incidentally, in large part from the Federal Reserve's gross mismanagement of the money supply) government has expanded enormously into the realm of "social welfare" with such programs as Social Security, welfare payments, unemployment insurance, Medicare and Veterans' payments. Though the Federal budget has mushroomed, taxes have not gone up enough to fully compensate and the result has been repeated deficit budgets. To fill the gap between what is taken in and what is paid out the federal government has
created fiat money—through the printing press and credit expansion—which is inflation.

What are the root moral and spiritual causes that have been responsible for the tremendous growth of the welfare state—a government virtually obliged to spend more than it takes in?

As various scholars have pointed out, since the time of the Renaissance men have exhibited an increasing confidence in their ability to control nature and society, to produce endless progress, and to equalize economic well-being. The philosophers of the Enlightenment preached the great power of man and his rationality as a kind of ersatz religion in place of the Judeo-Christian heritage, and with the advent of modern technology it actually seemed as if man could create a heaven on earth.

At the same time, as the Industrial Revolution created a more complex economy, people could no longer observe many basic economic phenomena with their own eyes. Modern man has become increasingly cut off from a knowledge of scarcity because of the great prosperity he has enjoyed; living in a complex urban society he has lost sight of the relationship between production and consumption, effort and reward. Promoters of the welfare state have even led him to believe that government was a creator of wealth, and could bestow it on the deserving—if they insisted on getting their due.

Simultaneously, there has been a great decline in ethical instruction and character training in this century—especially in our schools. What Richard Weaver termed the "spoiled child psychology" has emerged. In his powerful little book, *Ideas Have Consequences*, Weaver spoke of modern man as a spoiled child.

The scientists have given him the impression that there is nothing he cannot know, and false propagandists have told him that there is nothing he cannot have. Since the prime object of the latter is to appease, he has received concessions at enough points to think that he may obtain what he wishes through complaints and demands. This is but another phase of the rule of desire.

Having been cut off from his religious faith, or having forgotten its moral implications as they apply to his responsibilities as a citizen, modern man has little or nothing to act as a curb on his appetite. In the past half century government has acted as man's benefactor in the name of compassion and humanitarianism, assuring men that their appetites are legitimate and that government can gratify them. In reality, however, government has nothing to give some but what it takes from others.

The relatively recent character
changes which have caused the growth of the welfare state, and in turn, which have been encouraged by it, have been noted in studies made by the scholarly research firm of Yankelovich, Skelly and White. As a result of interviewing hundreds of thousands of Americans over the past 30 years, these researchers have discovered three basic changes in modern attitudes which have taken place in a single generation: a loss of autonomy (dependency), focus on self (personalized morality), and the psychology of entitlement (parentalism).

The Consumer View

For centuries it was each man's goal to become self-sufficient and self-supporting—that is, for himself and his family. Knowing that if he did not work he would die, his efforts were vigorously directed toward production. Modern man, deluded that abundance is automatic—a fact of life—and driven by his unchecked appetite, is no longer concerned with his role as producer. In fact, attitude research concerning the contemporary American's economic perceptions shows that he views himself almost entirely as a consumer. Thus we have a citizen whose self-image focuses on his activities in getting and using money and goods, and who is no longer guided or disciplined by objective moral standards. Understandably, he feels himself entitled to the money and services that Big Brother concedes and even gladly offers him. And power-seeking politicians, eager to get elected, are correspondingly happy to promise the citizen these things—even if it means creating a socialist system with deficit budgets financed by inflation.

Inevitably the inflation gets out of hand and the intervening politician has no answer but controls. Weaver comments:

What happens finally is that socialism, whose goal is materialism, meets the condition by turning authoritarian; that is to say, it is willing to institute control by dictation in order... not to disappoint the consumptive soul. In the end, then, freedom is lost. The passions of the consumptive soul will, as Burke said, forge his fetters.

Another major cause of inflation is institutional interventions by government and labor unions in setting wage rates, combined with a government policy of "full employment."

Through legislating an arbitrary minimum wage—deliberately higher than free market rates—government disemploys the least qualified job seekers, those unable to produce enough to justify that wage. Labor unions, because they have been granted monopolistic and coercive privileges by government, can force wages higher still, and in turn, oblige companies to raise their
prices to levels which consumers will not pay. This would create widespread unemployment if government did not intervene by further increasing the quantity of money—to put more dollars in consumers’ pockets, and thus enable them to buy the overpriced goods. The astute labor union leader realizes that this governmental action in effect lowers the wage increases he has gained, and so he in turn puts pressure for another round of wage raises. Under the Full Employment Act government is virtually obliged to further increase the money supply—since politicians find that “jawboning” fails to hold down wages (or prices) and they are unwilling to repeal the labor legislation that prevents the market from determining wage rates.

Inflexible Wage Demands

Above and beyond these “institutional” interventions by government and labor unions, there is still another artificial pressure that tends to push wages above market rates: each person’s exaggerated idea of his own worth, combined with the pervasive notion that wages may go up—but never go down. To many an American employee, the idea that his wage might reasonably go down, even if he has become less productive or market conditions affecting his employability have changed, is almost unthinkable. To some extent this reveals unawareness of how the market operates. It also indicates that people now have a viable alternative to working: collecting unemployment insurance. And it suggests that the concept of sacrifice and self-discipline in adjusting one’s living standard to the circumstances of life has largely been lost.

What produces this array of pressures—from minimum wage legislation, monopolistic unions and unenlightened public opinion? A combination of economic misconceptions, short-sighted workers, the political power of unions, and a kind of maudlin sympathy on the part of many bystanders who may not personally benefit from artificially high wages but urge them out of a love for “humanity” in the abstract. And all these pressures are permitted to operate because government officials, under the influence of Keynesian ideas, hope to secretly lower real wages through inflation to prevent widespread unemployment.

Another category of moral and psychological problems is implicit in the philosophy and policy behind government manipulation of the money supply—a modern day incarnation of the Renaissance conceit that man, through his rational powers, can control nature, society and even the economy, and that unless man steps in, everything will fall apart. Adopting a policy of interven-
tion, government planners have aimed at "stimulating" the economy through fiscal expansion and have attempted a "fine tuning" of the economy in the name of "economic balance."

**Fine-Tuning the Economy**

All this has been undertaken in the belief that the market place, if left alone, is unable to bring stability and growth and is susceptible to the "boom and bust" cycle. As if the economy were an ill patient, whose body could not regulate itself, government's "doctors" have sought to stimulate or heat up a "cold" economy by fiscal expansion and cool down an "overheated" economy by fiscal contraction, thus creating the boom and bust cycle for which capitalism is blamed. The results have been uncontrolled double-digit inflation and recession. The fine tuners have discovered that instead of "balance," they have only that curious combination of stagnation and inflation known as "stagflation."

Those who believe they can centrally plan and control the economy have made us all victims of their vanity: they are, in effect, setting themselves up as little gods over the economy—and the population. They attempt to balance an economy which they have upset by their interventions, and only manage to add further to the problem. As F. A. Hayek has pointed out, market prices are uniquely capable of assimilating all the millions of bits of information that allow business to operate smoothly. The interventionists possess very limited information and are essentially tinkering with an economy they know not how to control or to improve. These policies betray an acute lack of belief in true and enduring principles of economics—principles which have the sanction of morality and common sense.

Though government directly intervened to stimulate the economy, and Keynesian economists are responsible for giving government's actions an appearance of intellectual sanction, both business and organized labor must share some of the responsibility. Union leaders will urge inflationary measures to keep their overpriced members employed, and businessmen may join them because a stimulated economy puts more dollars in consumers' pockets and can mean larger sales and higher profits in the short term. Both the union and the business leader suffer from unawareness or rejection of Henry Hazlitt's basic lesson: an economic policy must be evaluated for its effects on the whole population in the long term rather than on a limited sector in the short term. This holds true for all those who clamor for special interest legislation, welfare, and so on. The desire for immediate gratifi-
cation instead of looking to what is best for everyone over a period of time has been a major cause of inflation—governmental increase in the quantity of money and credit.

**Redeemable in Gold**

And it is here that the very question of the integrity or inviolability of money comes in—and with it the question of the gold standard. For centuries, even in the most turbulent times, money was regarded as inviolable; the notion that money could be created by fiat was put on the same level as forgery and fraud.

The gold standard has traditionally been the method by which the value of money has been anchored to something more stable and constant than the whims of governments. Making paper money redeemable in gold disciplines the politician and obliges him to severely limit the increase in the money supply. Our rejection of the gold standard, while intellectually rationalized, was really a turning away from the responsibilities and norms which this standard requires. Every society has norms by which it must live if it is not to degenerate into mere anarchy. Roepke concludes:

It is not enough that these should be laid down in constitutions; they must be so firmly lodged in the hearts and minds of men that they can withstand all onslaughts. One of the most important of these norms is the inviolability of money. Today its very foundations are shaken, and this is one of the gravest danger signals for our society and state. A return to the gold standard will only be feasible when the enduring moral values affirmed by Solzhenitsyn and others live in the hearts and minds of the American people.

Problems are comparatively easy to state—answers come a lot harder. The first step toward overcoming the failings which constitute the psychology of inflation is summed up by the Greek dictum: "know thyself."

Am I guilty of any of the "sins" that contribute to inflation? When Americans can ask and honestly answer that question, and begin to correct their faults, they will have taken a step toward the psychology of freedom and the morality of sound money.

**Wilhelm von Humboldt**

In proportion as each individual relies upon the helpful vigilance of the State, he learns to abandon to its responsibility the fate and well-being of his fellow-citizens. But the inevitable tendency of such abandonment is to deaden the living force of sympathy, and to render the natural impulse to mutual assistance inactive.
A few years ago, United Airlines ran television ads that featured the phrase, "you're the boss." Passengers in the ads were constantly being told, "you're the boss" by all the smiling actors who were portraying the United Airlines employees.

One fellow I know always made it a point to enquire on every United flight, "Who's the boss?" Invariably, there would be some confusion, and then he would announce, grinning, "I'm the boss!" He even went so far as to shout "Who's the boss?" into the pilot's compartment, and when the captain dutifully answered, "I am," my friend laughed, "No, I'm the boss." No doubt this endeared both him and the advertising agency to all the United employees who were treated to this little lesson in free market economics.

Actually, my friend is an entrepreneur himself, the owner and operator, along with his family, of America's most financially prosperous profit-making Christian day school. He is also a minister of the gospel. So when he says, "I'm the boss," he mentally qualifies the phrase with "God's the boss, and I'm only his steward." But at the same time, he knows that he, as consuming steward, is indeed the responsible boss; without his pur-

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Dr. North is editor of Biblical Economics Today, available free on request: P. O. Box 8567, Durham, N.C. 27707.
chase, the seller of goods and services forfeits the profits that might have been made on the sale. The seller who ignores this fact loses.

Who Owns What?

My friend and his family own the school and its grounds. In other words, they have legal title to it. Since it is profit-making, he has to pay local property taxes on the building and grounds. The civil government holds him liable. The government says that he's the owner, and therefore he is personally responsible for the taxes. It is only slightly ironic that the bulk of his property taxes goes to support the government school system, his zero-tuition competitor. It is also ironic that voters think that he pays the taxes; consumers of the product pay the taxes.

Since he has not incorporated his business, he is a "sole proprietor." The state and national governments therefore classify him as self-employed when they send out the income tax forms. He is the owner of the business, and therefore the tax collectors regard him as self-employed.

Yet if "he's the boss" when he buys an airline ticket, how can he also be the boss when he sells seats in his school? How can both consumer and producer be the boss? If he is self-employed, then who pays him the money for tuitions? Isn't the boss the one who pays? Aren't the parents of the students the bosses, economically speaking?

The market distinguishes between owner and employer, even if the tax collector has failed to understand the difference. The owner holds legal title to the property. The employer hires the use of all or part of the property from the owner. The employer, in effect, rents the good (including the labor time) owned by the legal owner. The truly "self-employed" person is either a hermit or bankrupt.

The buyer of a resource, or in another example, the person who rents the other person's property for a specified period of time—a seat on a plane, a seat in a classroom, or whatever—offers in exchange some valuable resource. Perhaps the exchange is a bartering of services, or even mutually borrowed tools. Or it may be a transfer of ownership, such as dollars for education. The point is this: two parties claim ownership of certain resources, over which they are legally sovereign, yet each must regard the other as the boss if he wishes to effect a mutually profitable exchange. If one man wants the use of another's asset, either on a temporary or permanent basis, the private property economy forces him to become humble concerning the asset he presently owns which he wishes to exchange for the other person's asset.
Mutual exchange therefore demands, if not emotional humility, then at least visible, demonstrated humility. The fact that a person desires the use of another person’s asset in no way destroys his own legal sovereignty over his presently owned assets. He, as a consumer, is sovereign over what he owns. But as a potential seller, his legal sovereignty enhances the other man’s sovereignty as a potential consumer. The other man has legal control over his asset, too, so that he cannot be compelled to hand it over. Each man has legal sovereignty over his own asset; each man has consumer sovereignty over his own asset; and each man must honor the other’s sovereignty, both as owner and consumer, if a mutually beneficial exchange is to take place.

**Consumer Sovereignty**

The concept of consumer sovereignty is basic to any market exchange economy. However, the phraseology has alienated some economists. One group, the interventionists, hates to use the phrase because they believe that the supposed monopoly power of the sellers of goods and services somehow shields them from the non-monopoly position of the sellers of money. They limit the use of the term “sovereignty” to the sellers of goods and services; sellers of money are somehow not sovereign. If they were to rewrite the great Pearl Bailey hit of the 1950s, they would write: “It takes one to tango,” unless the State redistributes economic power, of course.

On the other hand, there are some anarcho-capitalists who reject the language of consumer sovereignty, because they think it creates confusion in the minds of the public. They think that others will think that “consumer sovereignty” refers to an implied legal sovereignty of all potential sellers of money. In other words, some people may want to pass legislation compelling sellers of goods and services to sell to any and all people who offer money in exchange. Equal opportunity housing laws would be examples of this kind, or laws compelling hotels to rent rooms to members of minority groups. There is no such thing as legitimate legal sovereignty over the other man’s property, the anarcho-capitalists argue; you have to buy such legal sovereignty on a coercion-free market.

From a tactical point of view, the anarcho-capitalists have a good point. There is too much confusion concerning legal sovereignty and its function on a free market. Legal sovereignty provides the owner of an asset the power to use or dispose of it as he sees fit. He therefore possesses consumer sovereignty over it. This gives him the legal right to bid in the open market for other men’s
assets, using all or a portion of his assets as his competitive bid. A person who owns (controls) one asset, and who believes that he could put another asset to even better use, has the legal right to enter the market’s auction and place his bid for that other asset. Thus, in the words of W. H. Hutt, who first enunciated the concept of consumer sovereignty in the mid 1930s:

Applying this standard, we must regard property-owners as the custodians of the community’s scarce resources. The powers they possess in dealing with these resources must be regarded as delegated by them in its consumer aspect. So conceived, the system which is variously known as “private enterprise” or the “private property system” is simply one in which the task of deciding upon action in response to consumers’ will is diffused by a more or less automatic devolution throughout the community.

The key here is the idea of “deciding upon action in response to consumers’ will.” The asset owner decides what his response should be to the various offers by market participants to purchase his scarce economic resource. Should he sell? Should he rent it? Should he hold it for appreciation? Should he consume it himself now or in the future? It is his asset. He decides. But he decides within a framework of legal ownership and competitive bidding.

Other consumers have the legal right to offer their assets—over which they are sovereign as legal owners and potential consumers—in exchange for my assets, which I legally own and have the right to consume or sell or rent. Each owner therefore has two fundamental legal rights. First, he has the right to use his own assets. Second, he has the right to enter the competitive auction of the free market in order to offer his assets in exchange for other men’s assets. The idea of consumer sovereignty, properly understood, does not imply any legal right to another man’s assets. But it does imply the right to impose the costs of legal ownership on another property owner.

\textbf{The Costs of Ownership}

What are the costs of ownership? First, there is the cost of maintaining the civil government, which in turn is supposed to enforce lawful contracts, protecting men from theft, coercion, and fraud. This, of course, is denied by the anarcho-capitalists. Second, and equally important (though not fully understood by most observers), is the cost associated with holding an asset off the market. If I am offered money or assets for my property, I have to forfeit the use of those assets and that money when I decide to cling to my presently owned asset. No one should be allowed to force me to sell, but no one can or should protect me from the full opportunity costs of holding my property. If I forfeit the
use of some asset by maintaining possession of another asset, I thereby pay the market costs of ownership.

When I speak of "holding an asset off the market," I really mean refusing to sell it at present prices. No asset can be held off the market, except by concealing its existence, if by "market" we mean the right of others to bid for it. Even an asset that I cannot legally sell—my wife, for example, or some prescription drug that has been assigned by a physician for my own use—may have a market price, though a black market (illegal market) price. While it is not necessarily true that "every man has his price," it is true that every man bears the costs of saying no to whatever price another person may offer him. Even in the case of an asset which is concealed by an owner from other market participants, the owner pays a price, namely, the forfeited opportunities associated with the highest price that would have been offered had others known of its existence. The presence of a free market means that men must bear the costs of ownership.

Consumer sovereignty therefore involves the universal imposition of the full economic costs of ownership, twenty-four hours a day. No owner can escape. If he refuses to sell, he forfeits the use of whatever assets were offered to him in the giant auction by other owners. This is why ownership in a free market is truly a stewardship function. Men must make decisions in response to the offers of others. The old evangelical slogan, "no decision is nevertheless a decision," is valid when applied to market transactions, including the refusal to make a transaction. There is no escape from the responsibilities of ownership.

"I'm the Boss, Sir"

United Airlines (and the banks that have advanced the money) is the boss. The directors can decide, in the name of the owners of United Airlines stocks, whether or not to fly the airplanes. But the directors cannot make this decision at zero cost. Always before them are the competitive bids of potential paying passengers, not to mention the competitive offers of United's rivals: the other airlines, bus lines, auto rental services, used car lots, and even a few unprofitable passenger train lines (that the government forces the trains' managements to keep in service). United Airlines is the boss, for as long as the firm is making profits and not being forced into bankruptcy by management's failure to predict future consumer demand and meet it at a price consumers are willing to pay.

The same is true of all consumers. We are the bosses over our money. But if we need to get from here to
there—if we find it in our self-interest to do so—then we want others to compete for our money. We want to get there inexpensively.

*Present legal owners* therefore have assets that enable them to become *future consumers* of other people's presently held assets, *if* they offer the right price. The free market allows each potential future consumer to impose costs—stewardship costs—on any other present owner. This process reminds all owners of their responsibilities. No one can escape either the responsibilities or the costs of ownership. By keeping owners reminded of their economic responsibilities as owners, the free market auction process imposes the costs of being arrogant. Legally, owners can be arrogant in their ability to control an asset, but economically they cannot do so at zero cost. A consumer can legally maintain his sovereign ownership, but never as an autonomous being, for to be autonomous, a person must be free from the economic (scarcity) constraints of market prices and competitive bids from others. *Consumer sovereignty therefore is a denial of economic autonomy.* The market is indeed a social institution.

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**Social Harmony**

If the less productive members of a society truly seek security, let them rally to the defense of the freedom of choice and freedom of action of those who work for a living and who are personally productive. Let them voluntarily deal with one another in a market place kept free of compulsion. Such voluntary trading directs the instruments of production and the means of economic security into the hands of those most capable of serving all mankind. It promotes mutual respect for life and property. It stimulates every individual to develop his own talents to their maximum productivity. It encourages saving instead of squandering. The free market, and not its displacement by governmental controls, is the only route to the kind of personal security which makes for harmonious social relationships.

PAUL L. POIROT
What has been called "the greatest scandal in the scientific domain" in the modern era was the work of the Russian biologist Trofim D. Lysenko. This charlatan rejected the genetics of Gregor Mendel, much to the disgust of competent Russian scholars. However, with Stalin's support, he dominated the Soviet scene for decades. Many reputable Russian scientists lost their jobs, some their very lives, for even mildly resisting the fashion. On the national level this absurd theory is said to have done considerable damage to Russia's ailing agriculture.

When Khrushchev was deposed in 1964, the Lysenko era was over at last. Millions of textbooks were scrapped and a hundred thousand biology teachers were retrained. As Eugene Lyons says, "Intelligent Soviet people are frankly ashamed and embarrassed." But is there any more cause for embarrassment over this needless blunder than for what many so-called social scientists of both East and West have been doing and writing for a long, long time?

Perhaps Bertram D. Wolfe summed up the Lysenko delusion best in this brief statement: "Laws of heredity were passed by the Politburo." While we would reject with scorn any attempts to legislate the basic principles of genetics, we have left the door wide open to the same type of thinking by social engineers in charge of a multitude of experiments in every aspect of our national life. If we can't abolish the laws of Nature in the physical sciences and biology, can we do so in the social, political and economic realm? Yet we try to every day.

Perhaps one of the best examples of an attempt to beat what has long been considered a basic principle of politics and economics was the
change from silver to base-metal coinage a dozen years ago. As silver change was rapidly disappearing, there were those who reminded us that Gresham’s Law\textsuperscript{2} was operating once more. This was stoutly denied by prominent people in the national government, but were they right?

**Bad Money in History**

What is Gresham’s Law and by what authority did he proclaim it? It seems that early in the reign of “Good Queen Bess” England was much plagued with monetary problems. When Elizabeth mentioned her perplexity in the presence of her councilors, Sir Thomas Gresham expressed amazement that Her Majesty was unaware that “Bad money drives out good.” This was back in 1558, but Gresham claimed no credit for discovering what he regarded as a truism. Some forty years earlier Copernicus,\textsuperscript{3} the Polish astronomer, wrote a little essay on money which shows he was also aware of the principle. Others knew about it at least as far back as the Golden Age of Greece nearly twenty-five hundred years ago. Aristophanes mentioned in his celebrated comedy, *Frogs*, “bad citizens are preferred to good, just as bad money circulates while good money disappears.”\textsuperscript{4} Apparently, he assumed that this was common knowledge in his time too.

One might add as a corollary to Gresham’s Law in this age of inflation that a money tends to fall in value to the worth of the material of which it is made: if money is paper, it eventually sinks to the value of last week’s daily papers. Monetary practices of the nations of the world, including our own, are daily making that truth self-evident. But how long will it be before ordinary common sense becomes the basis for national policy and we return to sound money?

Much confusion grows out of the failure to understand how the operation of some principle, like Gresham’s Law, differs from the working of gravity or inertia. When silver change was disappearing a dozen years ago, some people saw no practical difference between the old coins and the new. To them it was all just money. Does this mean that Gresham was wrong? Not really, but it does illustrate the fact that, since economic laws depend on human behavior, they may seem not to operate in a given situation or seem even to work in reverse in the short run.

According to the Law of Supply and Demand, customers are supposed to buy less at high prices and more at low prices. Henry Ford\textsuperscript{5} believed this, so he reduced the price of his Model T from $950 in 1909 to $290 in 1926, and sold fifteen million of his cars in the process. This should be adequate proof of the prin-
ciple. However, he was then forced by declining sales to go to more expensive models, because other factors were becoming more important than the price.

Gravity doesn’t work so haphazardly, but is utterly mechanical in its operation. Yet, there are economic laws at work which must ultimately be reckoned with by communists, socialists, capitalists and even primitive men. And this has always been so, as an English writer so well expressed it more than a half century ago: “Guilds, Governments and Soviets may come and go. But under them all, and, if need be, in spite of them all, the profound adjustments of supply and demand will work themselves out and work themselves out again for so long as the lot of man is darkened by the curse of Adam.”

God Gave Us Guidelines and Options of Error

The Creator did not simply make us creatures of instinct, although that would have been an easy way of “uniting all in one unanimous and harmonious ant-heap,” as Dostoyevsky pointed out, but He left us the options of error and disobedience. Since man’s behavior is not programmed, God gave us guidelines, if we would just follow them. But we don’t break God’s Law in any sphere; we only shipwreck ourselves on the rocks which we could have avoided, if we had steered our course aright.

Another distinction we need to make is between sin and human error. Let us consider the case of a doctor who was busy spreading the Gospel and infection in an army hospital during the Civil War. Was he a saint or a murderer? Since medical science had not yet discovered the germ theory of disease, there were many fine Christian doctors who were spreading death through the wards even more effectively than they were spreading the Word of Life. They did not realize that they were actually engaged in bacterial warfare against their own soldiers.

One is reminded of a wise saying by the German poet Goethe: “Nothing is more frightful than ignorance in action.” The doctors’ motives may have been pure, but their hands, instruments and bandages were not. Yet the error of their ways would soon be common knowledge, since the first antiseptic operation was performed in Scotland by Joseph Lister in August of 1865, less than six months after the close of the Civil War in America. While Lister’s new technique did not catch on immediately, the spread of this revolutionary scientific innovation was rapid once the word began to get around.

The appalling sanitary situation in the middle of the last century,
even in peace time, may be judged from the comment of a British doctor of the time: "A man laid on the operating table in one of our surgical hospitals is exposed to more chances of death than the English soldier on the field of Waterloo." The great hazard was infection, of course, and had been over the ages, but a simple principle went far in correcting the situation both in surgery and in public health.

The relationship of vast detail to a basic principle may be noted from this comment on Lister’s work: "Joseph Lister’s manifold labors may be read in the volumes of his Collected Papers (1909), but his life-work is summed up in a phrase: he made surgery clean." would that other human problems could be as easily solved. Here, knowing what to do went far in providing a remedy. Unfortunately, the solution isn’t usually that simple. Men often cling to their errors as they do to their sins.

**Slavery and Tariffs**

The Civil War also well illustrates man’s unwillingness to change and his persistence in doing wrong, even when it would seem that he ought to know better. In 1850, a little more than a decade before the outbreak of the Civil War, a popular French political pamphleteer, Frederic Bastiat, wrote an essay called The Law. He commented most favorably on the political institutions of the United States, but thought that even here there were two violations of public morality which presented a grave danger to the nation: "The question of slavery and that of tariffs...." Since the English, whom Bastiat knew well, had recently finished a successful campaign to rid themselves of these two evils and since the conflict over slavery and tariffs in America would soon “lead to the dissolution of the Union,” as he foresaw, his observations were both timely and prophetic.

The contrast between the British and the American experience in dealing with these two problems is fascinating and instructive. The English freed the slaves in England in 1772, forbade the transportation of slaves in British ships after 1807, and emancipated the slaves on the plantations in the colonies, particularly the sugar islands of the Caribbean, in 1834. In the next decade they began the abolition of their tariffs and had soon accomplished this also. In both cases Christian statesmen led the way and the Christian community provided much of the political support. They also brought this to pass without war or other major upheaval.

We freed our slaves belatedly by a long and tragic "War between the States" and have not yet faced up to the protective tariff problem, which has plagued us throughout our his-
tory. Since the resentment of the South against Northern tariffs was as much a cause of the Civil War as Northern objection to slavery, and even nearly started war a generation before it did happen, Bastiat's concern was not unfounded. Let us try to understand why we were less successful than our British brethren.

Since slavery is the more obvious of the two evils, let us first compare English and American abolition efforts. To begin with, it may be acknowledged that slavery was more deeply embedded in American life and politics than it was in England. Sad to say also, the Southern obsession with slavery increased as we move from 1776 with its Declaration of Independence and 1787 with its Constitutional Convention on into the early decades of the nineteenth century. The usual explanation is the invention of the cotton gin in 1793 by a Yankee schoolteacher, Eli Whitney. Arnold Toynbee regrets that slavery was not abolished before the Industrial Revolution made the textile industry big business and Whitney's invention had made cotton "King" in the South.

Concerned Statesmen

It is interesting to note that Jefferson and other Virginia statesmen who were also slaveholders were apologetic for their "peculiar institution" and wished it would go away. The English even thought that the Declaration of Independence would free everyone over here, although we were not quite that consistent. Still the national conscience was troubled, as is evident from the following remarks of a Virginia planter, Colonel George Mason, as the issue was being debated at the Constitutional Convention:

The western people are already calling out for slaves for their new land. Slavery discourages arts and manufacture. The poor despise labor when performed by slaves. They produce the most pernicious effect on manners. Every master of slaves is born a petty tyrant. They bring the judgment of Heaven on a country. As nations cannot be rewarded or punished in the next world, they must be in this. By an inevitable chain of cause and effect Providence punishes national sins by national calamities.

In addition to discovering another principle—God "punishes national sins by national calamities," if the Colonel is right—it is interesting to compare his condemnation of slavery with the Biblical defense of the evil in the years before the Civil War. It is also fascinating to compare English abolitionists with our own: William Wilberforce, for instance, was a patient Christian statesman who knew how to hate the sin without hating the sinner, while John Brown of Harpers Ferry was a fanatic. Therefore, Parlia-
ment was able to make emancipation at least palatable to the sugar planters in the Caribbean in 1834: the English government paid the masters twenty million pounds for their slaves.

While there were reasonable Americans, reason failed us; but we did pay for our animosity. It is interesting to note that an official of the U.S. Treasury estimated in 1869 that the cost of the Civil War was "... three times as much as the slave property of the country was ever worth." This figure, of course, does not count the "blood, sweat and tears." Now it should be obvious that a more reasoned and Christian approach to American slavery would have been most appropriate, but this hides a deeper issue which will come up in the discussion of their economic problem—a problem which is still with us.

While Northern propagandists tried to picture the Civil War as a holy crusade for freedom, Southerners felt otherwise and with some reason. When the triumph of the new Republican party in November of 1860 made higher tariffs certain, Jefferson Davis insisted that the attempt to limit the extension of slavery was not from humanitarian motives, but to insure that the North would dominate the nation for selfish reasons:

It is that you may have a majority in the Congress of the United States and convert the government into an engine of Northern aggrandizement. It is that your section may grow in power and prosperity upon treasures unjustly taken from the South, like the vampire bloated and gorged with the blood which it has secretly sucked from its victim... 15

Davis, of course, was protesting against high import duties on goods bought from England in exchange for Southern cotton. He felt, as Southerners did, that they could never prosper as long as they paid high taxes to promote Northern prosperity. The larger question is whether the government should be busy granting favors to any section, party or interest, or should it simply be concerned with administering justice for all.

In his study, *The Evolution of Political Thought*, Parkinson notes the observation by the ancient Greeks that when their city states became democracies the people would promptly bankrupt their governments by demands for special favors. This collapse then led to a dictator (a tyrant, to use the Greek). Parkinson says the Greeks regarded this shift from democracy through bankrupt socialism to dictatorship as "almost a law of nature." Perhaps we have another principle here, a "law of nature" which makes democracy impossible except as a short-run expedient. Since other forms of government are not very attractive either, this is a serious matter.
The law sometimes places this whole apparatus of courts, police, constabularies, and prisons at the service of the plunderer, and puts the plundered person, when he defends himself, in the prisoners' dock. In a word, there is legal plunder. . . . How is it to be recognized? Very simply. All we have to do is see whether the law takes from some what belongs to them in order to give it to others to whom it does not belong. We must see whether the law performs, for the profit of one citizen and to the detriment of others, an act which that citizen could not perform himself without being guilty of a crime.

FREDERIC BASTIAT, The Law

In The Law¹⁷ Bastiat said that in an oligarchy the few plunder the many and in a democracy "universal plunder" becomes the rule (to him, "The state is the great fiction by which everybody tries to live at the expense of everybody else"). He says that the "Absence of plunder is the principle of justice, of peace, of order, of stability, of harmony, of good sense." This would mean a government which confined itself narrowly to the task of administering justice within the nation and defending the frontiers, as Adam Smith¹⁸ urged in The Wealth of Nations, published in 1776.

The Victorian system was, of course, the application of the ideas of Adam Smith to the economic and political life of Great Britain. Victorians believed that a few basic principles should serve as guidelines in the decisions for the running of the nation and of the world, and that these "Laws of Nature" were built into the constitution of the universe by the Creator Himself. The Judge of all the earth becomes the court of last resort. Were they right, or should the government dominate every aspect of life, as it is doing more and more?

American conservatives have long been frustrated because the general public does not "buy" their arguments for limited government, a revival of the "work ethic," and other sound policies. The appeal is usually made in the name of efficiency, greater productivity, and maximizing profits. Unfortunately, that approach often misses the mark—life doesn't seem to work out that way. I knew a few poor farm laborers during the Great Depression who stayed off W.P.A. because they had tender consciences. They could have
gotten twice as much money for doing half as much work, but they would have had to lie to do it (they would have had to swear on their applications for government jobs that they couldn’t find work, when they knew very well that farmers couldn’t get help).

While it is true that the nation would be better off over the long run if people in general did what was right, the connection between virtue and reward for the individual may be so remote, and even uncertain, that it is almost silly to suggest it. Try in this age to convince a bureaucrat, one who is doing less than nothing, that he should resign to reduce the national budget. True, perhaps, but who listens? The worthless government employee is just trying to minimize his efforts and maximize his income. That sounds like good economics, doesn’t it? It would be better to appeal to his conscience—if he has one.

**Men of Conscience**

We forget that the men who made that remarkable era of freedom in England back in the last century were men of conscience. Is sound social, political and economic theory simple Christian ethics? Reformers in England once believed this and their considerable success suggests that their ideas and actions might well serve as examples for us in this time of national and global crisis. It should be noted also that they secured someone else’s freedom before they got around to care for their own self-interest: the abolition of slavery in British territory was accomplished before the free trade movement was started. The thinking was the same in both cases, as they themselves insisted.

As the slavery issue was being debated in Parliament in the early years of the last century, practical politicians who were making money from slavery objected that the abolitionists were arguing the case on “abstract principles of right,” and were ignoring the heavy losses to business that would come with the triumph of their cause. Wilberforce replied that a “Christian country should be glad to give up profits which are made out of human shame and misery.” He assured them that the laws of the nation should be founded “on the great and immutable principles of truth, justice and humanity.” This same viewpoint dominated the campaign for free trade a little later, during the early years of Victoria’s reign, when statesmen such as Richard Cobden and John Bright consulted the Bible as they did business statistics.

In the early decades of the last century it was a common saying in England that “the school master now walks abroad in English politics,” since the appeal to truth requires thought and study, while the
pragmatist makes up his rules as he goes along. According to Jacques Barzun, this era "has rightly been called the Golden Age of Intellect." Barzun notes correctly that the relationship today between a labor leader and his Ph.D. consultant in economics is not between their intellects; the Ph.D. is a flunky helping his pragmatic boss do what he would do anyway without his assistance. He is in much the same position as a soothsayer prostrated before the throne of an Oriental despot: he says what he is expected to say. When principles are ignored and truth is forgotten, learning loses its reason for being; the "truth" simply becomes the lie that Big Brother finds most convenient at the moment. Freedom disappears, for liberty and truth are inseparable. "And ye shall know the truth, and the truth shall make you free" (John 8:32).

---FOOTNOTES---


15Ibid., p. 308.
17Bastiat, op. cit., pp. 62-64.
The Foundation for Economic Education, which publishes *The Freeman*, was set up in 1946. This seems to me as appropriate a time as any to review what has happened since its establishment in the realm of the government interventions and economic controls—the prohibitions and compulsions—that FEE was set up to combat.

In 1946, of course, these controls were already established over a wide-ranging area. A formidable network of what might be called "traditional" controls was already in existence in the early 1930s; but this was enormously extended and tightened by the advent of the New Deal. It was then established that the government could repudiate with impunity its most solemn pledges—the gold clause, for example; that it could abrogate contracts containing or assuming this clause; that it could allow labor unions to resort to violence and vandalism with relative immunity (as in the Norris-LaGuardia Act of 1932); that the government could act as a union-organizing agency, and force employers to "bargain collectively" with such unions—that is, to make at least some concessions to their demands—as in the Wagner Act of 1935. And so on.

But let us now come to 1946, the
year FEE was founded. That was the year when the International Monetary Fund, which had been set up by the Bretton Woods Agreement of 1944, began to operate. The IMF had been set up ostensibly—believe it or not—to "stabilize" currencies. And this was to be done by phasing that absurd and tyrannical thing, the gold standard, out of the monetary system. Instead, the member countries pledged themselves to keep their currencies convertible at a fixed rate only into the dollar. If the dollar were kept convertible into gold, it was assumed, that would be sufficient to stabilize the whole world currency system and make the value of each national money unit dependable.

Of course none of the Fund’s general rules were expected to be obeyed too strictly. That would have interfered with the freedom of each country’s monetary authorities to manipulate their currency in the way that seemed to them most expedient at any given moment. Therefore, it was explicitly provided in the Fund’s Articles of Agreement that any country could devalue its own currency at least 10 percent in any one step, and it was explicitly stipulated that “the Fund shall raise no objection.” In addition, it was understood that the Fund was to come to the rescue of any country whose currency got into trouble, even through its own inflationary policies. The stronger currencies were to support the weaker ones, thus insuring that the stronger would also be weakened.

The Results of Bretton Woods

We all know now what this finally led to. The American monetary authorities could not bring themselves to take seriously the grave responsibility they had assumed in agreeing to make the dollar the world’s anchor currency. Keeping the dollar convertible into gold, even if only at the demand of foreign central banks, seemed to them a mere technical requirement, an unnecessary annoyance and burden imposed upon them by some still persisting superstitions about gold. As the U.S. increased its paper-money issue, conversion became increasingly inconvenient. It practically stopped de facto in 1968, and in August, 1971, it was stopped openly and officially. Since then practically every nation’s currency has become an irredeemable paper currency. Every currency fluctuates every day in terms of every other. Money values, world trade, and capital flows become more and more disorderly and unpredictable.

And all this has happened because the world’s so-called statesmen and national monetary managers, when they met at Bretton Woods in 1944, were thinking only of their own immediate problems, and had no un-
derstanding of what the consequences of their patched-up scheme would be in the long run.

The same kind of shortsightedness has been the common characteristic of nearly all the government interventions of the last thirty years. We may select our examples almost at random.

**Minimum Wage Laws**

Take minimum wage laws. A national minimum wage was first enacted in this country in 1938. At that time the average hourly wage in American manufacturing was about 63 cents. Congress set a legal minimum of 25 cents. In 1945, the year before FEE was set up, the average factory wage had risen to $1.02 an hour, and Congress raised the legal minimum to 40 cents.

It all seemed very reasonable, very compassionate, very necessary, to those who urged and those who voted for it. Could the country tolerate ruthless exploitation of unskilled workers with no bargaining power? Could it tolerate “starvation” wages? The obvious remedy seemed to be to prohibit such wages. Employers were forbidden to offer jobs at wages below the new legal minimum.

An ironic thing happened. As increased capital investment, increased productivity, and competition among employers (all with a little help from inflation) kept raising the average hourly dollar wage, and making each existing legal minimum wage level obsolete, Congress acted as if its prescribed minimums had brought this rise about. It kept amending the law every few years. It kept raising its minimum wage faster than the market was raising the average wage. It acted on the principle that whatever average wage the market produced, it would never be high enough. Congress has acted as if by constantly boosting the legal minimum it could hurry the market along. The minimum wage, at $2.65 an hour in 1978 and $2.90 in 1979, is scheduled to keep going up to $3.35 an hour on January 1, 1981.

Is this helping the poor? Is it helping the unskilled worker? The results show that it is doing exactly the opposite. Minimum wage laws overlook the obvious. It should be obvious that the first thing that must happen when a law prescribes that no one shall be paid, say, less than $106 for a forty-hour week, is that no one who is not worth $106 a week to the employer will be employed at all.

And if statistics can show anything they show this. The minimum wage laws were passed to help especially the unskilled, the teenagers, and the blacks. We have no comparative figures on the unskilled as such, but we do have comparative figures on the teenagers and the
blacks. There has always been a tendency for teenage unemployment to run at a somewhat higher rate than that of men and women twenty years old and over, but it took the minimum wage levels and their successive increases to make the contrast a startling one.

It is difficult to get comparative statistics going back beyond 1948. In that year the unemployment rate for both white and non-white teenagers stood at 10 percent. But as the minimum wage rate was jacked up year by year, not only did the overall teenage rate of unemployment keep rising, but it kept rising much more for black teenagers than for white. In 1954 unemployment for black teenagers stood at 14.9 percent against 13 percent for white. By 1968 the black teenager unemployment rate had risen to 26.6 percent against 11.6 percent for whites. In 1977 it rose to 37 percent for black teenagers against 15 percent for white. Between 1977 and 1978 unemployment for 16 to 17 year-old blacks rose from 38.7 percent to 50.4 percent.

So the minimum wage law and its successive hikes has simply driven into unemployment the very people it was most designed to help. The potential production of these people has been lost to the economy.

And what is the response to this consequence by the Congressmen who voted for the law and for the annual increases? They have simply ignored it. They would consider it political suicide, in fact, to oppose the minimum wage law.

**Unemployment Insurance**

A similar history can be traced for unemployment insurance. This was one of the great New Deal “reforms” adopted in 1935. The argument for it was appealing. Workers suffered terrific hardships when they were laid off. Even when they were working, they lived in dread of sudden unemployment. Certainly they should be assured of unemployment compensation when they were forced to look for new jobs.

The first State-Federal unemployment insurance programs, beginning about 1940, were surrounded with safeguards. Unemployment compensation was to be about one-half of the worker’s previous earnings, but it was to run typically for only sixteen weeks, and there was to be at least a two-week waiting period for the worker, after losing his job, before he would be eligible for that compensation. But gradually, all these safeguards were weakened or removed. The typical waiting period was reduced from two weeks to one, and in some States to none at all. The period for paying the compensation was extended from sixteen weeks to twenty, then to twenty-six weeks, then to thirty-nine (in an emergency, of course),
then in some States to sixty-five weeks. In 1969 President Nixon called upon the States to provide for maximum weekly benefits of two-thirds of the previous average weekly wages instead of one-half.

The result of prolonging and increasing unemployment compensation, naturally, has been to prolong and increase unemployment. It was found a year or so ago by a committee of the State Senate of New York that a number of New Yorkers repeatedly worked the minimum twenty weeks required and then collected sixty-five weeks of unemployment benefits. Though unemployment compensation may be only one-half of previous working salary, the unemployment compensation is tax-free, so the net loss from not working is sometimes quite tolerable. In a typical case in Pennsylvania, for example, a man whose previous weekly take-home pay was $140 can draw $96 a week in tax-free compensation. A study made by the U.S. Department of Labor itself found that “an increase in unemployment benefits leads to an increase in the duration of unemployment.” This country can have as much unemployment as it wants to pay for.

**Rent Control**

Still another example of our shortsighted legislation is rent control. This is usually imposed in the early stages of an inflation. As the inflation goes on, the discrepancy between the rent the landlord is allowed to charge, and the rent necessary to yield him a return comparable with that in other investments, becomes greater and greater. The landlord soon has neither the incentive to make repairs and improvements, nor the funds to make them.

When the rent control is first imposed, the government promises that new buildings will be exempt from it; but this assurance is soon repudiated by a new law. It becomes unprofitable to build new rental housing. New mortgage money for it becomes increasingly difficult to obtain. Landlords of old housing often can no longer supply even heat and other essential services. Some cannot even pay their taxes; their property has in effect been expropriated; they abandon it and disappear. Old rental housing is destroyed quicker than new housing is built.

Some favored tenants, already in possession, are momentary beneficiaries, but tenants or would-be tenants as a whole, in whose interest the legislation has been professedly passed, become the final victims. The irony is that the longer rent control is continued, and the more unrealistic the fixed rents become as compared with those that would yield an adequate return, the more certain the politicians are that any
attempt to repeal the rent control would be “politically suicidal.”

**The Energy Crisis**

The limits of space compel me to pass over any analysis of a score of other government interventions in recent years in the economic field, and to come immediately to the two or three that mainly characterize the economic situation today, not only in our own country, but throughout the world.

In 1974 the Organization of Petroleum Exporting Countries—the OPEC—quadrupled crude oil prices. It is instructive to notice that this was done by a combination of governments. They did what private industry is always accused of doing—forming a monopolistic conspiracy—but what the hundreds of private oil well owners and companies would never have been able to impose and enforce no matter how much most of them might have wanted to do so.

This OPEC action produced a profound economic shock throughout the world. And what was the response of our own government? Did it retain or insist on a free market to give the greatest possible incentive to petroleum production and exploration on the one hand and economy in consumption on the other? No. It did the exact opposite. It imposed an elaborate and incredibly complicated set of price controls on domestic crude oil and on natural gas, to encourage continued wasteful consumption and to reduce the incentives to output and exploration. It preferred to protect the short-term interest of American consumers at the cost of their real long-term interest, and at the cost of both the short-term and long-term interest of American producers.

**Rampant Inflation**

Now let us turn to the government policies that most obviously affect us in all our daily activities—government finances and monetary inflation. Throughout our history as a nation, when we were on the gold standard, federal government surpluses were the rule. Deficits—except in the two world wars—were rare and comparatively small. But in 1931, we began to run chronic deficits—in the first few years by accident, and then by deliberate policy. In the last ten years or so, these deficits have been acceleratively larger. These deficits—again since the early 1930s—have been accompanied by mounting monetary inflation. The dollar’s purchasing power has been reduced, for example, to about 22 cents compared with that of 1940.

To bring this inflation to an end, what policy must we follow in the immediate future? Obviously what needs to be done is to bring the budget back to balance at the ear-
liest possible moment. Obviously what needs to be done is to halt the accelerative increase in money and credit, to stop printing more paper dollars. But the situation is now so bad that practically no politician dares to suggest this course.

About half of our Federal expenditure programs consist in the transfer of income from the wealthy or the middle-classes to the so-called needy. In other words, they force the productive to support the unproductive. In the official budget these programs are not gathered under a single head. But there is a table, on page 191 of the official budget for fiscal 1979, called "National Need: Providing Income Security," which estimates the total of such expenditures for fiscal 1979 at $160 billion. Who is there—among our office holders—who is going to suggest cutting these expenditures? And by how much? And who is there who is going to suggest halting the reckless expansion of our money supply and risking a recession? The situation is so bad that no politician dares to suggest where to begin in correcting it. Once more, that is considered the path of political suicide.

The Dilemma

This is the ominous dilemma that confronts us. Some of my readers must have recognized that the title of this article is taken from the title of a poem—"The Road Not Taken"—by Robert Frost. The last stanza of that poem reads:

I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I—
I took the one less traveled by,
And that has made all the difference.

Perhaps most of us have had a similar experience, either figuratively or literally. You may have driven on a throughway, for example, toward a destination to which you had never driven before, and may have been told, or may have figured out from a map, that you should get off, say, at Exit 23. And then, suddenly and too late, you realize that you have driven past Exit 23. You can't turn back. You must look for the next exit, which may be miles ahead, and hope you will know what to do when you get there. You realize that you are going to be late, so you start almost unconsciously to speed up, but are aware that you are only going faster in the wrong direction.

We have reached such a dilemma in our political and economic life. We have taken the wrong road, and we have been on it so long that getting back on the right one seems almost hopeless. The longer we stay on the wrong political road, the more difficult it is to correct the error.

If—to take one example out of a hundred—rent control has been im-
posed for only a short time, so that the average of controlled rents is still about 90 percent of what free market rents would be, it is no great political problem to remove the controls. But if, as has sometimes happened, rent controls have been imposed so long in a severe inflation that the controlled rents averaged only 10 percent of free market rates, then any attempt to remove the controls might bring on riots. This has happened frequently in recent years in countries in which, for example, the government has been subsidizing food prices and can no longer afford it.

The wrong road has been the road of government economic intervention. The right road would have been to permit and encourage free markets. There are, it is true, a number of politicians today who praise the free market in speeches, but there are very few people, even among economists, who understand why the free market solves so many intractable problems and performs so many near miracles.

The market does this because it reflects and responds to everybody's demand and to everybody's supply, and it reflects to some extent everybody's expectations regarding the future. This means that it makes the maximum use of everybody's knowledge, and not merely the knowledge of a handful of officials. It reflects this knowledge by constant daily changes in prices of individual commodities and services. These price changes are daily directing production out of this commodity and into that, reducing surpluses and relieving shortages.

The market does not fulfill this function perfectly, because everyone's knowledge is limited and subject to error; and these errors do not necessarily cancel each other. But the market is constantly and quickly correcting these errors. It works incomparably better in maximizing and properly directing incentives than any other imaginable system. Only when this truth is sufficiently recognized by the public will the free market be restored.

Individual Effort

The natural effort of every individual to better his own condition is so powerful that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations.

ADAM SMITH
There are basically two different ways to organize a society. We can take the viewpoint that we know how people should live their lives—and organize society and the economy accordingly. Or, we can say that we don’t know—that we are uncertain enough about life’s ultimate purpose that we will not impose our values on anyone else.

We have experienced a “knowledge explosion” over the past few decades and today we know more about the earth, its universe and its creatures than ever before. We can split atoms without seeing them. We can see the other side of the moon without being there. We have a better understanding of both bizarre and normal types of behavior. But some knowledge is forever beyond our grasp. We can never be sure that any one of us knows, beyond doubt, exactly what the purpose of each person’s life is and how that person can best fulfill that purpose. That is true at the “grand” level—to what I should dedicate my entire life—and at the “ordinary” level—what I should do today.

This attitude of “I don’t know” is basic in the formation of a free economy and a free society. I don’t know how to: live your life, manage your finances, or make your decisions. And because I don’t know, I don’t even try! The result is a free society in which everyone makes his own decisions about how he will spend
his time, use his talents, and allocate his material wealth. It encompasses more than just economics. You can choose not only your vocation but also your spouse; your own brand of coffee and your own "brand" of religion; where you will work and even if you will work. The entire list of civil liberties stems from the same source as our economic liberties—the willingness to admit "I don't know."

I don't know if my religious denomination has "the truth," so you choose your own church. I don't know if my opinion on a subject is correct, so you speak your mind as well. I don't know if you should be an engineer, a poet, or a banker, so you choose for yourself. When people choose for themselves, we have a free market and a free society.

But there has to be an essential humility, a recognition of our own limited knowledge. Each of us must admit that "I don't know" before we can have a viable, free society. And there lies the difficulty.

The Urge to Control

Almost everyone would publicly acknowledge that he is incapable of directing other people's lives. However, deep inside, a lot of us seem to believe that we do have the knowledge and wisdom to control others. In fact, recorded history is an ongoing account of people who thought they did know how to organize their society. From the kings who ruled by divine right to the feudal lords who totally directed the economic and social activities of their peasants; from the crusaders who were out to win the hearts and minds of men (and to kill them if that failed) to the Hitlers, Stalins, and Idi Amins of this century—all are classic cases of people who would not admit "I don't know." And the classic cases aren't all. The historic listing of truly free markets and societies is about as short as the list of government agencies that have voluntarily disbanded.

The institution that works against liberty is government. Government is the only agency that can rely on coercion instead of cooperation, and if coercion is used it is a pretty good sign that the people coerced did not act of their own choosing! When government goes beyond its peace-keeping functions, both internationally and domestically, it is in essence saying "I know!" It knows:

- how your home should be constructed (even if it doubles the cost by using outdated methods);
- what education you should receive (even if it means you will forever read and write at a third-grade level);
- how much you should pay for gasoline (even if none is available at that price);
what wage you should earn (even if you can't find a job at that wage);
• what you should and should not read, eat and watch on TV, what countries you shouldn't visit, and what foreign products you should be allowed to purchase.

Government, once it exceeds its essential duties, will strive to organize our economic life and our total society because it thinks it has the answers, the knowledge, the truth.

But people are not inclined to accept government as the possessor of all knowledge. As a result, the people must be "persuaded." The traditional form of persuasion was the point of a sword or the muzzle of a rifle. Modern governments, though, are too advanced to use such outright force. They use the carrot instead of the stick. We no longer resist government restrictions, regulations, controls, prescriptions, and proscriptions for the simple reason that we have been bought off! We have discovered the secret that kings tried to hide for centuries: it is a lot easier to live off the public purse than it is to work.

Wards of the Government

People throughout the economy now depend on government for some or all of their livelihood. Government funds provide welfare payments, program and project grants, contracts for services and equipment, and even direct employment to a growing proportion of our population. In addition, many businesses rely on federal, state, or municipal agencies to effectively eliminate competition.

Consider what has happened.

Item: In 1955, government spending was about 30 per cent of our national income. Twenty years later, that proportion had risen to 44 per cent. The government now spends nearly as much of our income as we do!

Item: Although it is difficult to arrive at a precise estimate, today somewhere between 35 per cent and 40 per cent of the entire U.S. population (not just the work force) receive some or all of their income from government. That is actually less than it might be: someone calculated that our country passed the point of no return in 1972 because in that year more than half of the population became eligible for some type of government aid, program, or project.

Item: Professions of all kinds rely on government restrictions to reduce the number of competitors. The same is true of businesses. A leading business publication recently referred to an airline company which is suing the Civil Aeronautics Board for insufficient regulation. The airline is apparently unhappy because,
as it stated in its annual report, the CAB's policy is to grant any fit, willing and able carrier any route for which it applies!

In short, we have sold our freedom. We have been increasingly willing to acknowledge the government's "superior" knowledge in exchange for a few dollars. This has occurred despite the government's demonstrated ignorance and incompetence in delivering mail, operating schools, and even in handing out money. We have allowed government to claim "I know" as long as it also says "Here's your share."

**Our Freedom in Jeopardy**

The government expansion has been largely concentrated in the economic sphere, and that is where the effects of false claims to knowledge have shown up the most strongly. But our political and civil liberties are not far from jeopardy. As the government increasingly claims to know how energy should be used, it will at some point have to decide whose printing presses will be allowed to run. Is it likely that newspapers which are critical of the national energy policy will get as much electricity to run their presses as will be granted to the papers which support the policy? Who will be allowed to travel—lecturers who criticize the government or the bureaucrats who carry out government policies? Will art books have the same energy claim as the annual report of the Department of Energy? What churches will be allocated enough fuel oil to heat their sanctuaries?

The brief appearance of Miss Liberty came as a result of recognizing that no one person, no group, no agency possessed the knowledge to run the economy and society. Her visit brought forth all of the benefits of freedom: high living standards as creative and productive energies were unleashed; a wide variety of lifestyles as people pursued high (and low) purposes; a concern for the welfare of others, voluntarily supported through private charities; and technical and intellectual advances in knowledge which would have been inconceivable even to Jules Verne. All of this from our simply saying, "I don't know."

But now, at least for the present, the temptation of living off of the public purse seems too great to resist. We let the government claim to be all-knowing in exchange for the low-grade security of government providing and protection. However, knowledge—or lack of it—will ultimately surface. When government finally is overwhelmed by its own ignorance, when we finally say once again, "I don't know," then our free market economy and free society will allow the human spirit to reach new heights.
Gradualism is a power theory, too, as communism is. That is, it is a theory for the gaining and exercising of power. It is a theory of gaining power by the use of the force of government to redistribute the wealth and establish substantive equality. It is a theory of holding and exercising power by continually promising more and more benefits and ever extending the sway of government.

Gradualism does not, of course, ordinarily adopt the guise of a power theory. Indeed, we are enjoined from recognizing it as a power theory by a prevailing intellectual temper which disdains theory. It operates under the guise of benevolence. In countries where socialism is an acceptable goal, it claims that goal and purports to be doing what is good for society. Where socialism is not generally recognized as a good, gradualism claims to be acting pragmatically for the common good.

Yet, gradualism is a power theory; socialism is a power theory; and pragmatism is a power theory. It is
only by grasping it as a power theory that we can understand its character, its mode of operation, and the manner of its success. This may become clear when we look at the matter this way. Socialism is a failure in every respect, save one. It fails in its tacit promise to lead us toward utopia. It fails to provide a bounty of goods. It fails to distribute wealth either justly or equally. It fails to fulfill its promises. In one respect only does it succeed. It succeeds in gaining, holding, and exercising power. It succeeds, by its very success, in transforming all political parties which contend with it into facsimiles of itself.

Ideas have consequences which follow from the essence of the idea. Theories produce results in accord with the theory, whether the theory is explicitly stated or not. The one tangible result of socialism is power, power concentrated and extensively employed. It may well be that most of those who embrace socialism are not aware that they are embracing a power theory. Certainly, most of those who vote for the measures of gradualist socialism are not informed that they are placing vast power in the hands of those over them. Yet that is what they do. Because power is the fruit of gradualism, its necessary antecedent is a power theory. The theory is here stated as the belief in the use of government to transform society.

**Distributing the Benefits**

Gradualism differs from communism in practice in this way. Communism is spread and its grip fastened upon a people by the use of terror. Gradualism, by contrast, fastens its grip upon a people by providing unearned benefits to some or all of the people at the expense of some or all of the people.

Virtually the whole appeal of this notion is that those who receive the benefits are either not taxed to pay for them, or taxed much less than the sum of the benefits received. The graduated income tax and corporation taxes are essential to bolstering this belief. (If wealthy stockholders and corporations did not exist, gradualists would have to invent them. Indeed, in those countries where they do not exist, governments convey benefits derived from them by way of foreign loans and other sorts of aids.)

There is an even more clever device for hiding the taxation by which wealth is acquired to pay for the unearned benefits. It is inflation, i.e., the increasing of the money supply by government. Gradualist governments everywhere use this covert means of raising money. It is, of course, a form of taxation, for the value of the money thus raised is taken from the money which people hold or have owed to them. The effect is experienced as rising prices.

In gradualist countries, which is
to say, in effect, in all non-communist countries, a continual struggle goes on between groups to get the largest share of unearned benefits and to pay the smallest portion of the costs. It is a struggle in which the apparent winners are often the biggest losers, for the benefits carry a price tag. Those who receive them pay by loss of independence. Those who rule thus increase their power over the people. The power thus gained by government is used to shape the populace according to its will.

A Single Government

Gradualist socialism is a power theory, too, in that its eventual aim is to have all force in the world monopolized by a single government. No such aim is generally avowed, of course, but it is nonetheless the tacit logic of the position. The idea that has the world in its grip requires the eventual concerted of all human effort to achieve felicity on earth. Moreover, the position sometimes gets explicit, albeit tentative, statement. Here is such a statement in the mysticized evolutionary language of Teilhard de Chardin. He leads into it by way of the discussion of the future necessity of applying eugenics to individuals. Then, he says:

Eugenics applied to individuals leads to eugenics applied to society. . . . Points involved are: the distribution of the resources of the globe; the control of the trek towards unpopulated areas; the optimum use of the power set free by mechanisation; the physiology of nations and races; geo-economy, geo-politics, geo-demography; the organisation of research developing into a reasoned organisation of the earth. Whether we like it or not, all the signs and all our needs converge in the same direction. We need and are irresistibly being led to create, by means of and beyond all physics, all biology and all psychology, a science of human energetics.¹

If we strip away the prophetic mysticism in which his thought is cast, Chardin is saying that what is needed is a science of concerted human energy, and one is emerging. Government is, of course, the approved instrument for accomplishing the concerted of human energy.

Arthur M. Schlesinger, Jr., put the case for world government more prosaically a few years back:

Yet world government, in a sense, cannot emerge too soon; for the people of the world cannot long afford to expend their energies in squabbling with each other. The human race may shortly be confronted by an entirely new range of problems—problems of naked subsistence whose solution will require the combined efforts of all people if the race is to survive. . . . The results of industrialization and introduction of public health standards in Asia, for example, may well be calamitous, unless they are accompanied by vigorous birth-control policies and by expanded programs of land care and conservation.²
The time was not yet right for it, however, he pointed out. "When Russia loosens the totalitarian grip, then the noble dream of world government will begin to make some contact with reality. . . . In the meantime, we had better do what we can to foster community where we can, through regional federations and through the United Nations. . . ." Schlesinger was stating the gradualist position in contrast with that of the enthusiasts for immediate world government.

Effective world government can only emerge, then, on this view, when all the nations of the earth have come under the sway of democratic socialism. If this gradualist vision be thought of as a timetable—a term that is only apt if it be understood as a figure of speech—the stages of progression are roughly these. First, socialism must come to power within nations. When several nations which have common bonds are socialized, they can form regional unions. Eventually, these can be linked together in a world government. Before that can happen, however, all cultural, religious, racial, and social differences from people to people and nation to nation will have to be blurred or obliterated. In short, the very transformation and homogenization toward which socialism tends must have taken place.

But the process does not occur in timetable fashion. It goes on simultaneously at many different levels. It proceeds at any time and place when collective decision making and action is substituted for individual decision and acting. Thus, the United Nations Organization, which is already in existence, might eventually become the world government. But whether it does or not, the yielding to it of any power of decision and action is a step in the direction of world government within the socialist eschatology. But so is the decision of some local government to fluoridate the water supply, for that, too, is a step toward total collectivization. My point is that the process may go on simultaneously at many different levels, that gradualists have no precise blueprint or plan, but that they understand themselves to be proceeding toward the goal wherever decisions are being collectively made that were formerly made by individuals.

The Spread of Democracy

The spread of gradualism proceeds, then, by the spread of the collectivizing of decision making and action. Gradualism is a power theory, a theory for eventually consolidating all power in a single world government, but it does not necessarily proceed by the direct exercise of power. And it certainly does not rely on terror for its spread.
Its chosen instrument is democracy, although there is no necessary aver-
sion to autocratic methods so long as there is a general framework of de-
mocracy. In the world today the spread of gradualism is a concomi-
tant of the spread of democracy.

Anyone who undertakes to tell the story of the spread of gradualism around the world in the mid-
twentieth century has set himself a formidable, if not impossible, task. The task does not simply arise be-
cause the world is a large and diverse complex of nations, though it is. The problem is more fundamen-
tal than that. It arises from the very nature of gradualist or evolutionary socialism. The very idea is that the movement toward socialism must be by gradual, and often imperceptible, steps. Usually, gradualists operate within the received framework of institutions.

Often enough, those who advance gradualist measures do not proclaim themselves as socialists. Journalists usually confuse the issues. Head-
lines do not announce that a gradualist regime has come to power in some land. (If they did, it would probably mean that some communist had seized the government.) The world of scholarship provides no greater aid. There are no textbooks on the spread of gradualism in the world. Such references as are usually made by writers to such matters are apt to describe a regime as “moderate” or “left wing” or “right wing,” terms which may provide a better indication of the predilections of the classifier than about the tendency of the government.

In truth, the spread of gradualism is largely unreported, though it is surely one of the most significant developments of the twentieth cen-
tury. If gradualism were a fact, I think it would have been reported. But it is not a fact; it is a theory. It is a theory that if you begin at one point with certain sorts of measures and advance them relentlessly and successfully, you will eventually end up at your destination. Gradualism is also a tendency, a movement, a direction, and an ideology. As a ten-
dency, when it is recognized, a great many facts may be accounted for by it. More, it is surreptitious move-
ment, operating under cover of other names quite often, and moving to-
ward its eventual goal slowly and by indirection.

Destination Unknown

The problem of the historian in dealing with gradualism may be il-
lustrated by analogy with describing a man on a journey whose desti-
nation is uncertain. Let us suppose that the man begins his journey at Dallas, Texas. Amongst friends and those with whom he is comfortable he has often talked of going to New York City to settle there. He has even discussed on several occasions
the ways and means of getting there. For purposes of the analogy, we will equate New York City with socialism. But when he sets out from Dallas, he buys a ticket to go only to Longview. From Longview, he travels to Texarkana, thence to Little Rock, then on to Memphis, then, unaccountably, to Muscogee, Oklahoma. From Muscogee, he proceeds to Birmingham, and then north once again to Chattanooga.

Let us interrupt his journey at Chattanooga, with the observation that he has only got that far to date. Is he going to New York? From the information available to us, we do not know. There is some evidence that he might be. There is a pattern to his travels, thus far, if the tacking to and fro is discounted, which could eventually get him to New York. He could, however, travel next to Atlanta instead, and wind up in Miami. The only substantial clue we have is that he had talked as if he were going to New York.

There are, however, some pieces of missing information. We have not been told in what sort of vehicle he is traveling, nor do we yet know how its intermediate destinations are determined. Let us say, somewhat playfully, that he is traveling by a sail-driven wind-propelled prairie schooner. Its intermediate directions are determined by two variables, each more or less independent of the other, and neither of which is predictable in advance. One factor is that the passengers vote before they set out from a city, and the majority decide which city they will go to next. The other factor is what they may be driven off course, even to different destinations, by strong wind currents. There is another factor, however, which makes their eventual arrival in the vicinity of New York fairly certain, if they stay on the journey long enough. The prevailing winds in the United States blow in an easterly direction. Indeed, those from the southwest, Dallas, for example, blow in a northeasterly direction, i.e., toward New York.

With this information, the analogy becomes very nearly a paradigm. The traveler is the nations of the world. The vehicle is democracy. The course is gradualism. The prevailing winds are the intellectual climate, driving toward the eventual destination of socialism. The tacking to and fro is occasioned by the shifting currents of popular opinion.

**Bent Toward Collectivism**

This provides us an analytical tool, of sorts, with which to discern the mode, methods, and extent of the spread of gradualism. The spread of democracy in the twentieth century is more or less coextensive with the spread of gradualism. On the face of it, there is no reason why this
should be true. Political democracy could be, perhaps should be, ideologically neutral. It may have been at one time, but it is not in the twentieth century. Democracy is now ideologically loaded and bent toward collectivism. What makes this so is the intellectual climate.

A major change in what is called democracy—more properly, representative government—occurred in the late nineteenth and early twentieth century. Democracy emerged in modern times as a means of controlling government, of limiting and restraining those who govern. Representative government was earliest and firmest established in England following the Glorious Revolution. Its most prominent task was to control and limit the exercise of power by the monarch. The control over the purse—over revenues—was reckoned to be the most crucial power for exercising that control. That was the reason for vesting the authority for initiating appropriations in the United States House of Representatives—the most democratic branch of the Congress—to keep the power over the purse nearest to the people.

The major change referred to above occurred when the emphasis shifted from the people controlling government to the government controlling the people. What occurred, let me reiterate, was a shift in emphasis, not some absolute change. There never was a time, of course, when government did not exercise some control over the people. Moreover, as long as people vote in contested elections, they exercise some control over government. It is a matter of degree and emphasis.

Attempts to Limit Government

Anyone who will study in depth English history in the seventeenth century will surely discover that much of the great effort going on was to discover means of controlling government. In like manner, the documents of the American Revolution are replete with evidence of concern for limiting and restraining government. Placing basic powers in the elective legislatures was one of the important devices by which the founders hoped to accomplish this.

In like manner, it should be clear that governments in more recent times have shifted toward more and more control over the people. That is not the way those who favor the controls describe them, of course. They talk of planning economies, of controlling business, of controlling prices and wages, of providing social security, of setting standards for this or that or the other, and so on. But they are always using power upon and controlling people, and not just some of the people either, but all of them. As has been shown in this work, the control over business is a
mean for reaching through to and controlling all who work for or trade with it. Compulsory school attendance, compulsory retirement contributions, "check-off" payment of labor union dues, tax payments to subsidize undertakings, fair employment practices acts, and so on, are people control.

The "have-nots," the "have-littles," the ne'er-do-wells," the uneducated, the old, the young, minorities, industrial workers, tenant farmers, working mothers—whatever disfurnished classification that can be conceived—are essential to gradualist socialism. Their condition provides the grist for the program mills of gradualism. The emphasis shifted from controlling government to controlling people in conjunction with the thrust toward universal suffrage. The tie between democracy and gradualism was knotted with this development. The enfranchisement of those who hope to gain by weight of numbers what they had not achieved by their efforts is the basic political, or power, technique of gradualism.

But the impetus toward socialism does not arise from those who can in one way or another be described as disfurnished. They could no more provide the continuous impetus for such a movement than they could effectively direct the development of great corporations. Nor does the impetus come from politicians primarily, though politicians do much of the work of arousing the populace and the enactment of programs.

The Intellectual Drive

The impetus toward socialism comes from what Russell Kirk refers to as the "clerisy," or what are more commonly called intellectuals. "Clerisy" may be the better term, however, for it suggests the pseudo-clerical character of the undertaking. The impetus toward socialism is provided by secular clergymen, so to speak, by those who have taken up the mission of transforming man and society by the use of force. The natural habitat of these secular clergymen is the modern college and university. But they are almost equally at home amongst the regular clergy, as journalists, as writers, and in any one of the hundreds of intellectual pursuits. Whatever their vocation, their avocation is transformation. They are the makers and purveyors of intellectual fashion, or, more pointedly, they make gradualist socialism fashionable under whatever guises it adopts at the moment. They create and spread the intellectual climate which propels us toward socialism.

Gradualist socialism advances under many guises, but there is one that is very nearly constant in the world today. It is democracy. "Democracy" is the code word for gradualist socialism. The situation
is somewhat confused, however, because communists also use it as a code word. Thus, it is not always immediately clear when we are informed by the great news media of the world that democracy has triumphed somewhere or other whether communism or gradualism has come to power. But it does usually eventually get straightened out. If one-party rule is tyrannically imposed, and if close relations with one or more of the great communist powers are established, a country will likely be recognized as communist, not "democratic." (There is yet another element in the confusion—the Third World. That will have to be discussed in its own place, however.)

The spread of gradualism, then, can be very nearly equated with the spread of democracy. There are other ways of saying much the same thing. In those countries of the world in which the influence of the United States and Western Europe is predominant, gradualist socialism is generally well established. More bluntly, it is that portion of the world tied either directly or indirectly to the inflationary spiral of the dollar. However, this last formulation better describes the predicament of much of gradualism than it does the extent of the sway.

At any rate, the geopolitics of the West has been deeply intertwined with gradualism since World War II. Much of the Western influence on the rest of the world had been wielded by way of colonies prior to World War II. Every major (world?) European war since the beginning of the eighteenth century had embroiled colonies and entailed reshuffling of colonial possessions. World War II marked a major break with the past. Therefore, colonies had been sought mainly, though not exclusively, in order to gain dominant trading positions in other parts of the world. The diminution of military power in Western Europe in the course of the war, plus ideological pressure, resulted in the release of colonial possessions, many of them within a decade after the war. With the release of colonial possessions went also the loss of European hegemony in many parts of the world.

The Cold War

The quest for favorable trading positions, and the conflicts that were engendered by it, was transformed into an ideological conflict. The general name for that conflict, of course, has been the Cold War. The expansive pressure of communism provoked resistance to it which was centered in the United States. Whatever the interest of those who opposed communism, this conflict became mainly a contest between revolutionary and evolutionary socialism, as I pointed out earlier.
The answer to communism, many claimed, was democracy. Hence, much of the influence of the West and a considerable amount of the wealth and know-how of the United States was put into establishing and bolstering democratic regimes which, according to theory, might be able to defend themselves from communism and maintain their own independence. The result was the spread of democratic socialism where it was successful. Where it failed, which was in most places, it set the stage for some nationalistic and autocratic socialist regime.

It is certainly simplistic and probably untrue to explain the failure of these regimes on the grounds that the people are unprepared for democracy. If by being "prepared" for democracy is meant the willingness and readiness of peoples to go to the polls and vote themselves a share of the wealth, most peoples of the world are probably well prepared. The problem lies elsewhere. They don’t have the wealth to distribute!

Democratic, or evolutionary, or gradualist, socialism is a product of industrially and agriculturally advanced nations. It succeeds in holding power only in these nations, if it is not massively aided from other sources. There is no mystery about why this is so.

Democratic socialism is a parasite on the back of capitalism. It is a theory of gaining and exercising power by controlling and distributing the wealth produced by tools, techniques, and sophisticated business organizations. It can succeed, so far as it succeeds, only in such countries as Sweden, the United States, England, Canada, Japan, and Germany—in those countries in which capital has already been employed so as to produce great wealth. It can only hold power elsewhere by massive transfusions of wealth from those nations in which capital was earlier sufficiently free and the incentives were there for producing wealth.

Dispensing False Cures

After World War II, many of the peoples of the world came to the West asking for bread and we gave them stones instead. More specifically, they came to the colleges and universities of Europe and America seeking to learn the sources of our wealth and prosperity. We gave them instead the power theories of democracy laced with pallid socialism.

True, they sometimes learned how to operate our machines, but they learned little of how they are to be acquired and less about how they may be effectively used. From our histories they learned of the horrors of the industrial revolution, how businessmen were rapacious and greedy, and what great evils attended the growth of great corpora-
tions. In economics they learned macro-economics, which is, in effect, distributionist economics. They went back to their native lands well instructed about how to distribute wealth but largely ignorant of how to produce it. Or worse, they had been indoctrinated against the most effective means of achieving prosperity.

Even so, the spread of gradualism around the world has been impressive indeed. From tiny beginnings in the minds of a few men, mainly in England and Germany, it is now firmly established in every advanced industrial country in the world. It was once said that the sun never set on the British Empire. It is equally true today that the sun never sets on gradualism. Of course, gradualism has spread to every non-communist country in Europe, to the United States, to Japan, to Australia, to Canada, to New Zealand, to the Philippines, to South Korea, and so on. It has also spread to many countries in Latin America, Africa, and Oceania.

Indeed, there is hardly a petty dictator in the world who cannot point with pride to the accoutrements of gradualism he has introduced in his country: medical clinics, free schools, subsidized housing, land reclamation and redistribution programs, minimum wages, empowered trade unions, and so forth. Few countries in the world are so backward that they cannot boast a parliament, the emblem of democracy, which has not busied itself in the not too distant past in confiscating foreign assets in order to redistribute them according to such lights as it has. In short, the outward forms of democracy and the inward thrust of gradualism have been introduced in states around the world.

Westernization evinces itself in our time as the spread of gradualism around the world. The technology which resulted from invention, saving, investment, efficient management of great enterprises which were concentrations of capital has been used to give universal sway to intellectual fashion. More specifically, intellectuals can now utilize high-speed planes, fast automobiles, telephones, television, and radio to see to it that intellectual fashion prevails.

**Collectivized Decisions**

Intellectual fashion prescribes the collectivization of decision making and action. It prescribes a collectivized democracy within each land, one whose government shows its good faith by passing socialist measures. It requires that governments negotiate and come to terms with all radical and socialistically inclined groups within their borders. Intellectual fashion proclaims the desirability of free speech and a free
press in all lands, but does not require it in order to extend respectability to communist regimes.

Intellectual fashion not only prescribes the collectivizing of decisions within countries but also in international relations. Intellectual fashion is gradualist, and gradualists no more want independent nations than they want independent individuals. They want nations to negotiate with one another, to form regional associations with one another, and to act collectively in all matters.

A nation today, particularly a non-communist nation, which makes a unilateral decision, i.e., acts on its own in its own interest, may expect to be denounced and to be subject to every sort of pressure that the makers of intellectual fashion can mount.

The United States intervention in Vietnam is a case in point. Communists and gradualists united in condemning this action, communists for obvious reasons and gradualists mainly because the action was unilateral. (In Korea, gradualists had been hoist by their own collectivist petard, for the United States intervention there was approved by a United Nations Resolution.)

Rhodesia has suffered the calumny of the intellectual community for several years for the determination of its government to go it alone.

A Possible Exception

Israel confounded intellectual fashion by making successful war against the Arabs on its own, confounded, I say, for the Western intellectual community, at least much of it, had long had its sympathies bound up with the fate of Israel and for a while the juices of collectivism had to be held in abeyance. But they were only in abeyance—after all, gradualists are gradualists, not insisters that everything be done at once—for it now appears that Israel has finally been brought to the negotiation table, and eventually the collectivist mode may regain its sway in that corner of the world.

Gradualists have a goal. It is to socialize the whole world and bring it under one all-embracing government. They have a faith, too. It is that they are moving toward that goal, however slowly and gradually, whenever any decision is made collectively. Indeed, it sometimes appears that the manner of the making of the decision is more important than the decision reached, and that may well be the case for any particular decision. John Dewey put the premises of the faith this way. You cannot separate means from ends, for the means that you employ will eventually determine the ends you will achieve.

Gradualists believe, then, that so long as more and more decisions are being collectively made they are
moving toward their goal. That accounts for their commitment to democracy, for by their understanding it is a means of collectivizing decision making. That accounts for the pressures they continually mount to have decisions by nations negotiated, mediated, and made collectively.

In large, then, gradualism was spread within an intellectual atmosphere arising from Western intelligentsia and propagated as intellectual fashion. This fashion is expressed as a pressure to collectivization. It is advanced as democracy. Within the Cold War framework it was supposed to be democracy versus communism. The welfare, government planning, and distributionist schemes were advanced both as an antidote to communism and as substantive requirements of democracy. The programs of gradualism, however, were devised in the advanced industrial and agricultural countries of the West where the technology for producing wealth already existed. Industrially backward countries frequently had little wealth to distribute, and gradualist measures could have little attraction. Therefore, the spread of gradualism had to be subsidized. For that part of the story, it will be necessary to examine the foreign aid programs.

Next: 27. The Cold War: Foreign Aid.

—FOOTNOTES—

3Ibid., pp. 239-40.

Ideas Determine Actions

The intellectual leaders of the peoples have produced and propagated the fallacies which are on the point of destroying liberty and Western civilization. The intellectuals alone are responsible for the mass slaughters which are the characteristic mark of our century. They alone can reverse the trend and pave the way for a resurrection of freedom.

Not mythical “material productive forces,” but reason and ideas determine the course of human affairs. What is needed to stop the trend toward socialism and despotism is common-sense and moral courage.

LUDWIG VON MISES, Planned Chaos
Lawrence W. Reed

Liberty
and the
Power of Ideas

A belief which I stress again and again in my classes here at Northwood Institute is the belief that we are at war—not a physical, shooting war but nonetheless a war which is fully capable of becoming just as destructive and just as costly.

The battle for the preservation and advancement of liberty is a battle not against personalities but against opposing ideas. The French author Victor Hugo declared that "More powerful than armies is an idea whose time has come." Armies conquer bodies, but ideas capture minds. The English philosopher Carlyle put it this way many decades ago: "But the thing a man does practically believe (and this is often enough without asserting it to himself, much less to others): the thing a man does practically lay to heart, and know for certain, concerning his vital relations to this mysterious Universe, and his duty and destiny there, that is in all cases the primary thing for him, and creatively determines all the rest."

In the past, ideas have had earthshaking consequences. They have determined the course of history.

The system of feudalism existed for a thousand years in large part because scholars, teachers, intellectuals, educators, clergymen and politicians propagated feudalistic ideas. The notion of "once a serf, always a serf" kept millions of people from ever questioning their station in life.

Under mercantilism, the widely-accepted concept that the world's wealth was fixed prompted men to take what they wanted from others in a long series of bloody wars.

The publication of Adam Smith's *The Wealth of Nations* in 1776 is a
landmark in the history of the power of ideas. As Smith’s message of free trade spread, political barriers to peaceful cooperation collapsed and virtually the whole world decided to try freedom for a change.

In arguing against freedom of the press in 1924, Lenin made the famous statement that “ideas are much more fatal than guns.” To this day, ideas by themselves can get you a prison sentence in communist lands.

Marx and the Marxists would have us believe that socialism is inevitable, that it will embrace the world as surely as the sun will rise in the east tomorrow. As long as men have free will (the power to choose right from wrong) however, nothing that involves this human volition can ever be inevitable! Men do things because they are of the mind to do them; they are not robots programmed to carry out some preordained dictum. If socialism comes it will come because men choose to embrace its principles!

Winston Churchill once said that “Socialism is the philosophy of failure, the creed of ignorance, and the gospel of envy. Its inherent trait is the equal sharing of misery.” Socialism is an age-old failure, yet the socialist idea constitutes the chief threat to liberty today. So it is that believers in liberty, to be effective, must first identify and isolate the socialist notions which have taken their toll on liberty. In doing that, and then refraining from advancing those ideas, we can at the same time advance liberty. As I see it, socialism can be broken down into five ideas.

1. *The Pass a Law Syndrome.* Passing laws has become a national pastime. When a problem in society is cited, the most frequent response seems to be, “Pass a law!” Business in trouble? Pass a law to give it public subsidies or restrict its freedom of action. Poverty? Pass a law to abolish it. Perhaps America needs a law against passing more laws.

In 1977 Congress enacted 223 new laws. It repealed hardly any. During that same year, the federal bureaucracy wrote 7,568 new regulations, all having the force of law.

James Madison in 1795 identified this syndrome as “the old trick of turning every difficulty into a reason for accumulating more force in government.” His observation leads one to ask, “Just what happens when a new law goes on the books?” Almost invariably, a new law means: a) more taxes to finance its administration; b) additional government officials to regulate some heretofore unregulated aspect of life; and c) new penalties for violating the law. In brief, more laws mean more regimentation, more coercion! Let there be no doubt
about what the word coercion means: force, plunder, compulsion, restraint. Synonyms for the verb form of the word are even more instructive: impel, exact, subject, conscript, extort, wring, pry, twist, dragoon, bludgeon, and squeeze!

When government begins to intervene in the free economy, bureaucrats and politicians spend most of their time undoing their own handiwork. To repair the damage of Provision A, they pass Provision B. Then they find that to repair Provision B, they need Provision C and to undo C, they need D, and so on until the alphabet and our freedoms are exhausted.

The Pass a Law Syndrome is evidence of a misplaced faith in the political process, a reliance on force which is anathema to a free society.

2. The Get Something From Government Fantasy. Government by definition has nothing to distribute except what it first takes from people. Taxes are not donations!

In the Welfare State, this basic fact gets lost in the rush for special favors and giveaways. People speak of "government money" as if it were truly "free."

One who is thinking of accepting something from government which he could not acquire voluntarily should ask, "From whose pocket is it coming? Am I being robbed to pay for this benefit or is government robbing someone else on my behalf?" Frequently, the answer will be both.

The end result of this "fantasy" is that everyone in society has his hands in someone else's pockets.

3. The Pass the Buck Psychosis. Recently a welfare recipient wrote her welfare office and demanded, "This is my sixth child. What are you going to do about it?"

An individual is victim to the Pass the Buck Psychosis when he abandons himself as the solver of his problems. He might say, "My problems are really not mine at all. They are society's, and if society doesn't solve them and solve them quickly, there's going to be trouble!"

Socialism thrives on the shirking of responsibility. When men lose their spirit of independence and initiative, their confidence in themselves, they become clay in the hands of tyrants and despots.

4. The Know-It-All Affliction. Leonard Read, in The Free Market and Its Enemy, identifies "know-it-allness" as a central feature of the socialist idea. The know-it-all is a meddler in the affairs of others. His attitude can be expressed in this way: "I know what's best for you, but I'm not content to merely convince you of my rightness; I'd rather force you to adopt my ways." The know-it-all evinces arro-
gance and a lack of tolerance for the great diversity among people.

In government, the know-it-all refrain sounds like this: "If I didn’t think of it, then it can’t be done, and since it can’t be done, we must prevent anyone from trying." A group of West Coast businessmen ran into this snag recently when their request to operate barge service between the Pacific Northwest and Southern California was denied by the Interstate Commerce Commission because the agency felt the group could not operate such a service profitably!

The miracle of the market is that when men are free to try, they can and do accomplish great things. Leonard Read’s well-known admonition that there should be "no man-concocted restraints against the release of creative energy" is a powerful rejection of the Know-It-All Affliction.

5. The Envy Obsession. Coveting the wealth and income of others has given rise to a sizable chunk of today’s socialist legislation. Envy is the fuel that runs the engine of redistribution. Surely, the many soak-the-rich schemes are rooted in envy and covetousness.

What happens when people are obsessed with envy? They blame those who are better off than themselves for their troubles. Society is fractured into classes and faction preys upon faction. Civilizations have been known to crumble under the weight of envy and the disrespect for property which it entails.

A common thread runs through these five socialist ideas. They all appeal to the darker side of man: the primitive, noncreative, slothful, dependent, demoralizing, unproductive, and destructive side of human nature. No society can long endure if its people practice such suicidal notions!

Consider the freedom philosophy. What a contrast! It is an uplifting, regenerative, motivating, creative, exciting philosophy! It appeals to and relies upon the higher qualities of human nature such as self-reliance, personal responsibility, individual initiative, respect for property, and voluntary cooperation.

Nobel Prize winner F. A. Hayek has called attention to the power of ideas in preserving liberty: "Unless we can make the philosophic foundations of a free society once more a living intellectual issue, and its implementation a task which challenges the ingenuity and imagination of our liveliest minds, the prospects of freedom are indeed dark.”

The outcome of the struggle between freedom and serfdom depends entirely upon what percolates in the hearts and minds of men. At the present time, the jury is still deliberating.
The Dangers of Collectivism

In a free society, scarce and valuable resources are drawn to serve the mandate of consumers. Producers are guided by market prices as consumers cast their economic ballots for the goods and services which they prefer. Entrepreneurs are guided by the profit and loss system, and their ability to please consumers is reflected in the amount of profits earned.

The role of government in a free society is a limited one, as most areas of economic activity are left to the market. Of no concern to the government of a free society are the complex economic activities that take place between consenting parties—voluntary actions involving no use of force, violence or coercion. Individuals are free to act peacefully as they choose. Therefore, government’s proper role is to assure a sound framework in which a free market economy may operate. The defense against internal and external enemies is a necessary function of government, and private property in such a society would be protected as the bedrock of the market economy.

In such an environment individuals might freely cooperate in all sorts of peaceful organizations and activities—a truly pluralistic society. No one particular group could claim control of the state, and each group would be free to produce, create and enjoy the benefits of its labor. But when freedom gives way to state-enforced collectivism, pluralistic activities are discouraged. The ideology of collectivism looks upon the individual as a mere organ of the state. As in the human body, where the brain directs every function, the ideologues of collectivism view society as an assembly of individuals directed by the state. If all power is centered around the state, which holds the monopoly of force, the benefits obtained from the division of labor in a pluralistic society disappear.

In the economic realm of the collective society, producers are faced with countless regulations and

Mr. Bechara is an attorney in the law offices of Goldman, Antonetti & Devila in San Juan, Puerto Rico.
minimum requirements that the state deems essential. These regulations carry with them the costs of compliance which tend to raise prices. And higher prices tend to adversely affect not only consumer demand for some products but also the availability of capital for use in further production.

Income tax laws which penalize producers and inhibit capital formation are enacted, locking people into the holdings they presently possess. A rigidity is thereby imposed on the economy, because such laws discourage the sale of assets to obtain profits which would be taxable.

As the trend toward collectivism advances, revenues collected by the state in the form of taxes are used not only to finance the police and court functions, but also for distribution to special groups of beneficiaries. Thus, in the name of equality, does government policy shift from the protection to the redistribution of property. And the greater the number of beneficiaries, the greater their political power. And as any one group succeeds in this act of political plunder, this in turn leads other groups to lobby for their own special privileges.

In a free society, numerous organizations would be voluntarily striving and competing for the attainment of various goals. But in today's mixed society, such groups are not content to rely on persuasion, but rather depend on the use of coercion, through government funds, for the achievement of these objectives. As these groups grow in number, it soon becomes evident that the government cannot please every group; some will be left unsatisfied. Politicians discover that taxation has its limits, that high and rising taxes are unpopular. So they resort to the hidden tax of converting budgetary deficits into inflation of the money supply.

The special interest groups compete with each other for the scarce funds that government is able to provide. In that sense, a society of conflict emerges, as each special interest group views the other as an adversary in this looting procedure. Politicians use budgetary deficits in their attempt to stem the conflict and to grant most of the benefits demanded by the lobbies.

Budget deficits are financed by two methods. One method is for the state to obtain loans and remove funds from the capital market, raising interest rates and reducing the business opportunities that otherwise would have existed. The second way to finance budgetary deficits is to issue more and more paper money. The seeds of inflation are sown, to bear fruit after the voters have cast their ballots. Nor does any one group see inflation as an immediate threat to its special interest; society as a whole will bear the
consequences. As inflation and recession are brought about, the special interest groups are confident that they will be able to obtain their "little bit more" from the government.

Pressure groups support the politician who is willing to enact into law the specific programs that they champion. Welfare recipients, farmers paid not to grow crops, industries protected from foreign competition and other such groups all rely upon the regimentation of economic activity and the general shrinkage of freedom as effective means to their goals. These coalitions are also aided by the government bureaucracies which have been structured to implement these programs. The legions of government employees who administer the countless forms of intervention in the economy have a vested interest in justifying the law they enforce. Hence, both beneficiaries and the administrative agencies share a common belief that this looting process is essentially fair.

As collectivism continues its cancerous growth, the institutions which have traditionally served the free society begin to change. For example, in the market economy people buy and sell according to their subjective values. The buyer prizes what he is about to buy more than the money he will relinquish for that purpose. Conversely, the seller places a higher value on the money he is about to receive than on the merchandise he is about to give up. Thus, from the point of view of each participant, the sale is beneficial to him. However, in the collectivistic society, government services bring forth a change in the nature of contractual relationships.

Government agencies created to enforce interventionist schemes carry with them the power of compulsion and coercion that is implicit in the state. Both the beneficiaries and the victims of these schemes are affected by the power of these agencies. Many private entities are compelled to act contrary to their desires in order to serve the "public interest" as the governmental agencies define it. By entering into agreements with each other, the parties cannot properly be said to be entering into a mutually beneficial contract in the traditional sense. Rather, a hybrid contract is created—one entered into under the fear of possible governmental reprisals if the action is not taken. The beneficiary of the law in question views the matter differently. After all, the governmental entity has safeguarded his "right," while the other party has had to reluctantly enter into the agreement or face prosecution by the state.

Import duties illustrate these hybrid contracts. When tariffs are
levied on foreign goods, thereby protecting the domestic producer from the consequences of competition, the consumers' choice is altered. Either they must pay a higher price for the foreign product than they would normally have to pay, or they buy the domestically produced object. The general notion that contracts are mutually beneficial to the contracting parties loses validity in this instance as consumers are not able to express their desires freely. The demand for foreign products will decrease as the import duties hike prices. This, in turn, benefits domestic producers. By distorting production and the choice available to the consumers, the government redistributes income to the detriment of the consumers.

Special interest groups have a practical advantage in the political realm, which should alert us to the dangers of collectivism. Voters face politicians from a vastly different perspective than they face producers. In the economic field, consumers are economic voters. Each dollar spent represents an economic vote which indicates to the producer how to utilize scarce resources. The producer who best satisfies the consumers' desires obtains more money votes—more income. Consumers do not pay attention to the identity of the producer. They are totally insensitive as to whether or not the producer is a good or bad person, or as to his race, color or nationality. The consumers' only concern is that the products which they buy satisfy their needs, and they will patronize such producers accordingly. In addition, consumers cast their economic ballots in a product-by-product fashion. Even if 51 per cent of the market favors one type of product, the market still will provide what is sought by the remaining 49 per cent.

In contrast to the economic vote of the consumer stands the political vote of the citizen. Political campaigns are cluttered with numerous issues and personalities. The voters cannot vote separately on each possible issue, but rather they vote for people who represent compromises and stand for many goals. Hence, as the state enlarges its area of activity to encompass different segments of the economy, it becomes harder for a voter to sustain or to defeat any one particular program.

A by-product of government intervention and collectivist control is a growing public interest in discerning the causes of the malfunctioning economy. As people begin to feel the oppressive nature of intervention and the suffocating consequences of taxation and inflation, a countervailing force will be building in freedom's favor. Our prospects for survival depend upon our understanding of the economic and moral case for freedom.
I haven't checked through all of Leonard Read's books, but those that remain in my library after borrowings and the attritions of moving reveal a significant secret: Leonard never mentions contemporary politicians in their roles as such. If he occasionally bows to a statesman of the past, such as Churchill or John Foster Dulles, you may be sure that it is to make a broad philosophical point.

The casual reader might presuppose that Leonard Read's silence about Jimmy Carter or Jerry Ford or Ronald Reagan in his most recent books proceeds from an indisposition to mix it up in the prize ring. But Leonard, actually, does not mind a fight. His theory of waging political war is to go for the jugular, which happens, as he says in his new book, *Liberty: Legacy of Truth* (Foundation for Economic Education, $6.00), to be "whatever the preponderant thinking" is at "any given time." It is the theory that makes the politico, not vice versa.

Looking at the kinds of government that prevail in the world today, Leonard Read concludes "that the preponderant thinking is anti-freedom—authoritarian." So he goes for the jugular by tackling socialism on the philosophic plane. He opposes bad thinking with good thinking.

If Leonard Read has ever despaired of winning his fight he has never, in the course of writing more than a score of books, ever shown it. A less resilient character would have given up long ago. But now his attack on the philosophical jugular seems to be working. A lot of the same old politicians whom Leonard disdains to mention were returned to office in the last election. But there are new faces showing up on Capitol Hill, and some of them actually believe in liberty.

The important thing, in any case, is not that there is to be a mix of old and new political personalities. What really counts is that a significant number of the traditional high-tax, big-spend crew that has
been knocking the stuffings out of the American dollar since the Nineteen Thirties are now lining up for trips to the confessional. They are catching the signal from a shift in the “preponderant thinking” of the moment. If all goes well, the next time Leonard Read writes an essay bearing on the reflection of ideas on the political horizon it will take on a tone that is somewhat different. Instead of saying “Those sanctified ideas and ideals of our Founding Fathers must be born again,” Leonard will be substituting the words “are being” for “must be.”

The Pleasures of Aging

Leonard Read copyrighted his new book on his 80th birthday in September of 1978, and he concludes it with an essay called “The Pleasures of Aging.” But, on Leonard’s own showing, there are no distinct pleasures involved in watching the clock move on. Longevity’s purpose, he says, is “learning, not lengthening.” And he quotes an anonymous authority as specifying that “one does not grow old—one becomes old by not growing.” All of this puts the stress in continuing with the more pleasurable and profitable things that one has always done. In brief, a non-retirement program. So Leonard Read exults in “no let-up in travel, seminars, and the many chores at FEE.” By working—and by treating older hobbies as “mere pastimes”—the non-retired Read frees himself “from all fret about the discouraging prospects that the senior years have a tendency to impose.”

At the recent Mont Pelerin Society meeting in Hong Kong, Friedrich Hayek, who is in Leonard Read’s age bracket, was complimented on seeming more youthful and energetic than he seemed ten years back. Hayek’s answer was that he had “tried old age and didn’t like it.” Leonard Read has yet to “try it.” He quotes the likes of Cervantes, but his own model is Don Marquis’ immortal cat Mehitabel, who always rose to the challenge by saying “there’s a dance in the old dame yet.”

In addition to the bigger “dance” of fighting the basic philosophy of socialism, this latest Read book addresses itself to the problems raised by coercive State control of education, to the need to oppose the “strike syndrome” by exposing “the folly of violence,” to letting untrammelled human beings find energy sources wherever they exist, and to instigate what seems to me an odd crusade against legalized holidays. This last must seem a real poser to libertarians. Surely only a workaholic would be willing to give up Christmas, Thanksgiving, the Fourth of July and sundry other holidays. Natural Law would seem-
ingly prescribe the need for periodic breaks, expressed in terms of ritual. If most of us didn’t have them we would go off our rockers.

I would settle with Leonard Read for customary holidays as opposed to legal holidays. After all, Christmas, Thanksgiving and the Fourth of July had customary sanction before they had legal sanction. But the case against the legal holiday is not that it is a “hollow day” in contrast to a “hallow day.” It is a “hollow day” if you go and get yourself involved in a car accident or a horrible New Year’s hangover. But what would we tennis players or bike riders or joggers or skaters do if it were not for the week-end? Would Leonard Read say it is “hollow” to go to church of a Sunday morning? If you are going to crusade against the legal holiday, first make sure that custom, in default of law, has a fair chance of taking over.

Compulsory Education

There would be less need of legalized holidays if Leonard Read could first win his battle against the idea of State-controlled compulsory education. If kids are going to be compelled to sit in classrooms for extended periods between their fifth and seventeenth years, they need legalized time off. One State compulsion breeds the necessity for another, if only as countervailing action. The Read essay on “Elementary Education” is a bit of an historical eye-opener to me. I had always supposed that the idea of compulsory State-operated schools came from Prussia via Horace Mann. But Leonard Read traces it to Napoleon, who thought that “public instruction should be the first object of government.” “No one,” so Napoleon decreed, “may open a school or teach publicly unless he is a member of the imperial university.”

It so happened that Thomas Jefferson invited Pierre Samuel du Pont de Nemours, the physiocrat, to recommend an appropriate form of education for the United States. Du Pont wrote a 161-page book advocating the Napoleonic school system. So Jefferson, despite his generally voluntaristic philosophy, was beguiled into accepting the idea of compulsory public education.

It took more than a hundred years to see what a “scraggy bush” (Read’s description) would grow from the roots planted inadvertently by du Pont and Jefferson. During all those years nobody contested the right of people to found private schools and colleges that could compete in performance and ideas with the State-supported public school. But now we can really see the “scraggy bush” for what it is, with the Department of Health, Education and Welfare trying to impose its so-called Affirmative Action programing on private schools whose only connection with
government is to accept students who may happen to be the beneficiaries of GI grants and State-guaranteed loans.

Leonard Read opens his book with some heartening essays on faith, hope and charity. We will need all of these to carry through with some of the specific crusades to which he invites us in his later pages.

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Reviewed by Brian Summers

The great Austrian economist Ludwig von Mises (1881-1973) has invaluable insights for the serious student. But some of his works are much more difficult to grasp than others. Where does one begin?

*Liberalism* is an excellent introduction to Mises' thought. This 1927 book was entitled *Liberalismus* in the German original, and was published in the U.S. in 1962 as *The Free and Prosperous Commonwealth*. It is a lucid exposition of the principles of classical liberalism—the free enterprise policies which unleashed the productive forces of the nineteenth century and created the capital we are now consuming.

Mises bases his case for the free market on the enormous productivity of the division of labor. When workers, investors, and entrepreneurs are free to specialize in those areas of production for which they are best suited—and are free to exchange their products in an unfettered market—standards of living are infinitely greater than when each family tries to produce its own food, clothing, shelter, fuel, medicine, and all the other essentials of life.

From this fundamental observation, Mises develops the entire liberal program. He champions a completely free market because, as he demonstrates, all government interventions reduce the standard of living by disrupting the division of labor. Similarly, he opposes union monopoly privileges, which restrict labor mobility, raise unemployment, and plunder nonunion workers—the principal victims of union violence and threats of violence.

The popular alternative to interventionism—socialism—is shown
by Mises to be intrinsically unworkable. Not only does socialism stifle personal initiative, it destroys the means of economic calculation by placing all factors of production in the hands of the state. With no competitive bidding for labor, capital, and natural resources, the bureaucrats in charge of the state monopolies cannot compare the costs of different methods of production. Socialism is inherently wasteful.

Mises' foreign policy proposals are in keeping with his domestic program. He favors nonintervention, free immigration, and democratic elections as the only means to further the international division of labor and thus raise the standard of living of all peoples. Tariffs, imperialism, and colonialism are opposed as violent disruptions of peaceful exchange.

In these times of political turmoil, terrorism, and war, one insight of Mises is especially pertinent: without government regulations, trade barriers, special privileges, public services, oppressive taxation, and other restrictions on the free movement of men and goods, it would matter little which government one lived under or what party happened to be in office. Roll back the state, and politically inspired conflicts will tend to disappear. It is a point worth pondering.

The Ultimate Foundation of Economic Science, first published in 1962, is difficult reading for those unfamiliar with Mises. The Ultimate Foundation of Economic Science is a critique of positivism, which has dominated economics for several decades. The positivist paradigm may be summarized as follows, using the example of minimum wage laws:

1. The positivist observes data. (Increases in the legally mandated minimum wage have been followed by increases in unemployment.)
2. He constructs a theorem to explain the data. (An increase in the minimum wage, other things being equal, will increase unemployment.)
3. He "tests" the theorem by further empirical observations. (He observes further instances of increases in the minimum wage and studies unemployment data before and after each increase.) If he believes that the data conform with the theorem (if he observes what he believes to be a convincing number of cases in which increases in the minimum wage are followed by increases in unemployment) he accepts the theorem. If he believes that the data do not conform with the theorem (if he observes what he believes to be significant cases in which increases in the minimum wage are not followed by increases in unemployment) he rejects the theorem.

This paradigm is vitiated by the
fact that the data used in steps 1 and 3 cannot derive from controlled experiments. In our example, the legally mandated minimum wage is only one of the many factors that influence unemployment statistics. It is impossible to obtain data in which all the factors except the minimum wage remain constant.

In contrast with positivism, Mises’ methodology does not need controlled experiments because he treats economics as a praxeological science—a science of human action. Mises’ paradigm may be summarized as follows:

1. The praxeologist postulates that all conscious human action is directed toward goals because it is impossible to conceive of a person consciously acting (trying to do something) without having a goal (the goal being the “something” the person is trying to do).

2. From the actions of men, the praxeologist deduces their goals. (An employer strives to earn profits. Earning profits is thus one of his goals. Hence, the employer’s utility increases with his profits, and his disutility increases with his losses. Of course, this does not preclude the existence of other goals, such a goal as keeping an employee’s friendship.)

3. Assuming a given set of actors’ goals, the praxeologist constructs a theory based on the human actions that necessarily follow from the set of goals. (As an increasing minimum wage forces an increase in an employee’s wage rate, other things being equal, the disutility incurred in paying the wage increases. When the disutility involved in employing a person exceeds the utility involved in continuing his employment, the employee will be released. Thus, the praxeologist constructs the theorem: An increase in the minimum wage, other things being equal, will increase unemployment.)

In these difficult days, with mainstream economics in disarray, and freedom under constant attack, we welcome the reappearance of these two books by Ludwig von Mises, and hope that this time their lessons will be heeded.
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The Crisis in Public Finance: No Ways or Means

Public finance is beset with the dilemma of meeting two objectives that may not be attainable. On the one hand, there is the prescription that any public financing scheme must be fair. Though there may be considerable divergence of opinion on what this means, there is some consensus that it must be considered in any financing proposal. The second objective is that the plan must be feasible. Contemplation of feasibility can range from simplistic administrative or enforcement concerns to more remote indirect impacts on the economy.

The problems faced in public finance are significantly different from those confronting non-governmental organizations. Private enterprises must obtain their funds via the voluntary transactions of the marketplace. Consumers are not required to purchase, or pay for, goods and services they may not want. Such is not the case when the government is involved as a participant in the transaction.

Fairness in private finance is achieved by virtue of the fact that all transactions are voluntary. Any would-be participant serves as the sole arbiter of the fairness of any bargain he may choose to make. In the non-voluntary transactions involving the government, the government serves as the arbiter of the fairness. The conformity of actual transactions with the great differences in perception regarding fairness must, unavoidably, be worse when one must judge for all (as in

Mr. Semmens is an economist for the Arizona Department of Transportation and is studying for an advanced degree in business administration at Arizona State University.
government enterprise) than when each may judge for himself (as in private enterprise).

In private enterprise the decision as to feasibility is rendered simply and swiftly. The marketplace is a strict disciplinarian in such practical matters. Unfeasible ideas never get off the ground, or quickly crash if they do. The marketplace performs this function continuously. The private enterprise, relying upon investors and customers for its resources, obtains a steady flow of information regarding the feasibility of its actual or intended plans.

Public enterprise does not have access to the same convenient feedback from the marketplace. Government produced goods and services are not really marketed to consumers. Often the purchase decision is involuntary, at least from the perspective of the consumer. Instead, purchase behavior must be simulated, assumed, or arbitrarily determined by some government employee.

Under such a handicap, it is extremely difficult for public enterprise to evaluate the feasibility of any plan. Isolated from the necessary information to specifically identify those goods or services which can be feasibly supplied, government must rely upon more remote indicators of viability. In place of product sales or company profits as measures of feasibility, the public financier must grapple with political resistance to a proposed tax or analyze the more widespread economic impacts of the government's coercive intervention into a particular sphere of business activity. The severance of the transaction in which the service is provided from that in which the revenue is collected makes any such analysis that much harder.

**Unfair Means**

The issue of fairness in public finance revolves around the answer to the question: Who should pay for whatever service is contemplated? Three separate approaches have been traditionally brought to bear upon this issue. First, it is often asserted that those who benefit from a government service ought to pay for its provision. Second, it may be argued that the burden of payment ought to be related directly to the costs incurred to serve a particular user of the service. Finally, some maintain that payment should be based upon the ability to pay.

The first and second approaches generally lead to financing schemes based upon "users funds," such as the highway users fund. The attempt is to draw revenues from those who use and benefit from the service rendered.

The ability-to-pay approach abandons any attempt to link consumption with payment. Instead, it
is asserted that services ought to be dispersed on the basis of need, while receipts ought to be drawn from individuals according to their ability to pay. Since the major forms of revenue generation—income, sales, and property taxes—employed by the government are already structured along ability-to-pay lines, reliance upon this approach suggests that government services be financed out of a "general fund."

Each of these three approaches to public finance presents some problems. From a practical standpoint there is an immense difficulty in ascertaining just how much benefit is involved in any one user's enjoyment of public services. Private enterprise cannot serve as a model here because private firms do not concern themselves with attempts to estimate the benefits enjoyed by specific customers. If enough customers perceive sufficient benefit in purchasing a firm's products or services for the firm to meet its profit goals, then the product or service will continue to be provided. "Enough" and "sufficient," imprecise as they are, can be tolerated in non-governmental enterprises because they are disciplined by external market forces. On the other hand, such imprecision presents the government with horrendous problems because its goals are essentially undisciplined by any outside market forces.

While there can be more precision in the determination of costs incurred to meet a general specification of services or products supplied, the allocation of these costs to individual users may prove troublesome. It is true, of course, that private enterprises are also faced with cost allocation problems. These are, however, primarily bookkeeping problems since the price of the service or product is determined by the marketplace. Knowledge or estimates of price and volume allow a private firm to work backward to determine how much cost can be covered by anticipated revenues.

Unfortunately, this process does not work in reverse. That is, knowledge of production costs will not tell us at what price and in what volume the final product will sell. All too often, public agencies become entrapped in a cycle of ever-increasing deficits by trying to price the services they provide on the basis of the costs incurred.

How Measure Demand?

Ability to pay is easier to measure than either benefit or cost. It is evidenced in tangible property or income and sales transactions. However, regardless of the ease of measurement here, we are completely severed from any information that would indicate the demand for the services to be provided.

As bad as pricing schemes based
upon estimated benefits or costs are, a system in which there is no price is much worse. Consequently, determining the amount of resources to be expended for whatever level of service is an entirely artificial process. We can have no objective idea of what degree of effort is necessary. Instead, completely arbitrary decisions must be made. Of course, there will be no way to tell whether these decisions will even come close to meeting genuine needs. The prospects for a balance of supply and demand under these circumstances are rather remote.

Not only is the public enterprise isolated from information regarding price and quantity, but struggles with these problems may appear relatively simple in comparison with the need to determine the product mix that should be offered.

Typically, consumer needs, wants, and means are greatly diversified. The demand is for variety. Variety is what private enterprise must provide. The multiplicity of firms facilitates the fulfillment of these needs. The absence of the power to compel purchase forces private firms to cater to these needs.

In contrast, the government has the power to compel payment for such services or products it may choose to provide. This is not to say that the government will necessarily abuse this power by enforcing the consumption of frivolous or inappropriate services. However, it is inevitable that at least some people will be compelled to finance services which they deem frivolous or inappropriate.

A sincere desire to minimize the instances in which compulsory levies will be perceived to be expended in an unjustified fashion usually results in a policy of standardized service geared to meet the minimum requirements. Some critics have characterized this as a process of catering to the lowest common denominator. Deficient as such a process may be in terms of some notion of an "ideal" resolution of varied needs and wants, it is, nonetheless, the best alternative, given the constraints under which the public agency must operate.

Can Might Make Right?

Our examination of the conditions pertinent to public finance would seem to indicate that there is no way in which fairness can be assured. To the contrary, any public funding scheme is bound to be unfair. The involuntary nature of all transactions in which the government is a participant insures this.

Whether one takes an approach based upon the "users" theory and attempts to equate taxes with some element of service rendered, or whether one adopts the redistributionist logic of "ability to pay," the fact remains, some individuals will
be made to pay for services they neither want nor even receive. Only governmental sovereignty prevents this *modus operandi* from being classified as criminal.

Fairness to the consumer is stymied in both key aspects of the product or service exchange. Whatever approach is used to determine price, he will have no option but to pay. Meanwhile, the quality and quantity in which the product or service is dished out will be decided by methods other than individual consumer choice.

Since attainment of universal fairness is not possible, the next best course open to the government is to minimize unfairness. This it has generally attempted to do in a number of ways. Almost without exception, the initial imposition of levies based upon ability to pay has started with low rates. Unfortunately, these have escalated to a point where the search for alternative revenue sources has become a widespread phenomenon at all levels of government.

The motivation behind the search for alternative revenue sources may stem from an uncertainty of conviction as to the justice of the "ability-to-pay" principle—that it must stop short of its logical conclusion to reduce everyone to an equality of wealth or income. Further taxes, it is felt, must be justified on some sort of "services rendered" basis. Despite the well-documented problems with both the benefits received and costs incurred approaches to public finance, there is a general consensus that reliance upon such methods is less unfair than any other option that includes continued government involvement in the provision of products or services.

Another motive inspiring the quest for new revenue sources is the belief that the supply of resources available under the ability-to-pay scheme may be "tapped-out." This "tapped-out" concept may relate to an estimate of the economic or the political infeasibility of heavier taxes for the general fund. The law of diminishing returns is a well-established principle. It is inescapable that, at some point, continued hikes in the burdens imposed on those able to pay will produce lower revenues. It is also inevitable that as increasingly larger numbers of people are discovered to be capable of paying larger and larger amounts, the balance of political power is bound to shift. Political resistance to public financing demands cannot help but increase, as the appetite for larger servings of public revenue can only be satisfied by placing more taxpayers on the menu.

**Infeasible Ways**

Since the payment of taxes is normally an involuntary activity,
the pragmatic issue of public finance is essentially a question of "who can be made to pay" and "how much he can be made to pay." This issue can be considered from two angles.

First, there are certain economic considerations. Who has how much? What is the cost of taking various amounts from him? What are the economic consequences of various levels of taxation?

Second, there are several political considerations. What is the capacity of the targeted taxpayers to resist the government's taxes? Are the targets ignorant and powerless? Or are they well informed and powerful? The answer to these questions will determine the extent to which the identity of who will be taxed will have to be disguised.

To date, the government has not made much progress in dealing with the economic implications of public financing activities. "Who has how much?" has been given devoted attention. The records of incomes, sales, and property are voluminous. The government effort in this area has been substantial. The cost of enforcing the taxes has been given some attention, but the effort has been inconsistent and marked by a measure of indifference. The economic consequences of various levels of taxation have been largely ignored. As a result, total public revenues are increasing, but not as fast as the costs of collecting them.

Meanwhile the impact of taxation on the economic health of the society is subject to a great deal of speculation, most of it suspecting the worst.

It has long been acknowledged that, at some point, the total burden of taxation would become "excessive." Objectively, this means that the next hike in the rate of the tax would actually produce lower public revenues. There has been no actual proof of what rate turns the tide. Therefore, a prudent course might restrict the government's taxation activities to the absolute minimum. Instead, government actions have continually increased taxes.

Whether the government's toll of the productive output has reached or passed the point of diminishing returns is a matter of serious concern. Recent public discussion of this problem and the fairly substantial argument over whether a cut in tax rates would increase government revenues, would seem to indicate, in an informal way, that we may be at or near a point of diminishing returns. At the very least, it is established that a substantial number of people are convinced that such a point has been passed.

**The Burden of Taxes**

Every governmental ways and means proposal, then, is, of necessity, confronted with the question of its additional impact on the total tax
burden. The fact that a particular tax proposal may be linked with a specific use for the funds generated does not insulate it from this total tax burden problem. Government imposed "users fees" are not market exchanges. The further removed these fees are from market exchanges, the greater the impact on the total tax burden.

The total burden, however, is not the only economic consequence of concern in public finance. The specific effects of each tax pose another problem. Tax rates or so-called users fees are not market prices. If the government's charge is less than the market price would have been, huge economic distortions may result. Demand for the underpriced product or service will be excessive. Demand for competing products will be suppressed. Greater supplies of ingredients to the underpriced item will be required. Each of these direct consequences will cause subsequent indirect consequences, creating a ripple effect of distortion throughout the economy. If the government's charge is more than the market price would have been, different, but equally serious, economic distortions would follow.

These distortions can lead to misallocation of resources and inefficiency. In effect, government taxes pollute the price system. The role of prices as feedback to the productive entities in the economy is thereby subverted. Wrong signals are given. Shortages and surpluses result. Resources are wasted. The rate of return on investment is reduced. Economic progress for all social groups is retarded.

This list of evil consequences may seem rather drastic. After all, how much devastation can be wrought by a few erroneous price signals? The degree of integration and sophistication that accompanies the advanced specialization of our high technology economy insures that the effects of even relatively minor transactions will spread throughout the economic system. Add to this the sensitivity of the price system as a continuous measurement device of the diverse wants, needs, hopes, ambitions, fears, greed, and other motivations of humanity, and you have a lever that can move the world.

Political Considerations

In contrast to the lack of attention given to the economic consequences of various public financing schemes, the political considerations of taxation have been handled with both dispatch and imagination. The growing proportion of total production being consumed by the government is evidence of the effort devoted to solving the political problems. Corporate America has been conscripted as the chief tax collector for both income and sales taxes, while the banking industry has been
drafted to play a major role in collecting the property taxes on mortgaged real estate.

The capacity for tax resistance has been minimized by skillful placement of the collection point. The bulk of personal income taxes are withheld. Purchase transactions cannot be completed without payment of the sales tax. Property taxes are normally included in monthly mortgage payments. In most jurisdictions, seizure and sale of property for nonpayment of taxes is a simple and expeditious process.

While the historical record gives us every reason to assume that the government would be able to overcome the political resistance to increased taxation, there are several conflicting forces. On the one hand, most of the easy sources of funding have already been exercised, perhaps to exhaustion. On the other hand, the knowledge and will to resist further burdens seems to be on the rise.

The root of the public financing problem is that man-made law cannot abolish natural law. Enactment of government taxes can affect the distribution of economic goods, but legislative fiat cannot create economic goods. Instead, taxation unavoidably lowers the return on productive activity. Disregarding any disincentive effect, the reduction in the return, when compounded over time, must reduce the total pool of available resources because a substantial potential quantity will never be created. Resources which are not created cannot be diverted to government use. Even the most advanced political skills cannot alter this reality.

**The Public Interest in Private Enterprise**

Our examination of the dilemma of public finance would seem to indicate that in terms of equity, taxation is fundamentally unfair. The public enterprise is unable to determine what demand is, much less serve it. No bona fide exchange takes place. Individuals do not get what they pay for in any reasonable sense of the word. There is, in short, no defensible standard that is consistently employed in taxation other than convenience for the government.

Even convenience is unsustainable in the long run. The defenseless and the subservient have already been taxed, probably close to their capacity to pay. The strain on the economy's limited resources has become apparent. There is the very real possibility that any further attempt to raise revenues by increasing the tax rates will be counterproductive. Public enterprise has always been less feasible than private enterprise. The government must now face the prospect that this relative lack of feasibility is being replaced by an absolute infeasibil-
ity, particularly with regard to the potential for additional revenue generation.

So, if public finance is both unfair and infeasible, what are the public policy implications? Expansion of the government's role must be ruled out. Replacement of public by private enterprise seems warranted.

The specific means for achieving the privatization of public enterprise must follow in the wake of a more widely spread recognition that such a step would be beneficial. The future viability of our economic system may well depend upon the speed with which such recognition takes place.

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**Another Anti-Inflation Circus**

Hans F. Sennholz

Every U.S. President from the time of Franklin D. Roosevelt has been an "inflation fighter." Some denounced inflation as "public enemy number one," others even declared war on inflation.

And yet, since the first declaration of war by FDR, the American dollar has lost 80 per cent of its purchasing power and is losing more every day. Inflation is winning all the battles.

For almost 50 years of the anti-inflation war the U.S. government has pointed at several culpable parties. American business, especially big business, has taken the brunt of the blame. One President even used four-letter words to describe the greed of businessmen who raise prices. Some have taken potshots at physicians, attorneys, and other professionals, or pointed at labor unions. All presidents like to flail at speculators who hedge against the
U.S. dollar by buying gold and harder currencies. And all have damned foreign governments for ruining the dollar.

Recent proposals in the battle against inflation call for restrictions on the production and consumption of energy and programs to spur U.S. exports, limit imports, sell additional amounts of gold, and encourage West Germany and Japan to buy more from the U.S.

If it were not for the ominous effects of inflation on our lives and our society, the anti-inflation war would be a proper subject for the circus. The clown pompously announces he will demonstrate his skill, but lo and behold, always accomplishes the very opposite. The President formally announces another anti-inflation program, but lo and behold, the inflation gets worse.

The clown's method of fun is deliberate. He labors to violate a simple natural law. For instance, he seeks to defy the law of gravity by valiantly supporting an object that wants to fall down. He generates laughter, because young children know the futility of his efforts.

For economists familiar with economic laws, the Presidential anti-inflation programs are equally hilarious because they aim to violate inexorable economic laws. Like the Danish King Canute who ordered the rising tide to come no further, the President of the United States is commanding economic laws to yield.

For example, all governmental efforts to restrict imports and promote exports tend to reduce the supply of available goods. Every freshman economist who is familiar with the law of supply and demand, knows that this policy must raise goods prices and thus depreciate the currency.

The administration proposes a Congressional energy package to reduce the importation of foreign oil and gas "in order to bolster the dollar." But such a reduction will cause energy prices to rise and the U.S. dollar to depreciate. The world seems to know this, as it continues to dump U.S. dollars on the world money markets. Every time the President speaks of energy and his programs, the dollar falls to a new low.

Like the Danish King Canute who ordered the rising tide to come no further, the President of the United States is commanding economic laws to yield.

The U.S. government is selling gold to strengthen the dollar. It offers foreign bankers and governments the opportunity to exchange dollars for gold, which strengthens the international role of gold and
weakens that of the dollar. The dollar price of gold may temporarily fall one dollar or two, but the world-wide distribution of gold tends to bolster its importance.

The President lashes out at individuals—especially at foreigners or those Americans who are not expected to vote for his re-election—for causing the inflation through greed. He becomes a judge, and draws applause from those always ready to think evil of their fellows. An economist watching this is reminded of the scriptural question, "Why beholdest thou the mote that is in thy brother's eye but considerest not the beam that is in thy own eye?" He may also remember the circus scene in which a clown turns on the water sprinkler, thoroughly soaking another clown, and then, with great indignation, assails him for being so wet.

Economists frequently wonder about the mentality of politicians. Does the President really believe that God invested him or his administration with special powers? Does popular acclaim and high office mislead him to believe in such powers? Or is he aware of his limitations, but merely acting the role of an omnipotent leader because the people would like him to be omnipotent? Is the economic ignorance really his own or merely a reflection of the ignorance of the electorate? Does a legislator actually believe that he and his colleagues, in Congress assembled and by majority vote, can negate economic law? For that matter, did King Canute's entourage, which shouted the King's order in unison, really believe that the rising tide would come no further?

Does a legislator actually believe that he and his colleagues, in Congress assembled and by majority vote, can negate economic law?

Ours is an age of inflation because most people believe in the desirability of more money and credit, which is the very essence of inflation. Motivated by this belief, they bestowed the monopolistic right to issue money on their government and urged it to be free and easy with the issue. Governments greatly enjoy the use of this power because it affords an important source of revenue. Weak administrations, especially, readily yield to the temptation and create massive quantities of money in order to finance their spending programs. Billion dollar expenditures may generate millions of votes.

Issuing new money inescapably produces undesirable effects. Prices rise as recipients of the new money buy more goods and services. Each unit of money depreciates as more units are emitted. People on fixed
incomes and savers see their purchasing power reduced, so they complain about the inflation. The government that is busily emitting massive quantities of new money rushes to the rescue: "By order of the President, the Congress, the courts and the police, all prices stop!" The order is given to millions of individuals exchanging goods and services in countless voluntary transactions.

As long as the order agrees with the value judgments of the trading parties, they will continue to exchange as before. But if the order should differ from their judgments, they will react. The seller who is ordered to exchange at a stop price that is lower than his own value judgment, ceases to exchange. In his judgment he would suffer a loss which he can avoid through inaction. The physician whose fee is officially fixed below the rate that causes him to render his service, will reduce his efforts. Thus, shortages inevitably result wherever government fixes prices below those people would set in free exchanges.

At first, the U.S. government resorts to inflation in order to cover its deficits. When rising prices subsequently hurt millions of people and cause them to voice their frustrations, the very administration that indulges in the spending spree is quick to point its finger of blame at some innocent bystander. It may impose wage and price controls, which control people and cause their productive efforts to decline. Lower output in turn causes the value of goods and services to rise and that of money to fall.

The U.S. government alone is conducting the inflation and making it worse with "anti-inflation programs." An administration that really disapproved of inflation would just stop inflating the currency.

**Inflation Produces Chaos**

**When** the government has the power of dipping into public funds for distribution to various groups under the welfare state theory of government, the pressure put upon it by the people cannot be resisted. Inevitably, it spends more than its income and not only taxes the people to the point of strangling business but creates enormous deficits in addition. Inflation then produces the chaos which makes necessary the suspension of free government and the institution of dictatorship.

Howard E. Kershner
The United States became the center from which the idea that has the world in its grip, in its evolutionary socialist, gradualist, or democratic socialist formulations, was spread after World War II. The main device for spreading the collectivist practices associated with the idea was foreign aid. Foreign aid was extended by way of grants and loans from the United States government to governments of other lands around the world. It consisted mainly of military aid, commodities and other economic aid, and technical assistance.

Those who devised, promoted, voted for, and carried out foreign aid activities for the United States did not avow the aim of spreading socialism. On the contrary, it was promoted primarily as a means of containing communism and secondarily as a means of establishing stability and peace by promoting security and prosperity. Moreover, there was much talk of advancing and supporting individual liberty and free enterprise around the world. For example, the "Benton amendment" to the Mutual Security
Act of 1951 contained these admonitions:

It is hereby declared to be the policy of the Congress that this Act shall be administered in such a way as (1) to eliminate the barriers to, and provide the incentives for, a steadily increased participation of free private enterprise in developing the resources of foreign countries consistent with the policies of this Act, (2) to the extent that it is feasible and does not interfere with the achievement of the purposes set forth in this Act, to discourage cartel and monopolistic business practices prevailing in certain countries receiving aid under this Act which result in restricting production and increasing prices, and to encourage where suitable competition and productivity.

While this was less than a clarion call for free enterprise, it did state that as a part of the aim. That the aim was to defend and establish freedom was stated often and in a variety of ways. Secretary of State George C. Marshall, who articulated the Marshall Plan of foreign aid for Europe, declared before the Senate Committee on Foreign Relations that its high purpose was "the establishment of enduring peace and the maintenance of true freedom for the individual." The Economic Cooperation Act of 1948, which was passed by Congress to put the Marshall Plan in effect, included these assertions of purpose:

... The restoration or maintenance in European countries of principles of individual liberty, free institutions, and genuine independence rests largely upon the establishment of sound economic conditions, stable international economic relationships, and the achievement by the countries of Europe of a healthy economy independent of extra-ordinary outside assistance. The accomplishment of these objectives calls for a plan of European recovery... based upon a strong production effort, the expansion of foreign trade, the creation and maintenance of internal financial stability, and the development of economic cooperation, including all steps possible to establish and maintain equitable rates of exchange and to bring about the progressive elimination of trade barriers.

At their inception, and for several years thereafter, these programs had widespread bipartisan support in the United States. One historian suggests that this was achieved by the appeal to a broad spectrum of ideas and beliefs:

The relative ease with which Truman got the substance of this European Recovery Program (E.R.P.) through an economy-minded Republican Congress can be easily explained. The administration had done unusually careful and thorough spadework. Sensing the conservative temper of the country, it made business leaders partners in the venture. The success of E.R.P. in Congress was assured when the three most powerful national pressure groups were persuaded that their constituents, as well as the United States, stood to gain from the proposal. The business group (repre-
sented by the National Association of Manufacturers) hesitated to bolster the socialist economies among the sixteen nations. The N.A.M. realized, however, that European recovery would foster American foreign trade and might possibly uproot the seed beds of Communism in France and Italy. Moreover, Truman's liaison officers promised that E.R.P. would be run according to "sound business principles," and that it would help counteract the trend toward socialism. ... E.R.P. was headed by the president of the Studebaker Corporation, Paul G. Hoffman, who pleased the industrial bigwigs by advertising abroad the merits of the American system of free enterprise.

The all-important agricultural associations were also enthused by the prospect of increased foreign outlets for farm products, as were the A.F.L. and C.I.O. ... The support of the country's most influential lobbies was secured before Congress began its debates.  

Biased toward Collectivism

Whatever the aims and intents of those who supported these programs, however, the thrust of them was collectivist. The desire to forestall the spread of communism was probably quite sincere, so far as it went. The desire to contribute to European recovery and, more broadly, to the stabilization of countries in various parts of the world may have been equally sincere. There is evidence, too, that some of the initial animus, at least, of American involvement was directed toward the freeing of trade and enterprise. The best examples of this were in West Germany and in Japan where Americans were most deeply involved. The shadow of Woodrow Wilson still hung over America at the end of World War II, a shadow cast by Wilson's peculiar combination of nineteenth century liberalism, with its emphasis upon free trade and open markets, with twentieth century liberalism, with its collectivist bias.

But a fuller explanation of a collectivist thrust behind a facade of promoting individual liberty and free enterprise requires that we call to mind how gradualism works. Gradualism proceeds by advancing programs which have their meaning within socialism but are advanced only to deal with particular exigent situations. In England, this approach is known as Fabianism. The gradualist, too, utilizes, so far as possible, familiar ideas and works within the framework of established institutions, even when he aims at their eventual overturn. Gradualism proceeds by altering the content of ideas and the character of institutions. The collectivist premises are often kept out of sight but are made to inform such acceptable ideas as international cooperation, mutual security, and multilateral agreements. Familiar terms are subtly informed by collectivist premises.
A Confusing Reciprocity

How this works may be made clearer by examples. New Dealers worked to lower tariffs in the 1930s by what were called "reciprocal trade agreements." The lowering of tariffs had been correctly identified with the movement toward free trade. But reciprocity brought a new ingredient to the undertaking, and one which, on closer examination, is quite confusing. "Reciprocal" implies that a quid pro quo has been given. But in a reciprocal trade agreement who gives the "quid," and who gets the "quo"? It is not at all clear when looked at as a matter of economy.

The problem arises because neither nation benefits from a protective tariff. Revenue aside, the peoples of both countries are harmed. So far as the protective tariff succeeds in its object, they are denied goods they might have had at more favorable prices than they can obtain. It is even questionable whether in the long run those interests that are supposed to benefit from the protection, industrial workers, for example, even benefit. But whether they do or not, it has been demonstrated conclusively, and many times, that the general populace of a country does not gain from the protective tariff. That being the case, and assuming that government is supposed to be the agent of the populace, no reciprocal agreement to lower tariffs is necessary, and none is possible in a meaningful sense. In short, the people of the country in which the tariff is lowered are the most direct beneficiaries of the action. It is in their interest for the tariff to be lowered, whether the tariff of any other country is lowered or not. In a similar fashion, it is in the interest of other countries to lower their tariffs.

Justified by Socialist Theory

Reciprocal trade agreements do not make sense within the theory and framework of a free market. They are a collectivist device. Socialist theory justifies them, and they are in accord with the idea that has the world in its grip. We can understand both reciprocal trade agreements and foreign aid within the framework of that idea. At the heart of the idea is the notion of getting rid of the pursuit of self-interest. According to mercantile interventionist theory, the protective tariff benefited the country which imposed it by helping to establish a favorable balance of trade. Therefore, according to this theory, the national interest was advanced by the protective tariff. By a reciprocal trade agreement, then, two or more nations would mutually agree to sacrifice their national interests for their common welfare and benefit. It was equally important, too, that governments act in concert
with one another in the movement toward collectivism.

Socialism provided the framework for the foreign aid idea. By foreign aid, a nation sacrifices its interest for the common welfare of all the nations involved. Although there is an egalitarian animus behind foreign aid, it is quite possible that the most important push was to get nations to act in concert for their supposed common good.

Socialism is nationalistic. Virtually every species of socialism is national socialism. The late Ludwig von Mises explained the reason for it in this way:

Interventionism aims at state control of market conditions. As the sovereignty of the national state is limited to the territory subject to its supremacy and has no jurisdiction outside its boundaries, it considers all kinds of international economic relations as serious obstacles to its policy. The ultimate goal of its foreign trade policy is economic self-sufficiency.

The striving after economic self-sufficiency is even more violent in the case of socialist governments. In a socialist community production for domestic consumption is no longer directed by the tastes and wishes of the consumers. The central board of production management provides for the domestic consumer according to its own ideas of what serves him best. But it is different with production for export. The socialist government is sovereign in purveying to the domestic consumers, but in its foreign-trade relations it encounters the sovereignty of the foreign consumer. On foreign markets it has to compete with other producers.

In short, in order to control the domestic economy, and have it subject to no outside influences, socialism tends to try to have a self-contained economy.

Destroying the Market

The market is anathema to socialism or to the idea that has the world in its grip. Socialists inveigh against capitalism and capitalists. But they are not the true enemy. Capitalists can be, and regularly are, bought; they can be controlled, manipulated, even used as instruments of government. They are paper tigers, easy to abuse in slogans but hardly formidable opponents of socialism generally.

The free market is another matter. It epitomizes what must be crushed if the idea is to triumph. In the free market, the pursuit of self-interest reigns supreme. There, the sellers display their wares as attractively as possible, hoping to get the best price possible for them. There buyers are dominated by one thought: to get the best merchandise for the lowest price. The market must be abolished. Or, it must be altered so drastically that self-interest no longer holds sway.

The massive revolutionary thrust in this century has been aimed at somehow abolishing or decisively al-
tering the character of the market. Entailed in this effort is the determined and tenacious attempt to transform man and society, for men make markets, and the market is a salient feature of society.

In theory, nothing should be easier than to abolish the market. All that is necessary is to abolish all private property. Then, since men will lack all means with which to trade, all trade will cease, all legal trade anyway. Any government that would go so far, however, would almost certainly be committing suicide. By abolishing private property and the market, it would not only remove the positive means that induce men to produce but a goodly portion of the negative, i.e., fear of punishment, ones as well. The most common and widely used means by which governments punish malefactors in our day is imprisonment. But imprisonment would involve no significant change in status for a people who could have no private property or engage in trade.

As If in Prison

The parallel between the socialist premises and imprisonment is striking. The main impact of imprisonment is felt in the virtual abolition of private property and the drastic restriction of the market. The aim of imprisonment is presumably to punish by detention. But the effect would be the same if the aim were to abolish the market. It is true that socialism has never threatened to cut off all nonpecuniary exchanges, but to the extent that it limits the market, it reduces the opportunity for these as well.

Even totalitarian socialist regimes have stopped short of abolishing all private property in their assault on the market, however. Indeed, it is probably beyond the power of government to extinguish all private property. Property is antecedent to government, having a factual basis in production and possession. The nearest thing we know to the abolition of private property occurred in the Nazi concentration camps and the Soviet labor camps, but even there men clung to the residues of possessions as property.

Be that as it may, socialists—that is, all those under the sway of the idea that has the world in its grip—everywhere carry on a virtually unremitting effort to limit, restrain, and control the market. Every effort to do so, however, tends to isolate each socialist state from every other nation. Efforts to control the money supply hamper foreign exchange. Efforts to control wages, usually to raise them, make trade with other nations difficult. In short, socialist experiments tend to cut nations off from one another and to pit them against one another. This was dramatically demonstrated by the Iron
Curtain around the Soviet Union and the Bamboo Curtain around China. The isolation of gradualist nations is not so dramatic, but the tendency is at work there as well.

**Barriers to Trade**

The problem can be phrased this way: How can a nation's economy be managed when the economy is subject to the world market? The answer, of course, is that it cannot be. In their efforts to manage economies between World War I and World War II, nations almost everywhere erected barriers against world trade. This national socialism followed its logical course most fully in Nazi Germany and Fascist Italy. It followed an equally logical course as imperial socialism in the Soviet Union, although there it did not reach fruition until 1948, when all of eastern Europe had fallen under Soviet domination.

To the extent that a country is cut off from the world market it loses the advantages of international division of labor and specialization. It is cut off from many of the best sources of materials and better markets for its products. The most logical course then becomes to expand the area over which it has control. Indeed, the logic is world conquest.

After World War II national socialism was in disrepute. That does not mean that it has not been practiced—Red China being the most horrendous example—but that it was not avowed as a purpose. Two varieties of international socialism emerged as dominant. One of these is international communism which, after the war, was centered in Moscow. The other, unnamed but nonetheless present as impetus, is international democratic socialism or gradualism. Its center was in Washington. The contest between them was the Cold War.

The Soviet Union sought to remove its isolation by expanding the communist system. (It could be argued that this represented no change in Soviet policy, since it had been trying to do so since 1918. Perhaps, though, there was a shift toward the emphasis of fostering communism instead of simply extending Soviet power.)

**The Role Played by the U.S.**

The precise role of the United States in these developments needs a little further explanation before it becomes clear. Neither the United States nor other nations were opposed to foreign trade as such. The opposition of socialists is to the market, not to trade. To put it another way, if trade could be conducted as a part of the managed economy, could be collectivized, and carried on so as advance democratic socialism it would be entirely acceptable. In short, if trade could come
under the auspices of government instead of being carried on between peoples in the market it would lose its onerous character.

It is quite possible that no one conceived the matter in just this way, and it is certain that those who advanced the American programs did not publicly state the case for them in this fashion. In any case, socialists have not been inclined to acknowledge that barriers to trade arise from socialist practice, if they were aware of it. (Quite often, they don't even admit they are socialists, especially in the United States.) So far as Nazi Germany and Fascist Italy were concerned, those were "right wing" movements, according to other socialists. Of course, it is no secret that countries following collectivist practices have difficulties in foreign trade. But they are not ascribed to socialism. They are ascribed to dollar shortages (American printing presses have finally eased or removed that one!), to trade imbalances, to the devastation of wars, to cold winters, to droughts, to industrial backwardness or underdevelopment, to colonial exploitation, or to a hundred and one other conditions.

Even so, the problem was there, and it was real, whether it could be openly faced or not. Namely, how could socialism be an international movement? How could nations open up to one another in mutual benefit rather than each be cut off from the other in isolation and mutual antagonism? How could Soviet socialism be undercut, contained, and perhaps tamed by gradualist socialism? Although there is no reason to suppose that American intellectuals were wrestling with these problems formulated in this way just after World War II, they were wrestling with problems stemming from them.

**The Marshall Plan**

An American plan for dealing with these problems began to emerge in 1947. There had been an earlier American plan—the United Nations—but it was thwarted by Soviet obduracy plus a lack of determination from other nations. It was first expressed in the Truman Doctrine in connection with aid to Greece and Turkey. President Truman said, in part:

The seeds of totalitarian regimes are nurtured by misery and want. They spread and grow in the evil soil of poverty and strife. They reach their full growth when the hope of people for a better life has died. We must keep that hope alive.

The free peoples of the world look to us for support in maintaining their freedoms. If we falter in our leadership, we may endanger the peace of the world—and we shall surely endanger the welfare of our own nation. 

It was, however, Secretary of State George C. Marshall who gave
much more definitive form to the plan. In a speech at Harvard University, delivered on June 5, 1947, he set forth some ideas which were quickly dubbed "The Marshall Plan," and became the foundations of an American plan. Two key points emerge from the address. The first is his statement of the purpose: "Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world. . . ." The other was the method. Secretary Marshall took care to emphasize that the initiative in devising the particulars of the plan must come from European nations. "It would be neither fitting nor efficacious," he said, "for this Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number, if not all, European nations." 

If Marshall's program was anti-communist, it was surreptitiously so. Communist countries were invited to the initial conference, and one accepted. The Soviet Union intervened, and none of the countries in the Soviet orbit participated.

When the Marshall Plan was put into effect heavy emphasis was placed upon the "joint effort" and "economic cooperation." Truman described the plan this way: "This was our proposal, that the countries of Europe agree on a cooperative plan in order to utilize the full productive resources of the continent, supported by whatever material assistance we could render to make the plan successful." The participating countries made a formal pledge "to organize together the means by which common resources can be developed in partnership. . . ." The thrust of the programs as activated was to promote economic union of European countries." The main outcome was the Common Market.

Massive Redistribution

The Marshall Plan was a major breakthrough for gradualist socialism. Theretofore, the interventionist measures associated with gradualism had tended to raise barriers between nations. The Marshall Plan attempted to lower the barriers within a region of the world while promoting collectivism on a broader scale. The Marshall Plan was socialistic, in the first place, because it entailed American aid to European countries. Tens of billions of the wealth of Americans was trans-
ferred to Europe, a clear cut case of redistribution of wealth. More, the program promoted collective action by several participating countries. Moreover, it enabled countries to continue their domestic socialist programs by negotiating arrangements with other countries that would leave them undisturbed.

The question of whether or not the United States should promote free enterprise by the European Recovery Program was resolved in this way by a committee:

Aid from this country should not be conditioned on the methods used to reach these goals, so long as they are consistent with basic democratic principles. . . . While this committee firmly believes that the American system of free enterprise is the best method of obtaining high productivity, it does not believe that any foreign-aid program should be used as a means of requiring other countries to adopt it. 

It would have been surprising if the committee had determined otherwise, since the United States was extending aid to the Labour government in England which was busily nationalizing industries before the Marshall Plan got underway.

Extending the Vision

Despite its extensive scope, the Marshall Plan was a limited program, limited to Europe and to a few years to help these countries recover from the ravages of war. However, President Truman was not long in extending a vision of American help to the whole world. Following his re-election in 1948 he announced what he called the Point Four Program. He explained the program this way:

Point Four was aimed at enabling millions of people in underdeveloped areas to raise themselves from the level of colonialism to self-support and ultimate prosperity. All of the reports which I had received from such areas of the world indicated that a great many people were still living in an age almost a thousand years behind the times. In many places this was the result of long exploitation for the benefit of foreign countries. . . . This was the curse of colonialism. . . .

In this country we had both the capital and the technical "know-how". I did not see how we could follow any other course but to put these two great assets to work in the underdeveloped areas in order to help them elevate their own standards of living and thus move in the direction of world-wide prosperity and peace. . . .

The following are examples, cited by Truman, of programs undertaken under the auspices of Point Four:

A monetary, fiscal, and banking system was introduced in Saudi Arabia. Schools of medicine, public health, and nursing were set up in several countries. A 75,000-acre irrigation project in the Artibonite Valley of Haiti got underway. A great multi-purpose hydroelectric plant was constructed in the Mexican state of Michoacán. Irrigation projects in Jordan were started to create 120,000 acres of arable land providing
homes and six-and-a-quarter-acre tracts for 21,000 families consisting of 105,000 individuals. 14

Economic and Military Aid

Very soon after its inception, indeed, in some places from the beginning, foreign aid was of two kinds: economic aid and military aid. The whole became a vast effort to arm and assist in feeding peoples around the world. Within a decade after World War II, American influence was extended to virtually the whole of the non-communist world. A political scientist imaginatively described the American “presence” this way:

The extent and depth of American commitments in the postwar world were staggering. In the decade after the war Americans took the lead in the United Nations and American soil became the site of the world’s “capital.” Americans ruled alien peoples in Germany, Austria, Italy, Trieste, Japan, and Korea; and American generals, like Roman generals of old, became world famous as proconsuls. Peacetime “entangling alliances” were made with Europeans, with Asians, and with countries as far away as Australia and New Zealand. American spheres of influence arose in Greece, Turkey, and Saudi Arabia, and extended in circular half-moon fashion through the Japanese islands, the Ryukus, Formosa, the Philippines, the Carolines, and the Marshalls. The internal politics not only of Latin American countries but also of European, African, and Asiatic countries turned on American policy.

The following are net figures for foreign aid from the United States for the years 1945-1965. The total for economic and military aid was slightly over 100 billion dollars. Economic aid to western Europe amounted to $23.8 billion; military aid to $16.2 billion. To the Near East and south Asia, $15.4 billion in economic aid; $6 billion in military aid. To the Far East and Pacific, $14.5 billion in economic aid; $12 billion in military aid. In the Western Hemisphere, $5.6 billion in economic aid; $1 billion in military aid. 15

“Democracy” as a Code Word

Our concern here is primarily with how this expansion of wealth and influence contributed to the spread of gradualism. The ostensible purpose of the aid was to spread and buttress democracy and build the sort of regimes that would resist communism. “Democracy,” as earlier noted, was a code word for democratic socialism, at least as used by many intellectuals. In practice, this meant that where American aid went the prevalent American notions of the role of government went also. Here is an example of the development of an argument for this in an Economic Cooperation Administration report to Congress:

No modern self-governing state—and especially no state with a democratic form of government—can maintain itself
and develop its potential unless it performs a minimum of public services in the fields of health, agriculture, education, transport, power and communications, industry and overall planning. The countries of southeast Asia . . . are acutely deficient in these public services. . . . The initial step in any program . . . must therefore be the organization and maintenance of adequate, self-sustaining public services. 16

Another report was even blunter, declaring that we must assist in the "creation of social and economic conditions and institutions under which the people feel that their basic needs and aspirations are being satisfied by their own free and independent governments." 17 In short, the foreign aid programs aimed to strengthen governments by helping them to provide for the needs of their citizens.

Building a Base for Socialism

In the broadest sense, what animated the foreign aid programs can be described as follows. The most basic appeal of socialism is the promise of redistributing the wealth. However, industrially undeveloped countries had very little wealth either to distribute or redistribute. (The same had been true, to a much lesser extent, of war-ravaged countries.) Nor did they have modern weaponry with which to consolidate their own power over the populace or to defend themselves from foreign invaders. The United States intervened by providing wealth, or a modicum of it, for governments in these countries to distribute, and weaponry to build up military establishments.

The aim was not to make these countries permanently dependent on largess from the United States. Direct aid in goods and materials was supposed to be a stop-gap measure. The aim was to develop these countries so that they would no longer require such aid. This was affirmed over and over again in public statements, and there is little reason to doubt the sincerity of such intentions. One may surmise that if a country could learn the techniques and develop industries they could then engage in their own redistribution programs.

But if each country in the world became self-sufficient, the world would presumably be caught up in the inner contradictions of socialism, namely, each country isolated from every other. There is, of course, no danger that countries will become self-sufficient. The tacit premise of socialism is that all the goods will be more or less equally available to all the peoples of the world. That is hardly a project that could be accomplished once and for all, if it could ever even be momentarily accomplished. Droughts, floods, hurricanes, tornadoes, discoveries of rich mineral deposits, in-
A Mistaken Idea

There could hardly be a more perverse and mistaken idea than the idea that you can fight communism with socialism. So-called "gradual" socialism is at best a halfway step toward communism. The economic ideals of socialism and communism are identical. Both believe in government ownership and operation of the means of production. Once this ownership and operation become sufficiently extensive, the government has economic life-and-death powers over the individual. It can say where he must take his job, what job he must take, or whether he can take a job at all. And once the government has this power, the liberty of the individual has in fact, if not in form, disappeared. As Alexander Hamilton pointed out in the Federalist Papers a century and a half ago, "a power over a man's subsistence amounts to a power over his will."...

Under capitalism, in addition to the possibility of going into business for oneself, there are in the United States several million employers competing against each other for labor. Their competition not only raises the wages but protects the liberties of the worker. His situation becomes incomparably worse when he must bow to the will and terms of a single employer, the State. The history of the spread of socialism is in fact a history of the disappearance of peace, representative institutions, limited government, and personal liberty.

Henry Hazlitt, Will Dollars Save the World? (1947)

A Brotherhood of Nations

The foggy dream which impels gradualists is not of some final resolution in which socialism will have been achieved but of an enduring effort to shift the world goods where they are wanted. They will have the mechanism for the activity when some international body has been empowered to take from the haves and provide for the have-nots everywhere in the world. Pending that, the task is for wealthy and "enlightened" nations to provide for those who have less. A kind of brotherhood of all nations is supposed to emerge from all this, nations which no longer advance the self-interest of their own people but are exclusively concerned with the well-being of all mankind.

In the real world that did not come
to pass. As soon as the Arabs had the technology for producing oil within their bounds they took it over and jacked up the price of oil. They utilized their regional association to form a giant oil cartel. Military aid has all too often turned into military rule within countries. American aid was often a handy device for keeping a particular party in power. But, above all, the amount of foreign aid never kept up with the dreams and expectations of the people to whom it was extended. Underdeveloped countries remained underdeveloped countries for the most part, their foreign aid spent for showy demonstration. True, the foreign aid programs spread the virus of socialism. They helped to fasten on most of the peoples of the world the notion that they should look to their governments to take care of them. But it was never enough—it could not be—to produce what it promised.

In consequence, by the 1960s many countries were leaving the American orbit. For the most part, they were not going into the Soviet orbit, not headlong anyway. They declared themselves unwilling to be participants in the Cold War, and many of them were clearly not sold on the superiority of gradualism. That was for Western nations who had already developed their technology. They would have to find another way. It is time now to discuss the development of this Third World.


—FOOTNOTES—

3Ibid., p. 25.
8Ibid.
9Harry S. Truman, *Memoirs, II, Years of Trial and Hope* (Garden City, N.Y.: Double-day, 1956), 114.
11See *ibid.*, pp. 121-22.
12Ibid., p. 44.
14Ibid., p. 237.
16Price, op. cit., p. 205.
17Ibid., pp. 205-06.
Egalité?—Sheer Illusion!

The view that equality is a goal which the human race should strive to reach is widely accepted and supported, in one form or another, although this hazy concept has always been found wanting when subjected to careful scrutiny. Perhaps a few comments on the limitations of the egalitarian dream, in some of its current manifestations, are not inappropriate at this time.

To begin with I'll take note, briefly, of two fundamental obstacles to achieving complete equality among individuals or groups, large or small. One is the impossibility of providing each of the several billions of our present population with precisely the same endowment of the natural resources of benefit to man. Mother Earth’s bounties are not uniformly distributed over the habitable surface of the globe, and there is literally no practical way by which each of us can be equally endowed with sunshine, rainfall, fertility, timber, mineral resources, and so on. Substantial mitigation of the impact of these differences would be possible in a condition of permanent peace plus expansion of international trade, but to date the human race has failed to move decisively in this direction.

Even more inherent and insurmountable is the variation plainly in evidence in the native qualities of individuals and groups. Diversity is
a commonplace in nature and we humans are not exempt. Aside from sex, individuals vary in height, weight, eye color, and a host of other physiological characteristics. And each of us arrives on the scene with a separate package of traits, tendencies, and intrinsic talents. Even among individuals with the same parents important variations in physical and mental qualities are not at all unusual.

What our progenitors were like millions of years back is somewhat conjectural, but we do know that today homo sapiens, "the only surviving species of the genus Homo", is not made up of a mass of homogeneous units.

**Ignoring Hereditary Influences**

I want to pursue a bit further this matter of variation in native attitudes and abilities. There seems to be a cult today of wishful thinkers who are pushing the fanciful notion that each of us is born with precisely the same potential, that we all start abreast, and that what happens from then on is entirely the result of environment, including how we are treated by our fellow men. This idea is manifestly absurd, even if we rule out those who start life with major congenital mental or physical handicaps. True, the life course of the individual is often greatly influenced by environmental circumstances, but this doesn’t mean that hereditary factors are generally of no consequence in shaping our careers.

And what an unimaginably drab world this would be if all individuals were identical in every particular and committed to identical life experiences! We can be thankful that this is not the case and not even a remote possibility. Perhaps the concept of a race in which all members are supermen is not beyond the realm of imagination, but who would want to find himself in such a situation! I might also note here that our complex modern economy, with its intricate network of facilities bringing a marvelous array of products to the ultimate consumer, includes a great range of functions and tasks. We can’t all be top executives; somebody must work on the assembly line.

**Minimizing Economic Disparity**

Right here the equality fan might well interpose a question: Even if we concede that it is not feasible for all individuals to be endowed with precisely the same cross section of climatic conditions and natural resources, and that people will continue to vary in their physical and mental equipment, isn’t it desirable to foster programs designed to minimize differences in standard of living and economic power generally?

This is an interesting question
and deserves attention. To provide a partial answer let’s reword the question more concretely: Are current reform and welfare movements and projects—consumer protection legislation, taxation that favors the people with low incomes, subsidized housing for the poor, special assistance to the elderly and those with mental and physical handicaps, and so on—desirable and deserving of support? I believe a negative answer is justified.

There are two ways, as I see it, by which to reduce the disparities in personal incomes, in the amount of economic goods and services at the command of the individual. One is to harass and block the efforts of the hustlers, the go-getters, the front runners, the innovators, until their pace is slowed to that of the less able, the less qualified and talented, the incompetent, the shiftless, the handicapped. The other is to provide an economic and governmental milieu that encourages, stimulates, the more capable and productive individuals, that provides incentives for those among us with the most potential to do their best. Such a society, I submit, is actually the best way, indeed the only way, to reduce the inequalities so galling to our egalitarian friends. In such a society technology advances, output expands, and per capita income rises. The laggards are not damaged. Instead they are given the opportunity to improve their own performances as they are carried along on the fast-moving coat-tails of the inherently superior.

It should hardly be necessary to add that in referring to the able, the talented, the productive, I am not including the destructive, or those who gain by preying on their fellows.

* * *

The socialist road we are now marching on is not the route to increased total productivity and increased per capita standard of living, and if we believe that these are desirable goals we should alter our course, and not dillydally in doing it.* The relatively free, competitive market, not a bewildering array of government agencies, operated by fumbling politicians and bureaucrats, remains the only proven road to widespread economic prosperity.

*There is room for argument as to the basic effects on the human being of an increasing standard of living. Perhaps the real danger to the people of the United States right now is the impact of an amazing upward surge of living standards in the last century on our vigor, our character, our will to accomplish and survive in a dangerous world. See my piece, "Can We Sustain Prosperity?" in the January, 1972 issue of The Freeman.
Liberals and socialists share a vision of a planned economy. It is a vision of order, extending to economic matters the rational foresight that is the glory of our nature: weighing and ranking our needs by intelligent deliberation, allocating resources with scientific efficiency to satisfy those needs. The concept of economic planning wears a public face of dedication to reason. Behind the face, however, lies a deep-seated philosophical hostility toward reason.

The concept originated with the socialists of the nineteenth century, principally Karl Marx. Marx complained that while man had achieved control over the forces of nature, and bent them to his ends, he was still the pawn of economic forces. The movements of supply and demand determine prices, wages, profits; they determine the investment of capital and the allocation of resources; yet they operate outside anyone's control. No attempt is made, in a capitalist system, to direct these forces to our ends. To allow this, he said, is to abandon the methods we use in controlling nature—it is to abandon reason.

Since these forces arise from voluntary exchanges between individuals, each acting as an independent agent, Marx wanted to eliminate that system. There would be instead only one economic agent: the state, and it would act by consciously deciding the allocation of resources: that is, by economic planning.¹ As his collaborator Engels put it: "In making itself the master of all the means of production to use them in

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¹ Or, as he put it another way: "In making itself the master of all the means of production to use them in
accordance with a social plan, society puts an end to the former subjection of men to their own means of production [i.e., to the marketplace].”

A Century of Communism

In the hundred years since Marx and Engels wrote, society has “made itself the master of all the means of production”—in the Communist countries. The results have been disastrous. The Soviet Union has the most fertile agricultural resources in the world, yet it can barely feed its own people—and then only because as much as a third of its food comes from the tiny private sector the government allows. Communist East Germany continues to stagnate while its better half in the West, after rejecting economic planning, rose to an unprecedented prosperity. In Europe, the most troubled economies—England, France, Italy—are the most heavily planned.

In this country economic planning became a cause during the Depression, and its presiding spirit was the philosopher John Dewey. Dewey rejected the principle of individual rights that had previously stood in the way of government planning. Indeed, as a pragmatist, he rejected all fixed principles, claiming that we cannot judge a social policy until it is tried. Under this banner, New Deal pragmatists tried planning in various sectors of the economy, with results parallel to those in the totally planned economies.

The airline industry, for example, began as a deliberately planned venture in the 1930s, and remained so for forty years; when it was decontrolled recently, prices fell immediately while profits rose. At the same time, the government began using the power of its own budget to manipulate the money supply, hoping thereby to regulate levels of inflation, unemployment, and investment. The result today is accelerating inflation—with the dollar now worth half what it was ten years ago—combined with high unemployment and falling rates of investment.

Why Planning Fails

It is not difficult to understand why planning fails. A market economy is a system of individuals acting to achieve their purposes by producing and trading with each other; the result is a delicate integration of freedom and order. From countless exchanges between individuals, there emerges a single price for every good or service, reflecting the relative supply and demand for it. This system of prices tells the individual the terms on which he may expect to enjoy the products of others, and the terms they will offer for his, but leaves him free to act on that information.
The market tells a producer of shirts, for example, that the new polyester fabric will cost him less than cotton; and that consumers can be expected to pay less for shirts made of the first than those made of the second. But it leaves him free to integrate these facts with information he has about his particular context: the tastes of his customers, the reliability of his suppliers, the adaptability of his work-force. And it leaves him free to decide, on the basis of all this information, what he will do: what proportion of each type of shirt he will produce, what new machinery he needs, how many new workers, and so on through all the countless decisions it takes to run a business.

In short, the market tells the individual what he needs to know if he is going to rely on trade with others, but leaves him free to act on that information. His actions, in turn, have their impact on the market, helping to shape the information on which others act. In this way the market automatically integrates the actions of everyone, without sacrificing anyone’s freedom. It is indeed one of the wonders of civilization, allowing millions upon millions of individuals to live together peacefully, each one benefiting from the endeavors of countless others whom he in turn benefits, yet each free to pursue his own course.

But government planning, employing such tools as regulations, subsidies, price controls—or in the extreme case nationalization of industry—undercuts the system: it distorts the information the individual receives from his economic environment, and it restricts his freedom to act on the basis of it. On the first count, the clearest example is price controls. By preventing a rise in the price of a good, controls disguise its increasing scarcity, and thereby prevent people from taking the appropriate action: businesses do not invest in further production of the good, and consumers do not economize on their use of the good. Price controls on natural gas, for both reasons, led to the crisis of several years ago, when suddenly there was no gas to be had at any price.

Their Hands Are Tied

On the second count, planning ties the hands of actors in the marketplace, preventing them from acting on the information they do have. A number of biological insecticides, for example, are now both technically and economically feasible, but they may never be produced because potential producers cannot afford the lengthy and expensive process of getting them cleared by Federal regulators. Many of the decaying sections of our cities have the potential to flourish, but the individuals and businesses who could exploit
that potential cannot get past the roadblocks placed in their way by city planners, through taxes, zoning, government housing projects, and the like.

In this respect, the dark side of planning is commanding. The essence of government planning is to replace the free interaction of the market with the judgment of the planners, backed by the government's power of coercion. In a totally planned economy, no one may act as a producer except by permission of his superiors in the economic bureaucracy. And consumers cannot make their preferences known except through the vague and infrequent sanctions of the ballotbox, or through violent demonstrations, as in Poland.

And for what? Is the loss of freedom on the part of the individual compensated by the greater wisdom of the planners? On the contrary, there is no way to perform by conscious planning the feat which the market performs automatically.

No Basis for Decisions

Consider the extreme case of socialism, in which the government owns all the factors of production. In this case, these factors are not traded freely, so that they do not have prices that reflect their relative value; and as Mises points out, this would make it impossible to invest them rationally. If the government wished to build a railroad, for example, it would have no way to decide what materials to use, what proportion of labor and capital is most efficient—or indeed whether the railroad is worth building at all. "Where one cannot express hours of labor, iron, coal, all kinds of building material, machines and other things necessary for the construction and upkeep of the railroad in a common unit it is not possible to make calculations at all."4

Why couldn't these calculations be made without prices? Because prices contain an enormous amount of information, too much to be integrated in any other way. The price of each good indicates how valuable it is in relation to all other goods; and each of these valuations is determined by millions of individuals in the marketplace, each acting on detailed information about his own local situation. To replace the price system by conscious planning, the government would need a way to gather and integrate that same information.

In a free market, the information is integrated automatically, without any individual's having to gather it together in one place: the housewife in Chicago may know nothing of the Florida frost, but she adjusts her actions to it when the price of oranges rises. But a planned economy would have to gather all that information together in one place, in order to allo-
cate resources as wisely as the market does. Considering the millions of prices in a modern economy, with the trillions of relations between them, and the masses of information that determine those relations, it is an unthinkable feat.\(^5\)

Thus a planned economy frustrates rational action at every turn. To the extent that an economy is planned, individuals are prevented from doing what they must, and planners are required to do what they cannot. Yet the drive for planning endures, appearing repeatedly in the media like a third-rate film on the late show. As recently as 1975 a new movement for planning was launched: a group of old liberals and new leftists organized an Initiative Committee for National Economic Planning, which enjoyed a brief run in the press; and largely through their efforts a bill for national planning was introduced in the Senate (It did not pass.) Why does the idea persist? It has taken a fearful beating over the years, from economists and from reality, yet it keeps on ticking. Why?

The answer lies in philosophy—specifically in philosophical premises about the nature of reason.

The Mind of the Individual

Reason is an attribute of the individual. Human knowledge is attained by a complex process of observing facts and relating them, making inferences and testing hypotheses. It is a process that occurs only in individual minds, and can be initiated and guided only by an individual’s own volition. Much of what we know, to be sure, is learned from other people. But every item of that knowledge was at one time the discovery of an individual mind; and we ourselves, in learning from him, must carry out the rational process of grasping his truth.

Ultimately, therefore, everyone is responsible for his own life, because he is responsible for the use of his tool of survival: his mind. He must form his beliefs and values, and apply them to the circumstances of his life, by his own thinking. He cannot be forced to think, nor can he force others to think for him. There is no knowledge to be had except through active use of his own mind, initiated by choice. There is no automatic source of guidance—not from his emotions, not from his friends, not from his favorite columnist.

This is the fundamental reason why the market system works: it allows individuals to cooperate and learn from each other, but leaves each free to act on his own judgment: to do what his nature requires. In particular, it leaves the innovator free to carry his new ideas into practice, without depending on permission from those who do not, or cannot, share his insight.
But capitalism also prevents anyone from passing off the responsibility for thought onto others. And as Ayn Rand has shown, it is resentment against this fact that lies behind all the attacks on capitalism. The anti-capitalist mentality is at root a "longing for the effortless, irresponsible, automatic consciousness of an animal. [They] dread the necessity, the risk and the responsibility of rational cognition." It is not the effort of working that is resented. Capitalism requires that, but so does every other system, and people work longer and harder in the others. It is the effort, and the responsibility, of thinking for oneself.

Complaints Against Capitalism

This resentment takes many forms, and fuels a myriad of complaints against capitalism. All of them, by attacking the market, help create a climate in which a collectivist system seems attractive. But one such form is especially relevant to the issue of economic planning. It is the idea that thought is a collective activity, in which the individual acts only as a cell in the social organism. Both Dewey and Marx, among other philosophers, espoused this idea, and it is an indispensable basis of their support for economic planning.

Marx was a rabid anti-individualist. His essay "On the Jewish Question" was a bitter attack on the natural rights philosophy of the eighteenth-century political revolutions; the effect of these revolutions, he said, was to create "a world of atomistic, antagonistic individuals"; the individual in a free society is a "partial being," "acting in accordance with his private caprice." The individual, he felt, could find fulfillment only by living for the group, as an integral part of the collective.

What of the independent mind? There is no such thing. Marx claimed that the whole sphere of "consciousness"—ideas, values, principles—is a by-product of the material forces of production: the individual's mind is shaped by the tools he uses and the organization of the workplace. Since these are social factors, "consciousness is, therefore, from the very beginning a social product." Marx and Engels were notoriously reticent about the organization of the socialist society they sought, and the reason is presumably their confidence that once the economy is fully socialized, it will produce individuals whose minds are fully socialized—who think as cells in the organism.

Dewey shared this view in every essential. Like Marx, he believed the individual is justified only by his relation to the group: "Within the flickering inconsequential acts of separate selves dwells a sense of the
whole which claims and dignifies them." Like Marx, too, he claimed that thought is collective:

"It thinks" is a truer psychological statement than "I think." . . . The stuff of belief and proposition is not originated by us. It comes to us from others, by education, tradition, and the suggestion of the environment. Our intelligence is bound up, so far as its materials are concerned, with the community life of which we are a part. We know what it communicates to us, and know according to the habits it forms in us. Science is an affair of civilization, not of individual intellect.

Thought, for Dewey, is not an activity of the individual; the latter need not bear, and cannot claim, any responsibility for his ideas; he is merely a conduit passing along the influence of the group. He says the same of the products of thought. "The stationary engine, the locomotive, the dynamo, the motor car, turbine, telegraph, radio and moving picture are not the products of either isolated individuals nor of the particular economic regime called capitalism." The standard of living these machines have made possible is not an achievement of individuals; the machines are "driven by electricity and steam under the direction of a collective technology."

Taken as statements about reality, these views of Marx and Dewey are scarcely intelligible. How can Marx say that ideas result from the forces of production, when the latter are themselves the products of our ideas? How can Dewey say that "It thinks" is a truer psychological statement than "I think," when anyone who is honest is aware introspectively that he has control over what he thinks, and indeed whether he thinks? How can anyone say that technological advances are not the work of individual minds, when the Patent Office keeps records of who those individual minds are?

**Escaping Responsibility**

But these statements become intelligible once they are seen as the expression of a deep-seated hostility toward human reason, and the responsibility we bear for exercising this faculty by our own choice and effort. To those who would evade the responsibility, they hold out the promise of having one's cake and eating it too: they imply that one can enjoy the products of thought without having to take any responsibility, as an individual, for the process of thinking. To those who are threatened by the sight of independence in others and want power over them, this doctrine offers a justification: it implies that the individual can be forced to play his part in the collective life of society, at the cost of his own autonomy.

In this way, the idea that thought is collective is a link between the ancient hostility toward reason, and
the concept of economic planning. Few public advocates of planning today explicitly state that thought is collective, or offer it as the basis for planning. But they inherited the concept of planning from philosophers like Marx and Dewey who did say these things; and if we examine the idea of planning more closely, it is not hard to see in it the footprints of the philosophic premise.

Consider an editorial statement made by the New York Times at the height of the recent planning controversy. "Why is planning considered a good thing for individuals and business but a bad thing for the national economy?" Taken at face value the question is absurd. Planning is a conscious action; individuals can therefore plan their activities, and businesses assign to specific executives the tasks of planning and decision-making; but the national economy is not the product of a single mind. There is no collective mind to do its planning. The argument is a classic example of what logicians call the fallacy of composition: assuming that what is true of the parts is true of the whole. But that is exactly the assumption which the philosophy of Marx and Dewey would allow. They believe there is a collective mind to do the economy's planning.

This is why would-be planners ignore the argument that they could not calculate rationally. The argument assumes, rightly of course, that calculation is the activity of a single mind; and the argument is that no single mind could gather all the information necessary for rational calculation. If advocates of planning ignore the argument, it is because the collectivist view of thought allows them to dismiss the premise: no individual will have to do the planning: society will.

Says the Initiative Committee for National Economic Planning: "Above all, planning is a way of looking at economic problems as a whole, providing the information needed to set explicit priorities in the use of resources, and guiding all sectors of the economy toward the attainment of our chosen goals." Who will look at economic problems as a whole? To whom will the information be provided? Who will choose the goals?

The Goal Is Power

Some advocates of planning have a perfectly clear idea of who will do these things: they will. Nor does it matter to them whether they can calculate rationally as planners, since that is not their goal; their goal is power. Others simply do not want to confront the fact that planning is the act of the individual mind. In either case, the collectivist philosophical theory provides a rationalization. It implies that no
individual need perform these cognitive tasks of grasping information and setting goals, since cognition is an activity of society as a whole, acting as a single collective mind. That is why advocates of planning ignore the questions we raise, as if they were irrelevant. They envision a network of planning boards, citizens' groups, legislative committees, and so forth; and their philosophic faith permits them to assume, against all experience, that the network will deliberate as one and speak with a single voice.

The same premise is the source of another feature of the argument for planning. Liberals and Socialists typically assume that an economy not planned by the government would be totally unplanned: the choice is between collective planning and chaos. Says the Initiative Committee: "No reliable mechanism in the modern economy relates needs to available manpower, plant and materials.... [T]he most striking fact about the way we organize our economic life is that we leave so much to chance."\(^{15}\)

Endorsed as it was by professional economists, this is an extraordinary statement. The free market exhibits a marked degree of order, as we have seen. Indeed, it is precisely a mechanism for relating needs to available manpower, plant, and materials; and it does this in a highly reliable way. As a result, individuals are enabled to plan their own activities intelligently, taking account of their economic environment as they pursue their individual goals. What could possibly be meant in referring to this system as "chance"?

What is meant is that the needs which the market takes cognizance of are the needs of individuals, as determined by each individual's knowledge of his own context, and expressed in his choices among competing goods. Advocates of planning implicitly deny that this could allow for an orderly economy. Why? Here again the collectivist assumption is apparent. On that assumption, allowing individuals to decide their own needs, and to act freely to satisfy them, is like allowing every brain cell to act on its own, apart from the needs and guidance of the brain as a whole. The result must be chaos. The assumption is that without the collective to set his goals and direct him in the choice of the means, the individual is a rudderless ship, his actions the product of chance.

A Poor Choice

In reality, the choice is between government planning and planning by individuals. It is impossible to have both; a collectivist economy would suppress the individual economy, replacing it with the judgment of the state, enforced by coercion. For
Two Provinces of Control

PROPERTY RIGHTS have often been described by socialists as "reactionary barriers against the will of the people." Not so. They are barriers against the state, and they protect the people from the abuse of its power. But they are effective barriers only so long as the two masters of men, the free market on the one hand and the government on the other, are kept separate and distinct. These masters must be confined to their own provinces of control.

When there is no free price mechanism to co-ordinate the economy, then dislocation is bound to arise. Depressions—such as that which followed World War I when political considerations controlled a great part of the world's economy—become unavoidable and lead to still further control and further economic dislocation. If this development is allowed to continue, the rule of the economy by the people through the price mechanism comes to an end; their place is taken by the planner under the instructions of the political group in power.

GEORGE WINDER, "Centralized or Multiple Economies"

many would-be planners, this is not an objection; it is exactly what they want. But the premise that thought is collective allows them never to address the issue. It implies that individuals cannot think for themselves; it implies that there is no such thing as the autonomous mind; it implies, therefore, that there is nothing to suppress, hence no objection against economic planning.

Consider, finally the question of innovations—new products and methods of production. Will not these unpredictable events make planning impossible? The Initiative Committee proposed that national planners be given "A mandate to examine major economic trends and work out realistic alternative long-term economic programs for periods of 15 to 25 years. . . ." But no planner, 15 to 25 years ahead of time, could have foreseen the automobile, or the assembly line, or the rise of consumer credit and installment buying. These were innovations created by individual minds, and they altered the face of the economy in ways no one could have predicted.

For the collectivist mind, however, this fact has no reality. Innovations are not the work of individual
minds, said Dewey, but of “collective technology.” Science “is an affair of civilization not of individual intellect.” Thus they are confident that all novelty will emerge slowly and anonymously from the group as a whole, growing in minute, piecemeal fashion like a coral bush, in ways that society’s collective intelligence will have no trouble anticipating. This philosophical faith prevents the contrary evidence from penetrating.

A Philosophical Matter

The real basis for planning, then, is not economic but philosophical. It is an age-old antipathy toward reason—toward the responsibility it imposes on the individual—expressed through the myth of society’s collective mind. The public defenders of planning may not defend the premises of Marx, Dewey and other collectivist philosophers. They may never have heard of the issue. That does not matter. They have accepted the implications of the philosophers’ views; they rely on arguments whose implicit premises originated with the philosophers; and they exhibit an incapacity to grasp evidence incompatible with those premises.

The recent movement for planning arose when it did partly because of dislocations the economy experienced in 1974-5, most notably the energy crisis (itself a signal case of the effects of planning). These dislocations have disappeared, and so for the moment has the movement. But as long as its philosophical premises remain unchallenged, it is a safe bet that the next round of economic difficulties will spawn a new movement for planning.

—FOOTNOTES—

2Ibid., p. 323.
7Marx, in Tucker, pp. 41, 50.
8Ibid., p. 122.
10Ibid., p. 713.
11Ibid., p. 654.
12Ibid., p. 610.
15Ibid.
16Ibid.
If FREEDOM is worth defending, then it is worthwhile for its defenders to do the very best job possible. Far too often, however, we fail to present our case for freedom completely or accurately. We unintentionally give our audiences a false impression, which makes the case for freedom unpalatable to those uncommitted individuals whom we would most like to influence.

We all realize that an entrepreneur offering a good product on the market will, nevertheless, spend a substantial amount of time, effort and money to properly and attractively package the product. We are all familiar with the research efforts and creative talent used in launching an advertising campaign for a product. It does no good to have a superior product if nobody knows how good it is or if shoppers are repelled by its appearance on the display shelf.

It is a scandal that those who so well understand the rules of the market place for goods and services fail to translate that understanding to the market place of ideas. For the consequences of failure in the market for products, is at worst, a temporary loss of money; failure to sell our philosophy of freedom will result in the permanent loss of our freedom.

When we present our defense of the free market, we leave ourselves open to a charge of advocating extreme individualism, since our total thrust is, properly, concentrated on the action of the individual in society. Unfortunately, we tend to sound quite selfish. Our opponents, those

Mr. Howard, of Yorktown Heights, New York, is a businessman who looks to spiritual renewal as the way to leave his children a world better than he found it.
who would substitute a coercive society for a free one in the name of the general welfare, will invariably contrast this alleged selfishness with the moral tenets of our Judaeo-Christian tradition, to our disadvantage. We are often faced with the paradoxical situation wherein those who philosophically reject all religion use it as a weapon against those who accept a religious basis for their beliefs.

We should never forget that the foundation of the belief in freedom is that men have a right to be free because God gave them that right. Without this foundation, it is impossible to honestly defend freedom. We do not advocate a free society so that we can go about our business without a concern for the welfare of others; we hold to our philosophy because it is morally right. Atheism is an essential component of the coercivist credo, the one does not exist without the other. When we fail to emphasize this, we do a disservice to our cause. We enter the battle with our best weapons left behind in camp.

**Self-Crippling**

A common instance of libertarians crippling themselves unnecessarily is in the presentation of the operations of the free market. Most free market defenders devote a substantial amount of space to describing the mechanics of exchange and the environment necessary to support a free market. Usually, there are elaborate descriptions of the ideal market and comparisons of that ideal to the prevailing situation. Great emphasis is generally placed on the structure and institutions of political organization which are necessary to support the author's concept of the ideal market structure. These presentations tend to be very mechanical in content. Their tacit argument in this mechanistic approach is that if we reform our institutions to more closely conform with the ideal market environment, then all will be well. This line of argument is doubly weak.

First, it will not be supported by the facts of history. We have only to examine the conditions in the United States and the United Kingdom to realize that the existence of institutions to promote freedom will not necessarily guarantee the survival of freedom. In both countries, freedom is under assault through those very institutions, such as the independent judiciary and the representative legislatures. Something else is also needed. That something else is the conviction of the citizenry that it will be free.

I am not attacking the utility of constitutional and institutional safeguards to freedom in society. I do attack those presentations which leave one with the impression that it is the institutions which make men
free in their societies. This is a twisted Rousseauism. The institutions of a free society are, in reality, the results of the action of free men who believe in the need of protecting their freedom. Freedom precedes freedom-supporting institutions. But if freedom does not arise from social institutions, where then is the source of freedom?

Sustaining Institutions

The Declaration of Independence of the United States was written with a belief in freedom and a desire to construct a political order which would help protect that freedom. Human freedom was not expected to result from the institutions to be established; rather, the institutions were expected to flow from the desire to protect pre-existing rights. These rights are God-given and Jefferson began the case for independence by recognizing the fact; and at the conclusion of the Declaration, the signers placed their reliance on the Almighty, the author of the rights they were defending.

In too many defenses of the philosophy of freedom, contemporary advocates place all of their reliance on the mechanical structures of social, political, and economic organization, as if that were protection enough. If the constitutional mechanics were sufficient to assure a free state of free men, how then explain the fact that Benito Musollini was the prime minister of a constitutional monarchy, while ruling it as an absolute tyrant. Hitler came to power through the constitutional mechanism of the Weimar Republic. The constitution of the USSR is, on the surface, a marvelous document assuring great personal freedom to its subjects. In reality, it is an outstanding example of how substance can be removed while form remains.

In today's mechanistic presentation of the free market, rarely is mention made of reliance on the laws of nature and of nature's God. This omission leaves the debate concentrated on the relative efficiency of the coercive as opposed to the free society. Yet efficiency is not the essential issue. Even were freedom inefficient, it is to be chosen because it is right.

The free market can be likened to an ecosystem, as much as any wetland or forest, and as such, it is a reflection of our Creator's plan in its uninhibited operation. When this premise is removed from our defense, we are no better than our opposition. Both sides are then guilty of deifying man-made devices. The definition of idolatry is the attribution to the man-made that which is proper only to God. The debate is merely between competing systems of idolatry. Small wonder that it is difficult to fire the imaginations of the onlooker to such de-
bates. People will not joyfully enter an arena full of lions to bear witness to the efficiency of abstract market models; they will, and they have, to bear witness to the Providence of a personal God.

Charity Is Love

Another, related weakness in many presentations on liberty is a total misuse of the concept of charity. In the Judaeo-Christian context, charity is the equivalent of love; the words are interchangeable. However, whenever charity is introduced in libertarian literature, it is often restricted to mean only almsgiving, that is, the provision for the poor and needy. Such imprecision of language can only lead to confusion. Moreover, there is seldom any mention of love as the essential motivating force for the redefined charity. In the absence of love, there is really no reason to provide for those in need. This becomes a telling weakness in our arguments. At best, it allows the audience to infer that the poor and needy are to be aided as a political expedient, to pacify them. Without the concept of love, our discourses leave us looking like hypocrites, and even more seriously, deprive us of the foundation for our advocacy of human freedom. For if we truly love a person, how then, can we enslave him or her? If we have no love in us, why not enslave our fellows when we can?

Freedom cannot be protected by institutions, nor on the ground that restricting it would introduce inefficiencies to our society. Only if we heed the commandment to love our neighbor as ourselves will we really be able to put our heart into the struggle. Lacking this insight, it is too easy to delude ourselves into thinking that we, and only we, are the sources of whatever good fortune we enjoy in this world. The corollary to this line of reasoning will also become part of our thinking: those who are not so well off as we have only themselves to blame.

All of us have at some time or other heard this position incorporated into an otherwise reasonable discussion of freedom. The hearer can only conclude that it is the cost of the social welfare programs and the unworthiness of their recipients that is at issue. The fact that social welfare programs promoted by various levels of government promote such attitudes on the part of the contributors and a corresponding militance and hatred on the part of the beneficiaries is proof that such programs hurt society more than they help. Saint Paul, in his second letter to the Corinthians, gives us the model that we should be using in our discussions.

A famine had arisen throughout the Roman Empire around the year 43 A.D. A collection was made
among the communities in Greece and Macedonia for the Christian community in Judea. Paul's instructions to the Corinthians is the essence of the proper attitude of giving in freedom. "Each one should give what he has decided in his own mind, not grudgingly or because he is made to, for God loves a cheerful giver." Please note that force, taxation, or any hint of coercion is missing from this instruction. Earlier in the same letter, Paul had indicated the motivation for any giving. "It is not an order that I am giving you; I am just testing the genuineness of your love against the keenness of others."

All proponents of freedom have their philosophical roots in the Judaeo-Christian traditions of our culture. It follows from this that they are concerned with humans as individuals and not as cogs in an inhuman economic machine. However, when we forget our roots and our philosophical beginnings, our arguments and discussions convey just the opposite impression to our audiences. If the philosophy of freedom is to survive and prevail, we must make clear our concern, yes, and our love for our fellow men. We cannot allow our opposition to preempt the stance of morality and concern which is our heritage.

The Case for Economic Freedom

The most important part of the case for economic freedom is not its vaunted efficiency as a system for organizing resources, not its dramatic success in promoting economic growth, but rather its consistency with certain fundamental moral principles of life itself. . . .

If economic freedom survives in the years ahead, it will be only because a majority of the people accept its basic morality. . . .

The free market cannot produce the perfect world, but it can create an environment in which each imperfect man may conduct his lifelong search for purpose in his own way, in which each day he may order his life according to his own imperfect vision of his destiny, suffering both the agonies of his errors and the sweet pleasure of his successes. This freedom is what it means to be a man; this is the God-head, if you wish.

BENJAMIN A. ROGGE
WHAT IS FREEDOM?

FREEDOM is the most prized and coveted of all God's blessings. As Americans, you and I are part of only a tiny portion of mankind that has experienced freedom. Its blessings are as precious as the blessing of life itself.

What, then, are the characteristics of freedom?

Granted, freedom is an abstract thing. But let's try to make freedom more easily understandable. As an experiment, let's give all the qualities of freedom to one imaginary person.

Okay, so if freedom is a person, what would he or she be like?

Freedom would be delicate—easily bruised.
Freedom would be fragile—easily destroyed.
Freedom would be elusive—easily lost.
Freedom would be demanding—hard to serve.

That, then, may give you some inkling of what freedom is like.
Let's draw out our example a little further. If freedom is a person, who are his or her friends and admirers? Perhaps the poet John Milton put it best. He wrote: "None can love freedom heartily but good men."

When we are good, Freedom will be strong.
When we are self-disciplined, Freedom will be durable.
When we are resourceful, Freedom will be resilient.
When we are courageous, Freedom will be sturdy.
In short, we determine what Freedom shall be like.
Every time we cheat, deceive, falsify, or choose that which is not moral, we put down Freedom. And every time we do something right, honest, moral, decent, positive and uplifting, we make Freedom a little stronger and more secure.

That's quite a responsibility, isn't it? To our credit, we have chosen to shoulder that responsibility for more than 200 years.
The question is: are you willing to do the same?

The foregoing is one of 60 inspirational messages assembled by Mr. Cahill in a 96-page booklet—BIG IDEAS—messages on individual responsibility that parents, grandparents, and all leaders might use to present positive principles to young people.
The book, BIG IDEAS, at $2.00 a copy, may be ordered directly from:
The "Pride in America" Company
103 Loire Valley Drive
Pittsburgh, Pennsylvania 15209
It is commonly held that the unplanned "anarchic" nature of capitalist production necessitates bureaucratic regulation to prevent economic chaos. Thus the prominent Hungarian Marxist, Andras Hegedus, argues that bureaucracy is merely "the by-product of an administrative structure" that separates the workers from the actual management of the economy. Since the owners make the decisions, all others must ultimately take their orders from this small group. Since that would be impracticable in an industrial economy, the problem must be handled by a division of responsibility which in turn entails layers of bureaucracy. The capitalists make the decisions which are then filtered down the bureaucratic pyramid. This means that the workers must wait to be told what to do by their immediate superiors, who in turn must wait for instructions from their superiors, and so on.

It is important to realize that Hegedus believes that these bureaucratic features are a product of capitalism itself, rather than the nature of large-scale production. "Where capitalist property relations prevail," he says, "it is futile to fight against bureaucracy. . . . To change the situation it is necessary first of all to eliminate private ownership of the means of production." Bureaucracy, he continues, was the "inevitable consequence of the development of property relations at a given stage in the division of labor and in economic integration. Consequently, it is also inevitable . . . that at some point there will be no further
need for an administrative apparatus separated from society, because subjective and objective conditions will be ripe for direct self-administration."

In plain English Hegedus is saying that because capitalism separates the worker from the control of industry, production would be uncoordinated and chaotic were there not some agency for the transmission of knowledge. This is the function performed by bureaucracy under capitalism. Since under socialism the workers will make all of the industrial decisions, there will be no coordination problem in such a society. Bureaucracy will no longer be necessary and will be discarded. But, other than mere appeals to "democratize the administrative apparatus" and calls for a "healthy mobility in all areas of administration," he is vague on just how socialism will accomplish this. Since Hegedus' views, particularly regarding the bureaucratic nature of capitalism, are not uncommon, it is time they be critically examined.

Three Problems of Coordination

Israel Kirzner notes that there are three problems of coordination that must be solved in any socio-economic system: (1) the problem of priorities, i.e., what goods and services should be produced; (2) the problem of efficiency, i.e., what combination of resources used in the production of a given commodity will leave the largest bundle of resources left over for the production of other goods and services; and (3) the problem of distribution, i.e., how to compensate each participant in the system for his contribution to the productive process. The role of bureaucratic management can best be analyzed by seeing how both capitalism and socialism approach these problems as well as how well they can solve them.

I. The Problem of Priorities

Within a market system priorities are set by the consumers' buying and abstention from buying. Entrepreneurs, anxious to maximize their profits, will tend to produce those goods with the greatest discrepancy between price and cost. Since the consumers are willing to pay more for goods they desire most intensely, the prices of these goods, other things being equal, tend to be higher than those of the less intensely desired goods. Thus the goods that the members of society deem most important are the ones that, without the need for any conscious bureaucratic direction, are first and most plentifully produced in a capitalist system.

A common criticism of this type of reasoning is that there are many examples where the market cannot be said to reflect the priorities of the consumers. It is assumed, for exam-
ple, that bread is more important than diamonds while it is noted that the price of diamonds is much greater than that of bread. The error in this criticism is that individuals are never confronted with a choice between diamonds in the abstract, and bread in the abstract. Instead, they choose between individual units of bread and diamonds.

The market reflects the priorities of consumers without the need for any bureaucratic direction.

Since under normal conditions the quantity of bread greatly exceeds that of diamonds, the satisfaction or dissatisfaction caused by the addition or loss of any particular unit of bread, i.e., its marginal utility, is relatively low compared with that of any unit of diamonds. Were, by some quirk of fate, the quantity of bread greatly reduced or that of diamonds significantly increased, the marginal utility of the units of bread and diamonds would be altered causing the price of bread to rise and that of diamonds to fall. It can therefore be seen that the market does indeed reflect the priorities of the consumers and does so without the need for any bureaucratic direction. In fact, bureaucracy could only impede consumer satisfaction for, as Kirzner points out, "any non-market obstacles placed in the way of the pricing process thus necessarily interfere with the priority system that consumers have set up".3

Since socialism entails the elimination of the market, there is no mechanism by which priorities are established without conscious direction and control. Thus it is precisely socialism that cannot function without a burgeoning bureaucracy. A quick look at the planning process in the Soviet Union will clearly highlight the bureaucratic labyrinth endemic to even a moderately socialist economy.

**Planning in the Soviet Union**

In order to construct the plan for the coming year the planners must have as much data as possible on the state of the economy for the current year. This job is handled by the Central Statistical Administration, which alone employs several million people. This information is then conveyed to the State Planning Committee, or Gosplan. Priorities for the coming year are established by the Council of Ministers in conjunction with several other political agencies and communicated to Gosplan, which attempts to coordinate all of the priorities as well as balance the output targets for every industry in the economy with its estimate of the inputs required to produce them.

The plan then travels down the
planning hierarchy going first to the industrial ministries, then to the subministries, and so on down to the individual enterprises. In this way each firm is informed of the output levels that have been set for it, and the plan begins to ascend the planning hierarchy with each enterprise now in a position to calculate for itself the inputs necessary to produce the given level of output.

The entrepreneur is not only in a better position to estimate consumer demand but, just as important, a wrong guess is immediately reflected on the market.

As the plan travels upward, both the input and output levels are adjusted according to a bargaining process between the enterprise manager and the central planners. The former attempts to underestimate his productive capacity and overestimate his resource requirements to make fulfillment of his part of the plan easier, while the latter does just the reverse.

After finally reaching Gosplan the plan is surveyed in its entirety and the necessary corrections and adjustments are made. The plan is then sent back down the planning hierarchy with each enterprise being informed of its final production goals. And beyond this, of course, lie a host of government agencies required to insure compliance with the plan.

Just what is this bureaucracy, which numbers into the tens of millions, able to accomplish? The first thing to notice is that despite the scientific jargon, its plans are in fact only guesses about what each individual consumer will want during the coming year. The estimates of the entrepreneur also are guesses; however, there is a crucial difference: his are based on market data while those of the socialist planners, at least under pure socialism, are not.

This means that the entrepreneur is not only in a better position to estimate consumer demand but, just as important, a wrong guess is immediately reflected on the market by a decline in sales. Since the loss of revenue prompts quick adjustments, any incorrect guess tends to be self-correcting. But under socialism, the plant manager need not worry about selling his product but only fulfilling his production quota. Consequently, (1) quality tends to suffer since managers try to find the easiest and quickest way to fulfill their quotas, and (2) production continues, regardless of whether anyone wants the products, until the plan is altered by Gosplan.

But if production of unneeded goods takes place in some areas, needs in others must remain unfulfilled. It is not surprising, therefore,
that the Soviet Union is regularly plagued by gluts of some items and acute shortages of others. When quotas for the shoe and nail industries were set according to quantity, for example, production managers in the nail industry found that it was easiest to meet their quotas by producing only small nails, while those in the shoe industry made only small shoes. This meant gluts of small nails and children's shoes and shortages of large nails and adults' shoes. But setting quotas by weight meant the opposite: gluts of large fat nails and adults' shoes. Similarly,

It is not surprising that the quality of goods in the Soviet Union is notoriously low, the standard of living about one-quarter to one-third of that of the U.S., and that many goods are in short supply.

since dress-makers don't have to sell their products they don't have to worry about style preferences. The result is periodic warehouses full of unwanted dresses. And at another time the Soviet Union found itself in the embarrassing position of having only one size of men's underwear—and that only in blue.5

Thus it is not surprising that the quality of consumer goods in the Soviet Union is notoriously low, the average standard of living is about one-quarter to one-third that of the United States, and so many goods are in short supply that one must stand in line three to four hours each day just to get the basic necessities.6 While capitalism can function with a minimum of bureaucracy, we have seen that socialism, far from eliminating it, requires a host of bureaucratic agencies. These are necessary in order to (1) collect the data for the construction of the plan, (2) formulate the plan, and (3) inspect the plants to insure that the plan is being carried out.

II. The Problem of Efficiency

Turning to production we find the same results. Under capitalism, the problem of the efficient allocation of resources is solved in the same way that the problem of priorities was solved: the price system. To produce their goods, the entrepreneurs must bid for the needed resources. They therefore stand in the same relation to the sellers of resources as the consumers do to the sellers of final goods. Thus prices for the various factors of production tend to reflect the demand for them by the entrepreneurs. Since what the entrepreneur is able to offer is limited by his expected yield on the final sale of his product, the factors of production are thereby channeled into the production of the most intensely desired goods. Those who best serve the consumers earn the greatest profits
and, hence, can offer the highest bids for the resources they need.

In short, the market is a highly interdependent mechanism that, without any bureaucratic direction, is able to achieve exactly what Hegedus thought impossible: the transmission of knowledge to the relevant individuals. If, for example, steel should become more scarce, either because part of its supply has been depleted or a new use for it opened up, its price would rise. This would both (1) force the users of steel to cut back on the purchases, and (2) encourage the suppliers to increase their production.

In a free market economy those who best serve the consumers earn the greatest profits and, hence, can offer the highest bids for the resources they need.

Not only are the actions of all market participants automatically coordinated by these price fluctuations, but the individuals involved do not even have to know why prices rise or fall. They need only observe the price fluctuations and act accordingly. As F. A. Hayek states, "The most significant fact about this system is the economy of knowledge with which it operates. . . . The marvel is that without an order being issued, without more than perhaps a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to . . . move in the right direction."7

It is also important to point out that even within an enterprise bureaucracy is kept to a minimum. First, if a firm becomes bureaucratically top-heavy it will be undersold and, if reforms are not made, put out of business by less bureaucratically structured enterprises. And second, as Ludwig von Mises notes, "There is no need for the general manager to bother about the minor details of each section's management. . . . The only directive that the general manager gives to the men whom he entrusts with the management of the various sections, departments, and branches is: Make as much profit as possible. And an examination of the accounts shows him how successful or unsuccessful they were in executing the directive."8

Another Soviet Dilemma

But in a pure socialist economy the entire apparatus of the market would be absent. All decisions regarding the allocation of resources and economic coordination would have to be made manually by the planning board. In an economy like that of the Soviet Union, which has over 200,000 industrial enterprises,
this means that the number of decisions that the planning board would have to make each year would number into the billions. This already Herculean task would be made infinitely more difficult by the fact that in the absence of market data they would have no basis to guide their decisions. This problem became evident in the only attempt to establish a pure socialist, i.e., non-market, economy: The “War Communism” period in the Soviet Union from 1917 to 1921. By 1920, average productivity was only ten percent of the 1914 volume with that of iron ore and cast iron falling to 1.9 and 2.4 percent of their 1914 totals. In the early 1920’s “War Communism” was abandoned and since that time production has been guided by means of restricted domestic markets and by coopting the methods determined in the foreign Western markets.

The task of the Soviet planners is greatly simplified by the existence of the limited markets, but the fact that they are so limited means that the economy still operates inefficiently and suffers from two problems inherent in bureaucratic management: incessant bottlenecks and industrial autarky.

Incessant Bottlenecks

Since it is simply impossible for one agency to be able to familiarize itself with every nuance and peculiarity of every plant in the entire economy, much less to be able to plan for every possible contingency for a year in advance, the planners are forced to make decisions based on summary reports. Further, they must establish broad categories of classes which necessarily gloss over countless differences between firms. Consequently, every plan contains numerous imbalances which surface only while the plan is being implemented.

The Soviet economy still operates inefficiently and suffers from two problems inherent in bureaucratic management: incessant bottlenecks and industrial autarky.

Since there is no market, these surpluses and shortages cannot work themselves out automatically but can only be altered by plan adjustments made by Gosplan. Thus, shortage of good A cannot be rectified unless or until so ordered by the planning board. But plan adjustment in one area will have ramifications throughout the economy. To alleviate the shortage of good A, resources will have to be transferred from the production of good B. Since this will reduce the planned-for output of B, the output of those industries dependent upon B will likewise have to be re-
evaluated, and so on, in ever widening circles.

Empirical evidence bears out the economic theory. Paul Craig Roberts notes that what goes under the pretentious claim of planning in the Soviet Union is merely "the forecasting of a target for a forthcoming few months by adding to the results of the previous months a percentage increase." Yet, even this "plan" is "changed so often that it is not congruous to say that it controls the development of events in the economy." The planning bureaucracy, he goes on to say, simply functions as "supply agents for enterprises in order to avoid free price formation and exchange on the market. . . ." While this appearance of central planning "satisfies the ideology," the "result has been irrational signals for managerial interpretation, and the irrationality of production in the Soviet Union has been the consequence."

Thus the evidence indicates that the perennially disappointing Soviet grain harvests are far more a result of the system than the weather, for even in "peak planting and harvest seasons as many as one third of all machines in a district may be standing idle because there are no spare parts. Central planners are acutely aware of the need for spares . . . yet the management system seems unable to match up parts with machines that need them." The problem of bottlenecks is nothing new, as indicated by a report of some time ago: "the Byelorussian Tractor Factory, which has 227 suppliers, had its production line stopped 19 times in 1962 because of a lack of rubber parts, 18 times because of ball bearings, and eight times because of transmission components." The same writer notes that "the pattern of breakdowns continued in 1963."11

The evidence indicates that the perennially disappointing Soviet grain harvests are far more a result of the system than the weather.

Perhaps the absurd lengths to which attempts at central planning can be carried is illustrated in an incident reported by Joseph Berliner. A plant inspector, with the job of seeing why a plant had fallen behind on its delivery of mining machines, found that the "machines were piled up all over the place." When he asked the manager why he didn't ship them out he was told that according to the plan the machines were to be painted with red paint but the manager only had green and was afraid to alter the plan. Permission was granted to use green, but only after considerable delay since each layer of the bureaucracy was also afraid to authorize a plan.
change on its own and so sent the request to the next highest agency. Meanwhile, the mines had to shut down while the machines piled up in the warehouses.\textsuperscript{12}

**Industrial Autarky**

The problem of bottlenecks is closely connected with that of organizational autarky. Plant managers are rewarded according to whether or not they have fulfilled their production quotas. To avoid becoming a victim of a bottleneck, and thus not fulfilling the quota, the tendency emerged for each industry to control receipt of its own resources by producing them itself. “Each industry,” says David Granick, “was quite willing to pay the price of high-cost production in order to achieve independence.” In 1951 only 47 percent of all brick production was carried out under the Ministry of the Industry of Construction Materials. And by 1957 116 of the 171 machine-tool plants were outside the appropriate industry, despite the fact that their production costs were in some cases up to 100 percent greater.\textsuperscript{13}

To combat this tendency Nikita Khrushchev reorganized the economy in 1957 by setting up 105 Regional Economic Councils to replace the industrial ministries. In the absence of other reforms, however, he merely succeeded in substituting “localism” for “departmentalism,” as each economic region endeavored to become self-sufficient. To counter this the economy was further centralized in 1963 but this only increased inefficiency by further rigidifying an already inflexible economy. Unable to find the key to efficient planning, 1965 marked yet another significant step toward a return to a market economy. These reforms not only introduced a limited profit system but also called for “high degree of local autonomy for producers and suppliers. Detailed planning of every important aspect of production would disappear, to be replaced by minimal direct guidance from above.”\textsuperscript{14}

Marx postulated the withering away of the state. It is at least as significant as it is ironic that the continued shift of the socialist countries from bureaucratic planning to the market—what William Grampp terms the “new directions in the communist economies”—indicates a “withering away” of the sort never envisioned by Marx.\textsuperscript{15}

**III. The Problem of Distribution**

When considering the problem of distribution, we again find that capitalism is the enemy of bureaucracy. Under capitalism, production is for profit. Capital and labor constantly flow to where they can obtain the greatest return. As can be seen, there can be no separation between production and distribution; for
those individuals who, in the eyes of the consumers, render the greatest services to "society" are precisely the ones who reap the greatest rewards.

In any society where the state controls all the essential facets of the economy there is a natural temptation for those in control of the government to use their political power to obtain economic privileges.

Turning to socialism, it is difficult to say much in theoretical terms about the way in which wealth is distributed since there are a number of conceivable bases for distribution: equality, need, merit, and services rendered to society. It should be obvious, however, that the implementation of any of these would require conscious bureaucratic direction. It should also be pointed out in this context that the attempts to establish strict equality have never been successful and probably never will be. This is so for two reasons.

First, to spur output the Soviet Union, for example, has always had to rely heavily on the bonus system for its plant managers and the piece-rate system for workers. The increasing centrality of the bonus system is indicated by the fact that while in 1934 bonuses equalled about four percent of a manager's salary, today it often reaches one-half, with bonuses for some industries comprising as much as eighty percent of income. 16

Second, in any society where the state controls all the essential facets of the economy there is a natural temptation for those in control of the government to use their political power to obtain economic privileges. Thus it is not surprising that the 1917 revolution, regardless of intentions, only resulted in the replacement of one privileged elite by another. 17

One example will illustrate this point. There are a host of "special shops" in the Soviet Union selling everything from food to jewelry. These stores, which are allegedly for the benefit of foreign tourists, have high quality merchandise at below cost prices in order to compensate the tourist for the government's artificially high exchange rate for rubles. However, James Wallace points out that "high-ranking government officials, senior military officials and upper ranks in the Communist Party are all privileged to shop in these stores as a fringe benefit of their jobs." They are therefore able to buy "hard-to-get goods for a fraction of the prices their neighbors pay for often-lower-quality merchandise." 18

It is a revealing sidelight, and one that should be especially noted by
those who condemn capitalism for its unequal "distribution" of wealth, that there is greater inequality of wealth in the more socialist countries like the Soviet Union than in the relatively more market-oriented economies such as the United States. This moreover, is not a historical accident but in conformity with economic theory. For under capitalism there is a natural tendency for capitalists to invest in areas with a low wage level, thereby forcing those rates up to a level commensurate with that of other areas doing the same work, while workers in low paying jobs tend to migrate to areas where pay is higher. Similarly, entrepreneurs invest in areas manifesting high profits. But the increased output forces prices and profits in those areas to fall. In short, while capitalism will never eliminate inequality, it does tend to reduce extremes of wealth and poverty.

**Conclusion**

Under capitalism the price system performs the crucial function of transmitting knowledge throughout the society and thereby eliminates the need for bureaucracy. But precisely because it eliminates the market, bureaucratic management is indispensable for a socialist economy. Furthermore, since there is an inverse relationship between central planning and the market, bu-reaucratic management is inherently contradictory. Its dilemma can best be summarized, perhaps, in the form of two planning paradoxes:

*Paradox One:* For central planning to be viable it needs market data to guide its decisions. But the greater the role of the markets the less that of central planning. Conversely, the more extensive the area of central planning the more limited the market data, and hence the more inefficient must be the operation of the economy.

*Paradox Two:* If the planning board endeavors to maximize consumer satisfaction it merely does manually what the market does automatically. It is then just a wasteful, redundant entity. But if the planning agency plans operations that would not have been undertaken on the market, then that is an indication that the priorities set by the agency are in conflict with those of the consumers. It is clear that, regardless of the course adopted by the agency, the position of the consumers must be worse off than it would have been under a market economy.

---FOOTNOTES---


3Ibid., p. 39.
13Ibid., p. 135. Industrial autarky is, of course, nothing more nor less than a monopoly. It is interesting to note that this has become such a serious problem for many socialist economies that Yugoslavia, for example, has been forced to adopt antitrust laws to deal with it. See William D. Grampp, "New Directions in the Communist Economies," Business Horizons (Fall, 1963), p. 34.
14J. P. Hardt, et al., "Institutional Stagnation and Changing Economic Strategy in the Soviet Union," Man, State and Society in the Soviet Union, Ed.: Joseph Nogee (New York, 1972), p. 183. Also see the special, "Socialism," in Time (March 13, 1978), pp. 24-41. See especially p. 26: The socialist economies, it notes, are characterized by "heavy overstaffing (of) every office and factories with workers who seldom can be fired for failing to produce. Bureaucratic controls further cripple efficiency and managers have little leeway for innovations. Consumer goods are still shoddy and chronically scarce. . . . Yugoslavia seems to have the fewest economic problems among Marxist-Leninist states. It also has the least rigidly controlled economy in Eastern Europe."
15Grampp, pp. 29-36.
16Granick, p. 111.
18Wallace, "Classless Russia," p. 35. The recent scandals in the U.S. Government Services Administration—scandals which Newsweek referred to as "the biggest money scandal in the history of the Federal government" (September 11, 1978, p. 29)—only further demonstrate how easily bureaucratic planning lends itself to exploitation. Also see the brilliant article on the Washington bureaucracy by Tom Bethell, "The Wealth of Washington," Harper's (June, 1978), pp. 41-59. Especially see page 43: "The laws of supply and demand not only do not apply to Washington, they are turned inside out. Problems elsewhere in the country merely contribute to the wealth of Washington. The fuel crisis takes the shape of a new Department of energy, where 19,000 bureaucrats under Dr. James Schlesinger's command will have $10 billion to play with—roughly equal to the total profits of all the oil companies."
Can Capitalism Survive?

Ben Rogge, who teaches economics at Wabash, has never fancied himself as a writer. The formal books which he has planned from time to time languish in his desk drawers. He says, with the deprecatory whimsicality that is part of his nature, that he functions best through the spoken word. He is a platform man.

The distinguishing mark of a Rogge speech, however, is that it invariably reads beautifully. The collection of addresses which Ben Rogge has linked together under certain loose topic heads to make a book, Can Capitalism Survive? (Liberty Press, 329 pages, $9.00 cloth, $3.50 paperback), proves that the spoken style, when it is enlivened with parenthetical humor, can take on the quality of a good essay.

Rogge’s values and beliefs are as firmly set as anybody’s, but he does not make the tactical mistake of trying to grab people by their lapels and mesmerize them into a goggle-eyed march to the mourners’ bench. He has a feeling for sinners, and he is not chary of admitting his own foibles. He is not what Mencken would have called a wowser. Thus, in discussing the orthodox conservative’s demand for a strict enforcement of the anti-marijuana laws, he reflects, with characteristic ruefulness, on what the prohibition mentality might do to deprive him of his “noble and useful gin and tonic.”

If Diogenes, in his search for an honest man, had come upon Rogge, he would have called his quest successful. Part of Ben’s whimsical honesty resides in his willingness to admit that he frequently concedes himself a five-foot putt at golf.

As is inevitable in any collection of occasional speeches (or essays) the unity of the book must depend more on tone than on structure. The topics, in Can Capitalism Survive?, are heterogeneous. There is a marvelous historical essay on what happened at Harmony and New Harmony in Indiana, where Rappites from Wurttemberg in Germany and
Owenites from England successively tried to found a collectivist Utopia in territory close to Rogge's own Wabash College. There is Rogge's personal attempt to answer the question, "Rogge, what kind of nut are you?" There are appreciations of Adam Smith and Joseph Schumpeter.

No theologian, Rogge tries manfully—and successfully, as I am sure Edmund Opitz would agree—to deal with the question, "Can there be a Christian economics?" Ordinarily Rogge declines to speculate on the turgidizations of American politics, but his commentary on the Goldwater campaign of 1964 is considerably more acute than anything supplied by our professional political pundits. No urbanist, Rogge draws definitive conclusions about the ineffectiveness of city planners by giving the civilized observations of Jane Jacobs's *The Death and Life of Great American Cities* an economic underpinning.

Back on his own ground, Rogge puts the subject of inflation into sharp and despairing perspective. He appreciates the skills of the entrepreneur in several essays, but doesn't expect to get much help from the business community in saving free enterprise. Nor does he think his fellow educators will quickly solve the problem of putting the American college on a sound financial footing.

If the topics are all over the lot, the unifying philosophy is all of a piece. Rogge thinks that non-economic freedoms depend on economic freedom. The failure of the modern liberal to see the connection distresses him, but it does not surprise him. He knows the frailties of humankind, and to expect any easy triumph of logic is simply unrealistic. He knows that it is difficult for a businessman caught up in a great organization to stand out against tariffs and government subsidies. He knows that the private educator cannot afford to go on a full-cost tuition fee basis as long as the tax-supported state universities offer below-cost rates to every student. He supports the economics of Adam Smith at virtually every turn, and he is warmly appreciative of the work of FEE and Leonard Read in keeping the freedom philosophy alive, but he has his moments of pessimism when he thinks Schumpeter may be right in predicting that capitalism will fail not because of any internal weakness but because it has not managed to enlist the loyalty of the intellectuals.

In brief, Rogge is the very opposite of Pollyanna. But he takes it as his duty to keep plugging. The problem is not to organize politically; it is to keep talking about the eternal relevance of certain ideas. Goldwater couldn't win in 1964 because the country was still afflicted with
statist illusions. Our politics will change when our ideas change, not before. Rogge does not consider that the economics teaching in our colleges is particularly subversive (even our Samuelsons have good words to say about the free market), but it is another matter when it comes to converting the English teachers and the sociologists to the freedom philosophy. The work to be done is endless, but the joy, as Rogge thinks of it, is in the battle. If our civilization fails to save itself, there will be other civilizations to come.

Readers of *The Freeman* will be particularly interested in Rogge's final chapter, titled "The Foundation for Economic Education: Success or Failure?" Rogge gives four separate answers to the question. The answers, in order, are yes, probably no, almost certainly no, and unqualifiedly yes.

Since it is the mission of any organization, at first instance, to survive, FEE has passed the preliminary test. Given the intellectual climate of the past twenty-five years, this is something of a miracle. Whether the sanity that FEE represents can turn the tide of battle is still moot, but its presence is, as Rogge says, "a very present help in time of trouble." He recalls Tolstoy's description of the role played by Prince Bagration in the Battle of Schon Grabern. The Prince's calm presence rallied the troops, who were anxious to "display their courage before him."

A second way to evaluate FEE is to consider its chances for survival in the long run. Rogge says the answer here is "probably no." But he would not have its form survive its soul, and he is sure it will be around long enough to be an important center of strength in the cause of freedom.

The third possible interpretation of success as it relates to FEE is whether it promises to turn the tide of battle in the near future. Looking about him, Rogge remains pessimistic. We still have economic lunacy in Washington, and the businessman is more often than not a part of the problem, not a part of the solution. The score, says Rogge, is still Lions, 100; Christians, Zero.

But point three must yield to point four in judging the success or failure of FEE. The real measure of a teacher's success is: Has his teaching induced in others what Aristotle termed "activity of soul"? Rogge answers this question with a thunderous "yes." His own "activity of soul" is a tribute to FEE's teaching.

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Can Capitalism Survive?

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Were I called upon today to teach a course in basic economics, I would begin at the beginning. It is my observation that this procedure is rarely followed these days.

It has been my lot for a number of years to deal with management trainees for several companies, including one large corporation. Most of these trainees have come from some of our finest colleges and universities. Perhaps as many as twenty per cent have studied advanced economics, and a few hold degrees in the discipline. Probably as many as fifty per cent have received advanced degrees in one or another field. These young men and women are far above average. All are talented, a few gifted, and here and there an undoubted genius.

I work with eight hundred to a thousand people of this caliber every year. Perhaps one in a thousand can relate the myriad bits of data learned in school to the realities of human existence in this world.

Most arrive for my seminars with two economic assumptions of direful foreboding: (1) The large corporations represent a constant danger and must be controlled by the government; (2) Without antitrust laws, the Environmental Protection...
Agency and other bureaucratic interventions, private businessmen, large and small, would walk roughshod over the entire population of this country. The reason? Free enterprise leads inevitably to monopoly.

These seminar attendees did not invent these anxieties. They learned them at the feet of their professors, many of them professors in economics.

It Is Futile to Argue

I have learned from experience that any attempt to dispute these conclusions by direct debate is largely futile. As the early rhymesters had it, "a man convinced against his will, is of the same opinion, still."

However, if I can go to the beginning to point out the realities undergirding all economic theory, then I have a chance of showing that an entirely different set of conclusions is warranted.

What then are these realities which should be seen at the beginning?

Or, even before that question is asked, what is the purpose of the study of economics?

Most of us are acquainted, perhaps by the process of a kind of social-intellectual osmosis, with the classical definition: economics is the study of the production, distribution and consumption of scarce resources. (Note: Currently the last two words are frequently replaced by the words "goods and services" and the concept of scarcity is omitted.)

While that definition is adequate, it lacks impact and immediacy. I would like to add to it a statement I must credit to Clark and Rimanoczy who pointed out nearly two score years ago that economics is the study of "How we live." That phrase brings it home and puts it on one's lap.

To understand economics is to understand how we take hold of the various resources of this world and put them together in such a way that we can stay alive. More. We do not, in economics, study merely the necessaries to retain the human heart beat. We want to survive, true. But we all want to live with some degree of personal satisfaction. To survive without any personal satisfactions would be to sustain a living death. Any prisoner in any jail receives the assurance that those who restrain him will do all in their power to keep him alive. That is not enough. We want to be alive as human beings, not as caged animals.

It follows that everyone, who wishes to stay alive as a human being, should understand at least the basics of economic lore. Those who have no such interest should wisely stop reading at this juncture.
Were I to teach economics, I would try to make these points clear.

What is the first reality we should recognize as soon as we have isolated our area of inquiry?

1. Man is a profit-seeking creature. I will not endeavor to prove that point at this time; rather, I state it categorically. However, I will embellish it enough to remove a common misunderstanding. The word profit is so affiliated with bookkeeping procedures that I can anticipate an assumption here. Some will be certain I have said that everyone wants to profit in terms of dollars. This is decidedly not so.

Many are not interested in dollars, as such. Whatever interest he might have in dollars, every human being seeks to obtain more of whatever it is he values. Conversely, he seeks to prevent the loss of anything he values.

I am using the term profit in a philosophic or even in a psychological sense. So I will introduce another term and use it in place of the word profit.

Every human being seeks plus factors. His plus factors may be dollars. But they might also be friendship, love, good health, a comfortable bed, a good meal, a rare book, a work of art, a day of leisure, a job, a good bridge game, or anything else his heart, body or mind desires. In this sense, man is a profit-seeker. He seeks to satisfy his desires whatever they may be.

2. Man lives in a world of limited (scarce) resources. Let me provide an illustration. Man is a land-using creature. His habitat is land, not air and not water. He uses air and water, but land is where he lives. Our planet has a limited supply of land. Approximately thirty per cent of the earth’s surface is above water and not all of that readily habitable. The total population of the world, whatever it may be at any given moment, must use the resources of this world’s land to survive and satisfy human needs and wants.

3. Not only is our world one of limited resources, the resources we do have are unevenly distributed. No two pieces of land are equal in terms of utilization. Some plots of land have multiple utility. Some are near water or receive rainfall. Some are not and do not. Some land contains minerals, oil, metals and various chemicals. Some is apparently barren in terms of our present knowledge and technology. In an attempt to be “fair,” a division of the land so that each person would have an equal amount of acreage would be about as unfair as anything that could be imagined. The person receiving a few acres in the middle of the Gobi desert has a
receiving a few acres in the middle of Beverly Hills might do very well indeed.

4. The same diversity of distribution we find in land resources is found with human resources. Human beings are unevenly distributed about the globe. In a few places we will find millions of people living within a few square miles. Elsewhere we have zero population. Thus the distribution of human beings ranges from impacted, to dense, to settled, to sparse, to zip.

The same disequilibrium of human abilities is evident. Some persons can perform in a superior fashion at almost any endeavor or enterprise. Some have very meager competency. Most of us occupy the undistinguished center, capable or even superior at some tasks, bumbler or worse at others. And there are a few, always, who cannot manage.

Were I to attempt a teaching of economics, I would try to make the foregoing points clear. Much more could be said in every instance, of course.

There are a few more preliminaries.

5. All resources, capable of being owned, are property. Property is that item, real, personal or abstract, that can be identified as a thing in itself and is capable of being controlled by one or more humans under certain conditions. To survive and to survive with any hope of comfort and satisfaction it is necessary that each human being dominate his own environment in his own interest to some degree.

This is not only true of man, it is true of any living organism. Life, as we understand it, is only possible when a given entity is able to obtain what it needs from its surroundings. Nature has denied us the evidence of perpetual motion. Man is not born with a built-in power pack which makes him indifferent and independent of his surroundings. Even the sun is cooling.

6. Man is totally dependent upon property. He cannot survive without it. But property makes no decisions. All decisions over property are made by human beings who are capable of controlling that property under certain conditions. Nothing happens in the market automatically. If something is to be produced, someone must make a decision to produce it. If something is to be distributed, someone must make a decision to distribute it. If something is to be consumed, someone must make a decision to consume it.

In the absence of man, nature takes over and property obeys natu-
General laws. When man is present, he learns natural law and, with that knowledge, exercises dominion over both natural and man-made properties.

7. Who is the proper decision maker over any given piece of property? A single choice is available. Either the person owning the property will make decisions over that property. Or a person not owning the property will make the decisions. Who else is there?

There are billions of pieces of property in the world. Each piece of property is owned by an individual or a group, or it is unowned. There are also billions of people in the world. If we decide that a nonowner should make the decisions over a property an individual owns, what incentive would there be for anyone to own anything? Further, which nonowner (when there are billions of nonowners in respect to each item owned) is to be given the authority over a property he doesn’t own?

If we assume that all the nonowners should vote on each decision to be made, we reach the imponderability of numbers as well as the imponderability of information availability among those who are to vote. Indeed, we enter the theater of the absurd. Clearly, to reach decisions, either the owner or a selected group of nonowners must decide. The argument most often advanced in support of this latter practice is that private owners of property are profit-seekers and might make decisions that would injure others. Where is the evidence that nonowners are not profit-seekers? If I were called upon to make a decision over my neighbor’s property, would I not be inclined to make a decision that would serve my ends, rather than my neighbor’s?

While it is certainly true that the owner of a given item of property may lack in wisdom, it is equally true that a nonowner may also lack in wisdom.

But there is one thing to be said in favor of decision making by owners. To become an owner, certain thrift, forbearance and concern have already been expressed, either by the owner in person, or by those others who bestowed the property upon him and thus expect him to make decisions.

The only thing that can be said in favor of having nonowners make decisions over property they do not own is that they are there. But the owner is there, too.

8. Something needs to be said about decisions. Any decision is a finality. We cannot have it both ways. You cannot have your cake and eat it, too.

Are we to have homes only because others decide? Are we to wear clothing only when others make
that decision? Are we to eat only when others reach that conclusion?

If you decide affirmatively in these last questions, then you have decided that man should be kept like an animal in a cage. And who decides which cage? Some other human being with no more wit nor wisdom than any other.

9. Finally, there is the question of right and wrong. I am not speaking of "good" or "bad." Good or bad are words derived from our respective value judgments. Right and wrong relate to appropriateness in terms of reality.

Without attempting a complete argument, because of space limitations, may I merely state categorically that there is only one way any human being can physically inflict an injury and hence impose a "wrong" on any other human being. He presumes to act as the authority over another person or that other person's property against that person's wishes. This is contrary to the basic nature of man as a profit-seeker. As a profit-seeker, each of us seeks to make decisions over his own person and property, and must do so to stay alive and to achieve any measure of satisfaction. I am not speaking of children, nor of any other incomplete or incompetent mentality. I speak of man qua man.

As a human being I am capable of either right or wrong behavior. That is to say, I can confine my decision-making to myself and my own resources in all categories. If I so limit my decision-making, it follows that I cannot commit a wrong against another. Since I do not presume to be an authority over anyone except myself, nor over any property except my own, my relationship with all others is peaceful and permits them to be free. Further, I am free, for the only person limiting my behavior is myself. And freedom means self-control.

When I am not content with this and presume to make decisions over other persons and other persons' property, and do so against their wills, then I am violating their basic natures as profit-seekers and am imposing wrongs upon them. Were I to undertake the teaching of economics, I would begin with these beginnings. It is only when these ultimate givens are fully grasped and appreciated that we can enter the halls of the arcane mysteries provided by higher mathematics, calculus and statistical forecasting of probabilities. The economics professors may now take over. If they do so at this juncture, it is unlikely that they will presume the danger of the large corporation or the inevitability of monopoly, given a free market in a context of private ownership of property.
The indivisibility of liberty is illustrated by the frequent occurrence that the violation of one "right" may also involve the violation of some other right. For example, a restriction on freedom of contract may also be thought of as a denial of equal treatment. The imposition of wage and price controls in an inflationary economy provides a good case in point.

Inflation spreads unevenly through society. Certain identifiable groups get newly-created money first and spend it before the market discounts it by raising prices. These people receive the benefit of inflation through a wealth transfer from other persons who do not know it is inflated money they are taking or who cannot do anything about it.

The money passes from the favored first recipients through various hands, gradually losing its premium, as prices gradually adjust upward to discount the inflated money. Eventually inflation is fully discounted and recipients of the inflated currency can no longer exploit their less fortunate neighbors.

However, if price or wage controls are imposed, those favored persons who received the initial issue of the inflated money continue to receive a premium value for it, as those who sell to (work for) them cannot adjust prices upward to reflect the de-
creased value of the inflated money. These people suffer a wealth transfer, as their goods (labor) must be sold cheap to the politically-favored recipients of the inflated currency.

While the secondary holders of this inflated currency may, themselves, enjoy some of the benefits of price or wage controls in their purchases, this will be restricted by shortage. This is because no additional wealth has been created by inflation, and as there has been a transfer of part of the existing stock of wealth to the politically-favored first holders, the secondary holders will find themselves bidding with money now generally recognized as less valuable for a decreasing stock of goods and services. This is why shortages accompany price controls. Goods available on the black market will, of course, discount the inflated currency to its true value, as will all prices when controls are eventually rescinded by an electorate grown tired of the burden of controls. When this finally happens, the unfortunate holders of the inflated money, forced to take it by price or wage controls, will find it reduced to its true non-inflated value. Then the process of government-induced wealth transfer from the politically weaker to the politically stronger will be complete.

While this is a rather simple example, it can easily be multiplied. This is because almost all economic regulation involves the creation of invidious distinctions. If you look at almost any scheme of economic regulation you will find that it involves treating similar people differently. This is how it achieves its “results.” This is also why socialists are so uncomfortable with the traditional rule-of-law stricture that all laws be general, that they apply to all people equally. Without the ability to create wealth transfers by legally favoring one group over another there would be no “benefits” for the socialists to distribute.

But, more fundamentally, this illustrates the fact that many of the rights enumerated in the Constitution are merely particular instances of the general right to liberty. While these rights emerged piecemeal in the modern period in such specific guarantees as freedom of the press or due process of law, they are not the basis of our liberty, but merely particularized examples of our larger right to freedom. As Blackstone explained:

The liberties of Englishmen are not mere infringements of the King’s prerogative, extorted from our princes by taking advantage of their weaknesses, but a restoration of that ancient constitution, of which our ancestors had been defrauded by the finesse of the Norman lawyers, rather than deprived by the force of Norman arms.

And this also explains why we
should be intolerant of any restriction upon our liberties, no matter how slight. For the relation of rights is such that an acquiescence in the restriction of one may be used as an argument to violate another: “What’s wrong with registering guns; we register automobiles, don’t we?”

There is a natural tendency for people in a democracy such as our own to be tolerant of small abuses of our liberties, but it puts us on the slippery slope of logic when we must then argue that some new restriction is bad while some other was acceptable.

Liberty is an exciting idea. It illuminates the mind like sunlight. It refreshes like the breeze. It is whole and consistent and just. It is so powerful and persuasive that even its enemies claim to be in favor of it. And if we respect its wholeness and consistency and logic, it can be the most powerful idea in the world.

**Cooperation**

The “cooperation” of socialism refers to the sharing of whatever is available to consume, regardless of how it came to be produced or saved, or who might claim ownership. Man, as consumer, is to help himself to anything he needs—but at the other fellow’s expense. The double trouble with this concept of “cooperation” is its inherent immorality and the fact that it doesn’t work. The theory doesn’t work out in practice because most human beings won’t work—or save—if they’re systematically robbed by loafers, or taught to be loafers themselves. And, whereas voluntary charity may be considered one of the highest forms of moral human action, it seems clear that reversing the process to let the receiver of alms grasp what he wants from whom he pleases is quite as immoral as any other form of theft.

Because consuming may follow but cannot precede production, it is important that economic policy give consideration to producers and encourage them. Private property—the right to the fruits of one’s own skill and labor, earned by serving rather than exploiting others—affords such encouragement. The owner of property is free to trade with others, if they are willing. He may not force anyone to buy his goods or services, but must vie for the buyer’s favor—cater to the consumer—in open competition with all other producers within his market area.

Stiff competition? Yes, indeed. But also cooperation of the highest order, for it involves absolute respect for the lives, the property, the freedom—the gamut of human rights—of every peaceful person in the world.
Conservation or Confiscation?

Who owns the land and natural resources in these United States? The individual or corporation that holds title? Or does “society” own the land?

These are basic questions, yet largely ignored in the current debates over environmental problems and the use of natural resources. The final answers will determine what kind of a society we will have—whether that society will ultimately be one of individual freedom or one of centralized control of all facets of human activity.

The owners of property determine how the property is used. The owners of forest lands determine whether they will be used for the production of wood crops or for recreation, or some combination of both. The owners of the airwaves determine what is broadcast over them. The owners of printing presses determine what is printed.

To understand the issues involved, and where we stand in our search for answers to these key questions, it is important to look at our history, and see where we are today, and how we got here.

In any society at any time, there are currents and cross-currents—trends and schools of thought that are contradictory. They can usually be grouped into broad classes: authoritarian and liberal. Here, I mean authoritarian as the philosophy that favors the concentration of power, and liberal as the practical philosophy of individual liberty.

In the preface of his five-volume history of Colonial America, Murray Rothbard wrote:
My own basic perspective on the history of man, and a fortiori on the history of the United States, is to place central importance on the great conflict which is eternally waged between Liberty and Power, a conflict, by the way, which was seen with crystal clarity by the American revolutionaries of the eighteenth century.¹

**British Mercantilism**

Britain attempted to impose the mercantilist economic system on its American colonies. Mercantilism was based on the belief that the gain of one man or one nation must represent the loss of another and that the precious metals were the most desirable form of wealth. Mercantilism advocated the regulation of foreign trade in order to increase exports and to discourage imports—in other words, to create a favorable balance of trade.² It was the purpose of the colonies to provide that favorable balance in order to benefit the merchants of the mother country.

The basic mercantilistic structure was built up in the Navigation Acts during the seventeenth century. But Britain was in no position to enforce them, so the merchants of the colonies ignored them.³

Though Britain sought to restrict the production of manufactured goods in the colonies, it imposed a network of subsidies and prohibitions in order to encourage the production of ship masts and naval stores. Probably the first attempt of governmentally-imposed conservation in North America was contained in the Massachusetts Charter of 1691. The charter reserved to the Crown all trees twenty-four inches and larger in diameter on the public domain.

By 1722, the cutting of any white pine trees in New England outside of township limits was prohibited, whether publicly or privately owned, except under license from the Crown.

During the French and Indian Wars, Britain established her army in North America, and when the war ended in the early 1760s, was ready to enforce the mercantilist laws that the colonists had ignored so blithely during a century of salutary neglect.

Writs of assistance were issued, which authorized customs officers to break into warehouses, stores and private homes to search for illegal goods. Then, in 1763, the Surveyor General of the Woods began to enforce the White Pine Act. Two thousand white pine logs were seized in western Massachusetts on the grounds that they came from trees legally reserved for the Crown. The colonists reacted by threatening to beat or assassinate the Surveyor General's agents. Local justices of the peace refused to aid the deputies in enforcing the law.⁴

By that time, the colonists had
had a taste of individual freedom and a free economic system. They were also beginning to absorb the ideas of John Locke, Voltaire, Rousseau, and other liberal writers. As Britain increased its efforts to enforce its mercantilistic policies, the resistance was also increased. Finally, in 1776, the colonists gave up all hope of being able to reconcile their differences with England, and publicly declared their independence.

Liberty had triumphed.

**Constitutional Guarantees**

The founding fathers set up a constitutional form of government which they believed would establish a nation in which the land belonged to individual citizens, the rights of the individual were guaranteed, and government was the servant of the people, to protect them and their property.

But, as John Philpot Curran wrote: "It is the common fate of the indolent to see their rights become prey to the active. The condition upon which God hath given liberty to man is eternal vigilance; which condition if he break, servitude is at once the consequence of his crime and the punishment of his guilt."\(^5\)

So, slowly at first, but rapidly in recent years, power has usurped human liberty. Entangled within the web of power, we see the threads of environmental concerns.

The first great age of conservation, during the time of Gifford Pinchot and Theodore Roosevelt, dawned in a distrust of private owners as custodians of natural resources, and a distrust of the free market and its pricing system as the means of allocating resources.

So millions of acres of lands were reserved in government ownership "... for the purpose of securing favorable conditions of water flow, and to furnish a continuous supply of timber for the use and necessities of the citizens of the United States. . . ."\(^8\)

Then, in 1970, the environmental movement was launched with the national observance of Earth Day. The remnants of the White Pine policies of 250 years ago, the forest reserve policies of Teddy Roosevelt, the alphabet agencies of the depression years, and the "emergency" controls of the Second World War had evolved into a mixture of regulatory commissions, economic controls and court decisions that gave the federal government the power to control virtually every facet of our economy.

But many individuals still resisted. They insisted that they still owned their land and could do with it what they chose, so long as their use did not injure a neighbor.

The authoritarians, those people who are unable to distinguish a natural order in a society not centrally
directed, captured the environmental movement as a means by which they could extend the power of government over the remaining sectors of our society which were until then relatively free.

The Environmental Handbook

The Environmental Handbook, Prepared For The First National Environmental Teach-In (still available in bookstores on and near college campuses) is a manifesto for social change.

In order to come to grips with our environmental problems, wrote Garrett DeBell, editor of the book, “we must propose workable alternatives to our present patterns of living.” The admittedly antihumanistic and anticapitalistic bias of the environmental movement was clearly revealed.

The authors called for an entirely new framework of land use policies, including coastal commissions, state-wide zoning, and taxation to discourage the use of natural resources.

One goal expressed in the Environmental Handbook is “A basic cultural outlook and social organization that inhibits power and property-seeking while encouraging exploration and challenge in things like music, meditation, mathematics, mountaineering, magic, and all other ways of authentic being-in-the-world.”

The thrust of the book was summarized in the closing piece—a fable which advocates a return to the simple life of the stone-age Polynesian: “Only by following the example of the Polynesian can we survive. We must assert ourselves as individuals while submitting to nature.”

Those who sought the extension of central power over all of our society joined those sincere individuals who are concerned with the illnesses of the environment, real or imagined.

The Call for Control

To reach the objectives described in their manifesto, the leaders of the environmental movement launched an attack on the people and the institutions that they believed should be controlled by government.

Since we have been told that we have a capitalistic society, then it was a simple step for them to suggest that the capitalistic system is to blame for all environmental ills. Therefore, we must abolish capitalism, or at least control it, so we can purify our environment. Industries and property owners, they reasoned, must be controlled by government.

To control the economy, it was necessary to launch an attack on businessmen and industrial leaders. To control the use of natural resources, it was necessary to attack the timber, mining, and the energy industries. It was necessary to
“prove” that in their greed for profits, those industries are destroying the resources and the environment around us all.

The emotional charges and statements made in order to convince the public that spaceship earth’s life-support systems are in immediate danger of destruction range from simple and deliberate obfuscation all the way to outright falsehoods.

It is amazing to me that such tactics, based on the morally bankrupt philosophy that the end justifies the means, have been so successful. Dozens of laws have been passed literally confiscating the rights of landowners to their property, in the name of environmental protection.

Federal and state environmental protection acts, coastal zone protection acts, air and water pollution control laws, forest practice acts, surface mining control acts, wild and scenic rivers acts, and endangered species acts are some of the laws passed since 1970 that authorize government agencies to impose their authority over the resource owners.

They have usurped the property owner’s control over his property. Ownership implies control. If the person holding a deed does not control the use of the property it describes, he does not truly own it.

Today, we are back where we were in the mid-1700s. In at least two states, a private timber owner must get permission from the state before he can harvest timber. Similar restrictive forest practice legislation has been considered in other states and in Congress.

On both the Federal and State levels, government has the ultimate control over nearly all natural resources. Since all material wealth, and all economic activity originates from natural resources, government has virtually total control of the economic activities of the people.

**Capitalism Threatened**

The environmental movement has been seized by those who would destroy capitalism in the United States, and establish some form of socialism in its place. It has gone a long way toward the completion of its objective.

Power has won over Liberty. Obfuscation has led to confiscation.

Petr Beckmann has tried to explain why the environmental activists seek to destroy capitalism. He charges that the “Small Is Beautiful” cult led by the late E. F. Schumacher (author of the book by that name) and Amory Lovins is attempting to impose the kind of energy sources on today’s society that were used during the days of feudalism. Politicians and even many persons in academia and business are in ecstasy over their proposals. The common man—the
consumer, the blue-collar worker—will be the big loser.

The environmental activists are a small, elite group who resent the common man, "for he is crowding 'their' highways, beaches, national parks, airlines," wrote Beckmann. "They resent the free enterprise system because it lets people buy and do what they want to, when they really should buy and do what they ought to. And what they ought to do should be planned by the tone-setters who know what is good for the people.

"The influential social position of this elite, then, is threatened by the mass prosperity that is bred by technology and free enterprise," said Beckmann. 11

Dr. H. Peter Metzger has built a good case to show that the environmentalists are deliberately setting about to create the shortages of energy and other natural resources that they have predicted, and that they are being successful in their efforts. They have virtually stopped all nuclear power plant licensing, new coal leasing, water developments, new development on federal lands, and new industry (the latter through air pollution control requirements). 12

Obfuscation and confiscation have frustrated the normal economic activities of basic industries engaged in converting natural resources to consumer goods.

**Restoring Private Ownership**

The history of mankind has shown that the highest levels of civilization and the highest standards of living have been achieved under conditions of individual freedom to make economic decisions and to own and control property. To retain that freedom, we must restore the prerogative of the private owners of natural resources to allocate the use of those resources through the marketplace.

You, the reader, may by now wonder what can we do about it? What is the outlook for the future?

We have hard times ahead. The authoritarians have already nearly accomplished their goal, but in spite of it, I am optimistic for the long range future. There are many hopeful signs, though we must search for them.

There is increasing recognition among consumers that most of our current economic ills—inflation, energy shortages, and the like—can be blamed on the interventions of government.

While the trend toward authoritarian controls over natural resources and their use has been relentless in its advance, there are some signs of relaxation of controls in other segments of the economy, mainly in the transportation and communications industries. Deregulation of important industries is being seriously discussed, and the
ECONOMIC CONTROL is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends. And whoever has sole control of the means must also determine which ends are to be served, which values are to be rated higher and which lower—in short, what men should believe and strive for. Central planning means that the economic problem is to be solved by the community instead of by the individual; but this involves that it must also be the community, or rather its representatives, who must decide the relative importance of the different needs.

F. A. HAYEK, The Road to Serfdom

first steps in that direction have been taken.

Those steps are the result of the rapid growth of the libertarian movement, and its improving ability to raise the issues of public regulation before the people, and explain the inevitable results. Increasing numbers of writers, scholars and organizations are contributing to greater public realization of the benefits of individual freedom from government regulation.

Only a few writers within the libertarian movement have focused their attention on the problems of resources and their use. But the foundation is being formed, and when applied by thinking people to natural resource problems, there will inevitably be an impact.

Some pessimists believe that it is too late—that we have already gone so far down that road to centralized control that we will not be able to return to a free economy. But I do not agree. Progress in any area is never steady, but comes in spurts. Rapid progress may be made at one time, then it slows or may even appear to be in reverse, as it does at this moment. But it is never too late to get back on course.

Changes in public opinion and hence in the direction society takes can be amazingly sudden.

Back in Colonial America, in October, 1760, sixty-three merchants banded together to oppose the renewal of general writs of assistance, which authorized customs officials to break into warehouses, homes, businesses, or board ships to search for contraband, without the formality of showing any evidence that they might find it.

The merchants hired James Otis to represent them in court. Otis went beyond the narrow legal defense, and based his arguments on constitutional grounds and on the inherent rights of British subjects.
He based his major argument on the statement of early seventeenth century Chief Justice Coke, that "when an act of Parliament is against common right and reason . . . the common law will control it and adjudge such act to be void."

Otis declared: "An act against the Constitution is void; an act against natural equity is void; and if an act of Parliament should be made . . . it would be void."

Otis lost his day in court, but he became the leader of the new Popular party, or "Smugglers party."13

Only 16 years later, July 4, 1776, a group of citizens, gathered in Philadelphia, declared that all men are free, and that the colonies were independent from Great Britain.

It is not too late. We are well on the way toward the creation of a better understanding of how a free society works, and toward the creation of that society. 10

FOOTNOTES


5John Philpot Curran, Speech Upon the Right of Election (1790).


8Ibid., p. 331.

9Ibid., p. 344.

10For a good discussion of these tactics, see "The Liberal Mentality and the Malpractice Mess," by Patricia S. Coyne, Imprimis, Hillsdale College, Hillsdale, Michigan, Vol. 5., No. 10.


Canadian who complain about the growth of governmental spending are often challenged to be specific. "All right," they are told, "what would you give up?"

As a response to criticism it's deceptively simple. It assumes, first, that citizens have a say in the making of policy and, second, that the spending growth has been for their benefit.

Both assumptions are false. Let anyone who doubts it try to recall, during any of the election campaigns in 1968, 1972 or 1974, being asked to vote for or against a specific policy.

Was their opinion sought about immigration, or multiculturalism, or permissiveness, or official bilingualism, or foreign investment, or the "progressive" tax system? It was not.

Did any of the candidates, while promising heaven on earth if they were elected, offer any estimate of the cost to the electors? They did not.

The fact is that government's chief occupation has become the redistribution of wealth and income—which is the well-worn euphemism for taking money from those who earned it and giving some of it to others who didn't.

This has involved a fundamental change in the nature of representative government. Its prime responsibility is to guard the peace in which citizens can go about their business, creating wealth in the process.

Now the role of guardian has been submerged in another: that of participant in the business of citizens. Unable to create wealth, governments redistribute it. While doing so, their own...
employees and procedures consume about 30 per cent of the wealth that was created.

This fundamental change has given citizens the impression that governments do indeed have money of their own, an impression that politicians have not been slow to encourage. Hence the electoral promises of "help" for this group or that region, but never of where the help is to come from.

The trick is performed with the aid of a very simple device: never to let the giver know who the receiver is.

The money we "give" through taxes goes, we are told, not to people but to programs. The programs provide jobs for administrators and inspectors and social activists and all the rest of the welfare state's hangers-on.

It is as if a family of five, with one son either unable or too idle to find work, instead of taking the responsibility themselves, were to hire someone to keep him company—a sixth wheel to be carried along with the fifth.

Now it is charged that cutting back on governmental spending will result in a cutting back of services that citizens have "demanded."

Many of them, however, were not demanded at all, they were simply manufactured by bureaucrats as the natural product of an overgrown bureaucracy.

There is no doubt that after 15 years of changing the emphasis from production to consumption, changing it back again will not be easy. Nor can it be done without some dislocation. A generation has grown up to the idea that there is a free lunch, courtesy of government.

The penalty for over-consumption is the same for a nation as it is for an individual: inflation. Caused by governmental spending, the cure is to reduce it.

The answer to the question, "What would you do?" is "Reduce spending by governments, and encourage individuals to produce more by letting them keep more of their own earnings."
28. The Cold War: The Third World

The neat division of the world into two camps began to lose what validity it had in the mid-1950s. This did not initially signal any lessening of tension between the United States and the Soviet Union. Indeed, the division began to lose its sharpness at just that juncture when American foreign policy was most adamant under the leadership of John Foster Dulles. Nor was there any lessening of the American effort to form regional alliances and support them in various parts of the world. Nonetheless, it is now about as clear as it can be in a world muddled by rhetoric which quite often has little discernible connection with reality that the Cold War peaked in the middle of that decade. The two-world concept began to lose its cogency.

Some revisionist historians now claim that the division of the world, and especially the Cold War, was an American device. For example, a recent textbook declares that “the United States having invented the bogey of the international Communist conspiracy, and then by its own policies having turned that fantasy into fact, now became...”
frightened out of its wits by it."

The United States did not, of course, invent the Communist conspiracy. On the contrary, American political leaders did their best for years to ignore the evidence for it, admitting it, to the extent they ever did, after revelations made denial impractica-

In point of fact, it was communists who divided the world in two. From the time of the formation of the Communist International, they held to a view that the world was critically divided. Their writers have long referred to it as a division between socialist and capitalist nations. Soviet writers have kept to this terminology over the years.

At any rate, a congeries of events occurred in the 1950s which made the bipolar—one pole in Moscow and the other in Washington—world view less and less applicable. With the driving of the Nationalist Chinese from the mainland, Red China leaders consolidated their rule and began to develop a sphere of communist influence outside the Soviet sphere. It was the Chinese who intervened in the Korean War, not the Russians. Washington’s credibility as the defender against communism may have waned as a result of the acceptance of the Korean standoff. It definitely did when the United States did not intervene on behalf of the uprising in Hungary. Even the European unity was severely strained by the failure of the United States to support Britain in the Suez Crisis.

Origin of the Idea

But a much better indication of the break-up of the bipolar world was the emergence of what has been called the Third World. The term began to come into currency around 1955. The term was given body, of sorts, by the Bandung Conference held during the same year. Representatives of twenty-nine Asian and African nations met in Bandung, Indonesia. “Communists and proto-Communists vied with anti-Communists in denouncing Western colonialism . . . , in lauding the high purposes of the UN, and in asserting that recourse to arms in national self-defense was wholly justifiable. In a notable demonstration of solidarity, at least in sentiment, the delegates promised to steer clear of East-West quarrels, if that could be achieved. Speaking for Red China, Chou En-lai . . . uttered sentiments calculated to soothe apprehension that Peking nurtured aggressive designs upon neighbors. . . .” For a brief period it looked as if the Third World might become a definite entity, but it did not. It has remained largely a concept with whatever content one wished to ascribe to it, although it usually refers to Asian, African, and sometimes Latin American nations.
France has not figured to any extent in this account thus far. Although the omission can be explained by the necessity of keeping the presentation within some sort of bounds, it is nonetheless an unfortunate one. French thinkers have had considerable impact on and many of them have been clearly under the sway of the idea that has the world in its grip. Although France has declined as a world power in this century, Frenchmen have often been at the forefront of cultural developments. Indeed, France—perhaps Paris would be more accurate—has been the spiritual home of the avant garde in literature and the arts. And that is a way of saying that much of the cultural transformation of this era has had its inception in France and has spread outward from that center. The significance of this is more easily perceived when it is understood that cultural alteration both prepares the way for the victory of the idea and is the main object of those under the sway of the idea.

A strong case can be made that ideology is the natural mode of French thought. Modern intellectual history provides ample evidence to support such a thesis. John Calvin tended to ideologize Christianity. René Descartes provided an ideology for modern science, although Francis Bacon’s formula is better known. The Marquis de Sade brought forth an ideology of Sadism, which has furnished the tangled motif of modern revolutions. Jean Jacques Rousseau constructed an ideology of democratism, and provided as well the seminal work for undergirding educationism. The fundamentals of socialism first appeared in the works of an obscure Frenchman by the name of Morelly. Communist thought had its French forebears, but it was, of course, Karl Marx who gave it the formulation which has now swept over much of the world. Perhaps for that reason French intellectuals have been less than satisfied with the Marxist dogmas even when they have been enamored of them. They must somehow be twisted into a Gallic framework, as witness Jean Paul Sartre’s existentialism and Teilhard de Chardin’s evolutionism.

The French Influence

Be that as it may, the Third World concept may be French in its origin. Sartre may have been the first to use the term. Moreover, in the last years of the Fourth Republic, the French referred to the “center” complex of socialist parties as a “Third Force,” a phrase sufficiently similar to have given rise to the other. Two components of the Third World concept are national independence and ideological eclecticism. Both components involved “non-alignment,” non-alignment with either the
Soviet or American camp, and non-alignment with either ideology.

Charles de Gaulle took the leadership both in trying to revive French influence and in having France follow an independent course in foreign affairs. He was particularly concerned to shake off dependence on the United States. To that end, he promoted the development of nuclear weapons by France, and downgraded participation in NATO. He favored, however, a continental force of European powers which he referred to as a “Third Force.” By boldly following this course France set an example for Third World nations.

De Gaulle was ideologically eclectic, too. Although he was a nationalist more than anything else, he presided over a government that was more or less socialist in its animus. (None other would have been acceptable to Frenchmen generally.) But the strain of ideological eclecticism runs deeper than that in post World War II French thought. There were rumblings amongst French thinkers of the decline or end of ideology. The kind of eclecticism that this portended had much earlier been formulated by Americans as pragmatism or instrumentalism. The French semi-Marxist, Jean Paul Sartre, provided a different gloss for it in his exposition of existentialism.

Sartre denied the validity of Marxist materialism. It is a species of essentialism, and since existence precedes essence, there are no such pre-conditioning essences. Nor is the emergence of socialism, or communism, written in the historical stars, so to speak. If emerge it does, it will be because men made it emerge and, if they do so, they must do it in terms of the situation that they find themselves in. There is no order and no particular set of circumstances which will bring it forth. Sartre stated it this way:

The revolutionary considers that he builds socialism, and since he has shaken off and overthrown all legal rights, he recognizes its existence only in so far as the revolutionary class invents, wills and builds it. ... It does not lie at the end of the road, like a boundary-mark; it is the scheme formulated by humanity. It will be what men make it; it is the outcome of the soberness with which the revolutionary envisages his action. ...

Thus the philosophy of revolution, transcending both idealist thinking which is bourgeois and the myth of materialism which suited the oppressed masses for a while, claims to be the philosophy of man in the general sense. 

It may appear that Sartre had opted for evolutionary or gradualist socialism, but by his language he denies this. He claims to be a revolutionary, which would separate him from that persuasion. He was claiming, too, to be the proponent of another way, a “third way,” to socialism. It would, of necessity, be
ideologically eclectic, for it would be a building of socialism within given situations. Some such notion went into the Third World concept.

**Nehru In India**

Another prime influence on the Third World concept was India and its leader Jawaharlal Nehru. Nehru was educated in England, and while there he completely imbibed socialist doctrine. During the period of his indoctrination British socialists were committed to government ownership (nationalization) of all major industries. The debacle of English nationalization did not turn Nehru against socialism, but it did sway him toward a more eclectic course. In any case, India was hardly in position to follow Western models of gradualism.

Nehru embarked on a course of neutrality in relations with East and West. As one history describes his position: "Much impressed though he was by Soviet economic achievements, Nehru stood forth as the most influential non-Communist voice in Asia.... Without equivocation, he declared that Marxism was an outmoded nineteenth-century creed, incapable of solving the vexing problems of India. . . . Nehru only tepidly fought communism outside of his homeland, and adopted the middle way of neutralism, of nonalignment, in the secular struggle between the Communist bloc and . . . the West."9

But whatever its origins, and whatever influences may have helped to shape the Third World concept, it was nonetheless grist for the mills of communism from the outset. It could be, and was, fitted into the communist dogma of imperialism. Lenin had leaned heavily on the imperialist dogma, both to justify the revolution in Russia and as the basis of a predicted forthcoming world-wide revolution. He also reinterpreted the Marxist vision of the future in terms of imperialism. Marx's prediction, according to Lenin, had been thwarted by the development of Western imperialism, and capitalism had been temporarily saved from the onslaught of a disinherited proletariat. Here is a summary statement of Lenin's position:

Lenin's explanation for the loss of revolutionary enthusiasm among the Western workers was simple—they were no longer exploited. More accurately, an important section of the workers, the most skilled and intelligent, were no longer exploited and had become bourgeoisified. This section of the workers and the financiers joined together to exploit the backward nations of the world: the financiers thus replaced class exploitation with the exploitation of other countries. The industrial nations will never therefore be revolutionized until the backward nations are freed from the colonial powers. Beginning
with Lenin, then, the focus of the Communist Revolution shifts to Asia, Africa and Latin America. . . .

The Leninist tour de force saved Marxist revolutionism. The class struggle then became an international struggle between two camps: on the one side the exploited, non-industrialized nations. . . .; on the other side the industrialized nations of the West. . . .”¹⁰

The Stalinist strategy, however, did not follow this pattern with any consistency. Stalin concentrated on developing communism in one country, the Soviet Union, on fostering the development of Moscow dominated parties in all other countries, and eventually the use of the Red Army to fasten communism on eastern Europe. Communists always carried on a verbal assault against Western imperialism, of course, but it was only after Stalin’s death, and in a new context, that Lenin’s theory emerged to undergird a fullfledged strategy.

**Communist Strategy**

When so many colonies either broke away or were cut loose from colonial powers after World War II, the stage appeared to be set for communist expansion. Indeed, the Cominform became quite industrious in fostering guerilla warfare and other forms of incipient revolution. Things did not, however, go according to communist plan. As has already been noted, the United States intervened to take up much of the slack occasioned by the withdrawal of former colonial powers, began to offer economic and military aid, and to form regional alliances around the world. The Cold War developed. The golden opportunity for communist expansion was being lost, in the main.

There was yet another problem for communism, a problem of how to approach these newly freed colonies. The militantly aggressive tactics of the Stalinist period were hardly calculated to win friends and influence people in these former colonies. These were the “exploited” peoples. To foster parties under the control of Moscow and designed to stir up revolts against their own governments, however newly formed, would surely alienate these peoples. (That is not to say that the Soviet Communists were above doing all these things, but it was an ineffec-tual tactic and hardly a posture to be avowed.)

The Third World concept provided a convenient solution to these problems, too “convenient,” one suspects, not to have been at least partially devised by communists.

A new line about former colonies was advanced. The old colonialism was being replaced by a new colonialism, referred to as “neo-colonialism.” As Thomas Molnar pointed out, “Circles which promote the slogan of ‘neo-colonialism’ insist, of course, that the big com-
panies (in French Africa, in the Copper Belt, for example) exploit their host countries just as much as before independence. In fact, it is alleged that exploitation had been stepped up because there is an increasing demand for minerals by industrialized countries, and also because the companies' freedom of action in decolonized territories is no longer checked as it was in the days of an Administration representing a strong overseas government. According to this view, only the communist countries, which had no private businesses, could bring about real decolonization.

In keeping with all this a new Soviet strategy took shape. One writer describes it this way:

The basic Soviet view of the less developed countries changed radically from that held in the period 1948-1953. The U.S.S.R. came to believe that in the short term, at least, countries might exist which because of their own convictions and interests chose to be aligned with neither the West nor the Communist camp.

Concomitant with the basic shift in Soviet foreign policy outlined above was the increased reliance on economic means of influencing the less developed countries. A sweeping economic offensive in the third world emerged after 1953 in the form of numerous trade and economic aid agreements.

Another ascribes the change to Soviet Cold War strategy:

In the 1950's, the third-world strategy was attached to the so-called process of decolonization, and non-Communist regimes were enlisted in a general posture of neutralism which, while it was not particularly helpful to Communist expansion, was immensely harmful to the strategic position and moral prestige of the West.

A Soviet writer, writing in the late 1960s, made the following claims for the extent of foreign aid by the Soviet Union:

The Soviet Union began to establish extensive economic ties with Afro-Asian countries in the mid-1950's. Along side the growing volume of ordinary export-import trade, an important role was played by technical and economic cooperation based on inter-government agreements. By 1956, such agreements had been signed with Afghanistan and India alone, whereas today the USSR is giving economic and technical assistance to 29 Afro-Asian countries.

Symbolic Aid from Russia

The granting of aid was of great symbolic ideological significance for the Soviet Union. I noted earlier that underdeveloped countries could not readily follow the gradualist model of industrialized countries. They have neither the technology to produce it nor great wealth to redistribute. The way of the West to socialism could hardly be appropriate to their circumstances. By contrast, Soviet Communists claimed that Russia had been an underde-
veloped country, and that communism had provided the way for its development. Foreign aid, particularly the provision of factories, constituted the best sort of proof they could offer.

A scholar summed up the position this way: "The emergence of the Soviet Union as a major economic power and an additional source of capital has enabled it to present itself to the developing countries as an alternate economic model: a former economically backward country which had attained an impressively rapid rate of economic growth in a relatively short period of time." The "Soviet Union has pressed its claims that only a centrally planned and controlled economy . . . can provide the desired social and economic development."\(^{15}\)

This Soviet aid was not, however, carried out in the simple context of the Cold War conflict between East and West. It was also a part of the mounting rivalry between the Soviet Union and Communist China. Each of these countries was competing for dominance of communist parties in many countries, and for leadership of the communist movement in general. The Soviet shift to economic assistance occurred at about the same time that the Chinese began tentatively to offer assistance. A recent book gives a brief history of that aid in these words. "Peking has been in the aid business since 1953 . . . , and to date has aided more than fifty-five countries on five continents. . . . China's economic aid program has increased many times in size and scope since 1953. . . . Recent aid promises offer further evidence. In 1970 Chinese aid nearly matched its total official aid to non-Communist countries up to that time and amounted to nearly sixty-five per cent of the total Communist bloc aid to underdeveloped countries. . . ."\(^{16}\) Among the countries China had extended aid to were Cambodia, Burma, Nepal, Laos, Ghana, Algeria, Kenya, Nigeria, Chile, and Peru.

The purpose of Chinese aid is suggested in this argument by a French Marxist: "There is really no way out for the people of the Third World in this context [imperialism and exploitation]. It is not a question of whether socialism is attractive to their rulers or leading thinkers. . . . It is simply a matter of accepting the evidence; there is no other possible solution; like it or not, for them China is the great example."\(^{17}\)

**Chinese Credentials for Third World Leadership**

The Chinese credentials were advanced as being impeccable for the leadership of the Third World, in contrast, say, to those of Russia. Russia had been an independent nation (more properly, empire) before the Bolshevik Revolution, and had
been little subject to "imperialistic exploitation." By contrast, China had been carved into spheres of influence in the late nineteenth century and had been the playground of "imperial" powers until the Communist takeover. Incidentally, the militant nationalism of Chinese Communists was palpable to foreigners who happened to get detained in China during the period of Chinese isolation (1950s into the 1970s).

Moreover, there were ugly racial overtones enunciated in the Chinese thrust to leadership of the Third World. The Russians were excluded from the Bandung Conference on the grounds that they were white. The explicitness of this racism has been pointed up by Boris Meissner. He says:

The violence of the collision between Russian and Chinese nationalism is partly a result of racial components which lend the struggle of the two powers certain atavistic features. The Russians fear that the Chinese might succeed in playing off the various races within the Communist camp against one another, thus splitting world communism into white and colored wings, with the latter having numerical predominance. Peking makes use of Communist front organizations such as the World Peace Council and the World Federation of Trade Unions, as well as Chinese-oriented bodies such as the Afro-Asian Solidarity Conference, as forums where they attack the policies of the Soviet hegemonial power and play off the colored peoples against the whites.

Racist Connotations

Given the communist interpretation of Western "imperial exploitation," the racist connotations were virtually unavoidable. (Given, too, the hypersensitivity to race in the world since World War II.) Most of the peoples in subject colonies in the twentieth century have been "colored." If colonies were devices for exploiting these people, then they were devices for exploiting the "colored races." Indeed, the Third World concept was shot through with these racial overtones. It has never been so explicit as absolutely to exclude countries with a preponderance of white people, such as some Latin American countries, that has nevertheless been its tendency.

Even though communists have tried to take full advantage of the Third World concept, it would be a mistake to view it simply as a plot to foster communist expansion. The greatest advantages, at least initially, accrued to the politicians and dictators of the third world. Not only did communists subscribe to the notion that Western imperialism had been a system of exploitation of subject peoples but so have most Western intellectuals. This gave Third World politicians ready made enemies—Western imperialists—, something most useful to politi-
cians, especially when the enemies are not constituents. They could appeal for the unity of their peoples against these outsiders. It also provided an explanation and an excuse for their economic backwardness. They were not to blame for their condition; they had been overcome by superior technology and exploited by Westerners.

A Powerful Political Tool

The Third World Concept was useful in many other ways to those countries which could use it. It enabled them to play off East against West. Most of these countries accepted aid from Washington, from Moscow, from Peking, or from whatever source they could get it. Since they were non-aligned, the aid they received entailed few, if any responsibilities. Indeed, the Third World concept was, and is, an irresponsible concept. The countries are not, according to the concept, responsible for the conditions which prevail there, and they accept little or no responsibility for what goes on in the world. If, or, better still, when, since it is usually only a matter of time, they confiscate the private property of foreign investors, or foreigners in general, the concept justifies that, too. After all, the foreigners had only been there to exploit them.

In short, the Third World concept is a most useful ploy for politicians and dictators in many parts of the world. They can shake their fists at the great world powers. They can hold out their hands for aid, threaten one side that if they do not give aid they will get it from the other, and offer little or nothing in return. Numerous small nations claim the full fruits of sovereignty, take their places among the great powers in the United Nations, form concert with other small nations to extort concessions, and do not even pay their dues. The concept provides an apology for two-faced behavior, begging, thievery, extortion, and irresponsibility.

But our main concern here is with the place of the Third World concept in the frame of the idea that has the world in its grip. It is, of course, part and parcel of that idea. It fits in most particularly as a part of the pressure for redistribution of the wealth from the haves to the have-nots, as the phrase has it, among the nations. Since the redistribution is from nation to nation, or, as in the case of the confiscation of foreign holdings, from private sources to nation, it is very much a socialist idea. Its nationalism is a means of concerted efforts within the nation behind the programs that are advanced and the oppressions they entail.

The Third World concept covertly implies, when it is not explicitly stated, that there is a third way
to socialism. There is a non-ideological way to socialism, an eclectic way. In short, there is a way to socialism that does not entail the dogmas either of revolutionary or evolutionary socialism. It is not a matter for wonder that anyone setting out for socialism in the last couple of decades should hanker for such a possibility.

After all, Stalin had managed to thoroughly soil whatever of the Marxist dogmas had gone into Leninism-Stalinism. He had to some degree succeeded in hiding the full degradation of communist rule from the world during his reign. But he was not long dead before he was being publicly denounced by Soviet Communists. By the late 1950s, if not before, only the purblind could deny that Soviet Communism was terrorism, tyranny, bureaucratic oppression, and a failure from whatever angle it could be examined save one—it did succeed in fastening totalitarian rule on the Russian people. The dogmas of Marxism as they had been strained through the Soviet mesh had about as much appeal as stale bread laced with poison.

**A Futile Quest**

The most cherished dogma of Fabian socialism—nationalization—had proved a disaster for the English. Hitlerism had cast a pall over national socialism, at least in its racist formulation. The pale socialisms of continental Europe smacked of everlasting compromises, compromises in which an increasing portion of the wealth of the citizenry was drawn into the maw of governmental machines, in which private industry was shackled by regulation, and in which the money in hand was declining in value because of inflation. The United States was neither much better nor much worse, and few enough recognized it as a road to socialism. In any case, gradualist socialism offered few prospects for the politicians of the Third World. They did not have the wealth to distribute, nor the patience and time to acquire it.

The Third World concept is a fraud. There is no third way to socialism. In fact, there is no way to achieve the vision of socialism, hence all socialisms are frauds, but let that go. One way is by terror and violence—that is revolutionary socialism. The other is to buy votes with the promise of goods taken from the populace by subtle uses of force—that is democratic socialism. True, there are many possible combinations of terror and violence with populism, but Hitler had used most of them before many of the Third World dictators had reached their majority. About all that the Third World has contributed to the mix is an apologia for extorting alms from other governments.
The Third World concept is, however, fearsome testimony to the firmness of the grip the idea now has on the world and to the decline in clear thought that has accompanied the process. More nations have been born since World War II than existed before that catastrophe. They were brought forth with proud claims of independence and buoyant cries of freedom. Yet one by one they have been dragged down the dreary by-path marked as the third way to the Valhalla of socialism, if it has been marked at all. The roll call of these nations is too long to make here; the sordid account of their petty rulers would take up too much space; their oppressions too dreary to make good newspaper fare. Even the recognition of ideologies, much less the construction of a passable one, surpasses their skill.

A Passing Phase

The Third World concept did not signify the end of ideology; it more nearly signified the reduction of ideology to obscenity. The barbarization and degradation which attends socialism produced its pale reflection in the Third World. For a brief span of time, concentrated in the mid-1960s, the Third World concept captured the imagination, perhaps even the idealism, of a good many people. The Third World concept promised redemption, redemption not only for the Third World, but for the whole world. There was a way other than the way of life of Europe, America, or the Soviet Union. Virtue resided in the former oppressed peoples of the world, in Africans, in Chinese, in Indians, in American Indians, and so forth. Western technology was an affliction of the world. We must go in sack cloth and ashes to learn from the gurus of the Third World the secret of life. So, many young people exhorted us.

There was something exceedingly strange about all this. The young people who heralded this new dispensation in Europe and America forswore ideology, yet carried banners proclaiming the virtues of Mao Tse Tung, Ho chi Minh, and Che Guevara, prime ideologues, if any there were. They claimed reaches of tolerance for themselves never before conceived, but were intolerant of all disagreement. There may have been a modicum of thought which preceded their emergence as enthusiasts, but it was drowned out by their obscenities once they were under way. It is not too much to say, then, that in the hands of its youthful proponents, the Third World concept became obscenity.

Although the Third World concept no longer glitters with bright promise—indeed, it never got very far off the ground—but it nonetheless had considerable impact. It served as a cover sometimes for
communist regimes to be established. But, equally important, it introduced a deal of confusion into the world. Ideological lines were blurred. The theretofore clear distinction between communist and non-communist was now much harder to make. The world was not divided into two; it was divided into many. A softening process had taken place, a softening up for further stages of the development of the idea that has the world in its grip, perhaps. It contributed much to a further lessening of confidence in Western Civilization, or what remains of it. It helped to prepare the way for a different scenario, although it may be no more substantial than was the Third World.


—FOOTNOTES—


5 Ibid., pp. 107-08.

6 Sachs, op. cit., p. xi.

7 May, op. cit., p. 368.


9 May, op. cit., p. 430.


19 Boris Meissner, "World Communism: Decay or Differentiation," Modern Age, IX (Summer 1965), p. 244.

20 See de Alvarez, op. cit., p. 312.

21 See Sachs, The Discovery of the Third World, op. cit., passim, and especially the concluding chapter.
The Costs of Occupational Licensing

The purposes that guide the enactment of interventionist policies help us understand the reasoning behind them. However, in testing the economic effects of a law, one must look beyond the laudable intentions set forth in the preamble.

Occupational licensing requirements have traditionally been based on the desire for good services. The argument runs somewhat like this. If the government establishes certain schooling and training requirements which must be fulfilled in order to enter an occupation, then every licensed individual will at least be competent and the public interest will be served.

The argument presupposes that the government is able to set objective standards whose validity cannot be disputed. The fallacy of this argument is apparent. Consumers set the standards they wish as they patronize providers of goods and services. The competence and general ability of a producer are reflected in his product. Consumers have individualized needs which cannot easily be cast in a mold defined by the government.

It is possible that the particular standards required by the state may be acceptable to many users of these services. But if that is the case, those standards would be required anyway by the consumers in an unregulated environment. If, on the other hand, the required standards are not desired by the majority of the users of these services, the justification for imposing them evaporates.

Mr. Bechara is an attorney in the law offices of Goldman, Antonetti & Davila in San Juan, Puerto Rico.
The popularity of licensing is understandably high among the members of the licensed occupations. A clear implication of licensing is that in order to be a member in good standing of a profession or a craft, one must take prescribed courses of study and pass what the government deems to be an appropriate test. Satisfying these requirements means that society will regard the members of that occupation as a responsible and intelligent group. Advocating the elimination of licensing, on the other hand, carries with it the implication that these standards were really not valid and furthermore that anyone will be able to practice the occupation in question with impunity. The issue is not one of standards versus no standards; rather it is a question of who shall impose these requirements. Should it be the providers of the service, acting through a governmental agency, or should it be the consumers?

Restricting the Supply

Licensing affects consumers in various ways. Perhaps the most important economic effect of licensing is that it restricts the supply of the providers of services. To a casual observer, this assertion may not seem to be supported by the evidence. It may be said that, in spite of occupational licensing requirements, many people are nevertheless attracted to these fields. However, licensing is but one of the factors affecting the economy. It is possible that one industry is growing and that resources are being allocated in that direction. If that industry needs people who are required to be licensed, the rising demand will attract them, no matter that licensing may have prevented some people from entering the field previously.

It should be no surprise that occupational licensing limits the supply of available practitioners. The very purpose of licensing is to eliminate those who cannot satisfy the requirements. The irony of the matter is that the particular profession or trade, which has an inherent interest in restricting competition, has a decisive influence on the definition of these standards. The argument is that those who know what an occupation truly needs are those who practice it. The conflict of interest which surfaces as the regulators govern themselves weakens the concept that the government can truly set objective standards.

As supply is restricted, economics tells us that the price of the good in question must increase, other things being equal. This increase in price may reduce some of the demand, or conversely, the demand for other goods and services may be curtailed. Applying these economic tenets to occupational licensing, the long run effect will be to increase the earn-
ings of the licensed occupations. This is a monopoly situation, made possible by government regulation. Consumers will have to pay a higher price for the services that they desire.

Of course, people who can afford high quality services will continue to obtain them; those who can afford more modest services may discover that they might have to either forgo the services altogether, dip into their savings, or redirect their demand for other goods and services. It is conceivable that many people who are reluctant to pay a licensed plumber or electrician what they consider to be an exorbitant amount of money, may choose to do the work themselves. In an economy served by the principle of the division of labor, this self-help lowers productivity when non-specialists do the work that otherwise would have been performed by the specialists.

As the licensed occupations reap higher incomes because of the restricted supply, in the long run the prospect of additional income will attract more people into the field. This will expand the supply and lower the costs to the consumers. This development represents a readjustment in the economy, but does not remedy the defects of licensing. The very existence of licensing is costly to consumers because it restricts entry.

The nature of the practice of an occupation is altered by the licensing. Standards require that the prescribed training follow certain patterns, though such requirements may serve little purpose in some branches of the craft or profession. Many people who would have been attracted to an occupation may be discouraged from doing so because of the additional costs involved in satisfying these standards. Similarly, consultants who could specialize in narrow areas of an occupation without the need to be trained in broader areas, are discouraged from doing so. The result is that every licensed individual does receive a broad education, but many consumers will not be able to utilize his costly services.

Prohibiting Competition

A hidden cost of licensing lies in the fact that those who are attracted to the licensed trade—because of the monopoly earnings—might otherwise have opted for different crafts or professions. So it is difficult to say that consumers are benefited by the increase in people entering the licensed occupations. Licensing standards, however, do more than merely set entry conditions; as more people desire to enter the field, the regulatory bodies institute additional standards and requirements that serve either to further limit the supply or to prohibit competition.

Entrance examinations become
more difficult as they encompass more topics. This tends to eliminate many applicants. Similarly, continuing educational requirements are sometimes enacted to assure that those who have been licensed maintain a given level of quality. In California, for example, dentists are required to pass an examination that requires the performance of a rarely-practiced procedure in gold-fillings. California dental schools prepare their students for this aspect of the examination, which dentists trained outside the state find difficult to pass. (See "How licensing hurts consumers," Business Week, November 28, 1977, p. 127.)

Residence requirements reduce the supply, as they discourage people who would be willing to practice in different states. By the same token, the prospect of having to take an admissions examination in a different state may discourage many people, particularly the older practitioners. Reciprocity between the states serves to alleviate this additional discouragement, mitigating one of the effects of licensing.

The proponents of licensing find it difficult to define the limits of its applicability. Most proponents are in agreement that some professions ought to be licensed. However, as we enter the area of skills and crafts, support for licensing these is not as clear; there is scant support for licensing the nonspecialized fields. The ideology which nourishes licensing seems to say that the more education and preparation it takes to enter a field, the greater the case for licensing. This argument does not withstand logical analysis. If more education is required for a person to be a member of a profession, then the danger of entry by incompetents is considerably reduced. A person must pass many stages before being able to enter that profession, and this should be indicative that the individual is adequately prepared to practice in that field. If that is the case, licensing is superfluous. Besides, the fact that licensing exists is no guarantee that unqualified people will not practice the occupation. The existence of malpractice suits attests to this.

The Other Side of Licensing

If the fear of incompetents were the motivating factor behind licensing, then if we follow the logic of the proponents of licensing, all non-skilled laborers should be forced to satisfy certain requirements. The licensing of unskilled workers is indeed taking place today, although it is being performed under a different label. As minimum wage laws are enacted, those unskilled employees who cannot produce as much as the law says they should be paid become unemployed. Minimum wages, and union restrictions as protected by the law, are the other side of licens-
ing. Both, however, have the same general effect: to lower supply, raise prices and reduce output.

The proponents of licensing cannot answer the inconsistency of their position. They recommend licensing because consumers allegedly cannot adequately judge the quality of some professional or skilled services. But, in an economy where everyone is interdependent, everyone is a specialist and it may be asserted that no one can properly assess the services provided by others. There is no logical line, which may be drawn between licensed and unlicensed occupations, which conclusively justifies licensing. Rather, consumers will be better served in an unregulated environment as competition serves to protect them.

The assurance of quality services does not depend upon occupational licensing. If a person represents to others that he has certain skills which he in fact does not possess, equity considerations should continue to apply and he will be held responsible for any damages inflicted as a result of his misrepresentation. The elimination of licensing will not protect those who misrepresent or who commit fraud. An unhampered market will offer consumers a variety of services of varying quality. The uniformity imposed on consumers by licensing requirements will be erased when licensing is eliminated, and practitioners will have to adjust to the ever-changing demands of consumers. And this is as it should be for free men in a free market.

Competition, Monopoly, and the Role of Government

In the free society government keeps the peace, protects private property, and enforces contracts. Government must do these things effectively, and it must do nothing else; otherwise, the conditions absolutely necessary to genuine personal freedom in society are absent. Whether or not a genuinely free society is attainable no mortal man can know; the limits of our knowledge are too narrow. But one thing we do know: that until at least the advocates of the free society are fully aware of the conditions necessary to its existence, it can never come about. For they must ever be on guard against new movements, ideas, and principles which would endanger its realization. And on the other hand, they must be sharply aware of existing impediments so that they may direct their energies intelligently to the removal of the causes of current imperfections.

SYLVESTER PETRO
The "Roots" of the Free Market
An Order Born of Discipline

Many black Americans have been mired in a form of economic stagnation since the passage of the Civil Rights Act. Among those whose thought processes are geared to mere rhetoric there is a loud clamor for more welfarism. There are many reasons, to be sure, for this apparent reluctance by blacks to seek their pursuit of dignity within the free market system rather than without it. Primarily, however, the blame must be laid at the feet of a leadership more intent on immediate political responses to age-old problems than providing any meaningful economic solutions. Thus, and the truth is an awesome taskmaster, most blacks have simply accepted the state, with its hordes of paternalistic programs, as their new Messiah.

There are many problems afflicting the black communities—housing, education, health care, crime and unemployment—but no real effort has been made to resolve them apart from the programs of government. In fact, it would be extremely difficult to find many blacks willing to undertake the effort, on their own and without financial assistance from outside their community. The "bootstrap" concept, where the disadvantaged were to be provided the means to resolve their problems has been replaced with the feeling that the means now constitute the end. Consequently, the programs of the state, all of them, are now viewed by most blacks as the

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Mr. Douglas, a southern journalist and civic leader, urges his fellow black Americans to seek their freedom and dignity within the market system.
ultimate end. Additionally, of course, such an attitude provides for the perpetuation of the programs.

**Conditioned to State Help**

The reason for this black attitude of resignation, where such programs are concerned, is that many blacks have been conditioned by their leadership and the state to seek all of their answers from the state. That such reasoning tends to create dependence, rather than the independence ostensibly sought, is a situation to which a few blacks are beginning to awaken.

This fact was brought home to me through an acquaintance, formerly a left winger, a black, who preached the gospel of liberalism and government solutions to black ills. As a ranking member of the liberal element of a major political party, he had worked at a salary of $10,000 a year. When a job opening in the private sector at double his existing salary was offered to him, he did not hesitate to accept it, gleefully announcing his good fortune to all within his hearing.

Several months later we happened to meet and his apparent lack of spirit prompted my asking why he seemed so downcast. His response was a lecture on the merits of fiscal conservatism. After advising me that his 100 per cent increase in salary had only provided him with a few extra dollars in spendable income, he launched into a vicious attack on the system of taxation, the idiocy of social security and a condemnation of a government that would make the productive pay for the upkeep of the unproductive. My acquaintance had become one of the middle class victims of the welfare state.

It is noteworthy, therefore, that the black economic middle class is expanding at an unprecedented rate, while unemployment of the black lower class is in a corresponding upward spiral. More and more blacks are attaining higher paying positions in government, while affirmative action programs are opening (if that be the correct definition) many middle management positions to blacks. Whatever their route to that economic middle class, the fact is that a larger percentage of blacks are beginning to learn the price they must pay for those of their race who do not produce what is essential to their own survival. Consequently, many of the black economic middle class are more adamantly opposed to social welfarism than some members of other ethnic groups.

Learning about the real travails of taxation, the retrogressive effect of government intervention in their lives, and how both act as barriers to the long sought dignity and independence, is not the kind of knowledge dispensed in public schools. Thus, for the great majority of
blacks, there is an element lacking in their learning experience. Where, for example, does a product of the black ghetto go to acquire truthful information about the free market system or, for that matter, the American economic system? There may be some versions of it available at a few of the black colleges and universities, but it is usually editorialized rather than a truthful presentation of what the system is all about.

It is all too easy to thus categorize that black ghetto inhabitant as "disadvantaged," because such knowledge is not available in the ghetto, but then we are inadvertently suggesting that another government program be inaugurated for the purpose of promoting such knowledge. However, to equate being disadvantaged with failure to reach out for knowledge essential to one's own survival, is to contend that logic is an enemy of reason.

**Technology Highly Prized**

Recent events reveal some interesting developments concerning capitalism and the free market. American technology is probably the most sought after product on earth, even more so than the oil from its bowels. Some nations desire to purchase it, while others contend that it should be given them in compliance with their "human rights." Such is the hue and cry of the economic Third and Fourth World. Yet the difference between those so-called disadvantaged nations and the industrialized nations, in terms of the standard of living of their inhabitants, can only be attributed to a technology that is an outgrowth of a free market. The reason for that result, however, is to be found in quite another direction.

The foundation for the free market may justly be defined as entrepreneurial freedom. But, the market and entrepreneurial freedom are dependent on what must be described as order—a societal order, which is born out of discipline.

This fact is brought into focus by Japan and Germany, our two primary military enemies during World War II. The huge financial investment by America in those two nations, following the war, has paid handsome dividends to both the investors and recipients. Race, the principal theme of this thesis, cannot be truthfully cited as a factor in that investment, because Japan is a nation of non-whites. Prior to their military defeat both of those nations had attained significant military strength, with enviable breakthroughs in new technology. In fact, America utilized the Germans' advancement in atomic fission to ultimately defeat the Japanese.

Of more importance, however, than the ability of those two nations to wage war and devise new
methods and weapons in the process is the order to be found in their respective societies. Again, an order born out of discipline. Order, therefore, is the most important prerequisite to the proper functioning of the free market system. Disorder or chaos is not conducive to production and trade.

Inadvertently, therefore, we have not only attained an answer as to why the ghetto remains a ghetto and why many nations of the world cannot respond to the abundance of wealth available to them and their peoples. We also have the basis for the selectivity of the investor. For isn't it the stable, orderly organization of business, within an orderly nation, that is sought by the investor?

Dependability and Responsibility

It can be reasoned, therefore, that dependability and responsibility, two by-products of discipline, are far more important in the scheme of things than are those "human rights" presented in lieu thereof by the state.

Pointing out the differences in the order and stability of blacks in comparison to others may win no friends, but it is essential to an exposure to the truth. Germany and Japan, as examples, have among the lowest crime rates of any nations on earth. Jointly, although their combined population is seven times that of black America, their incidence of crime is one-seventh that of black America.

And when we examine those nations of the world most mired in poverty, we discover the same phenomenon of crime and disorder, with the unemployment rates of those nations in parallel with the black communities of America. But who will invest in disorder and chaos except government? No thinking traders in the free market would gamble their money in such a fashion, or place the money of their investors in jeopardy as does our government with the proceeds of its taxpayers.

Since 1954 all governments of America, federal, state and local, have invested (if that not be a prostitution of the term) over 1 trillion dollars in social programs of one kind or another. It is significant that this sum exceeds the total private and public post war investment by Americans in both Germany and Japan.

The question then arises, and one which should be directed to the liberal black and white leadership of this nation, why did not America invest in its 18 million plus black Americans, instead of in foreign nations, formerly our military enemies? Once again, the pertinacious factors of order and discipline are thrust to the forefront.

Without endeavoring to plumb
the ideological aspects of President Carter's opening of diplomatic relations with the People's Republic of China, the move does raise several important issues concerning our free market system. First, and foremost, the establishment of diplomatic relations opens to the American business community the single largest body of potential consumers on earth. But why, when it is classified as communist, possessing the ideological traits intimated by its official designation, would that nation seek the modernization inherent to Western technology? The answer is rather obvious, for the industrial West and Japan have proven the free market system to be superior to all others in providing the quality of lifestyle sought by all peoples of this earth. Red China, then, gazes at its neighbor, Japan, with unquestioned envy.

**Chinese Interest in Capitalism**

China has openly solicited the wares of the free market, admitting in the process its desire for our technology, thus turning away from the commune style of existence under communism and seeking a logical route out of its dilemma of poverty. What this move should point out to the adherents of socialism and Marxism, regardless of their ethnic persuasion, is most evident.

If the most populous nation on earth with four and one half times the population of the U.S., brings into question the concept of the state controlling the means of production by openly flaunting their desire for the technology of the free market system, then it is certainly time for many Americans to reconsider their thoughtless journey away from the system which has made its participants the envy of the world.

The here and now must be considered the most opportune in the history of humankind for black Americans to learn an appreciation for, and to participate in, the greatest system ever devised for rewarding human achievement. The world is now the marketplace for American ingenuity, technological know-how and productive ability, with the outlook never brighter for those willing to submit to the order and discipline essential for participation in that system.

It cannot be concluded, however, that black Americans will automatically disengage themselves from civil, legal and human rights in favor of dignity through individual independence. Before the change there must come an understanding of the merits of those freedoms inherent in the free market.

**The Earning of Freedom**

To elucidate, providing an excellent example of freedoms where black Americans are concerned, is to
cite a historical fact that is even shunned by many historians. Emancipation and manumission have been regarded, even by Webster, as synonymous. They are not. Emancipation was a proclamation of government, a legal mandate resulting from the military defeat of the South in a war. The first act of that government was the establishment of the Freedman's Bureau (not its official designation) to provide the kind of paternalism which has been the curse of black Americans since the close of that war.

Manumission, on the other hand, which was covered by state law in most of the states of the Old Confederacy, stipulated that the slave so freed was free to take care of his own needs, and make those decisions within the law essential to his own welfare; in other words, to enjoy the freedom of independence from the paternalism of his former slavemaster. It is significant that the beneficiaries of manumission for the most part earned that freedom by purchasing it.

The purpose of this comparison is to cite the need for true independence as compared to that proposed by government, the kind without responsibility. For while true independence prepares one for entry to the free market as a participant, the other does not.

**Entry to the Market**

To disclose the merits of freedom to a black American, whose views of freedom are primarily centered around "doing his own thing," it is first necessary to define that "thing." The most formidable barrier to true freedom for black Americans is their failure to understand what such freedom is all about. Not only what it means, but what it requires in terms of personal responsibility to maintain true freedom. Thus, while education, in general terms at least, has soared in black America, with more blacks now graduating from institutions of higher learning than at any time in history, little of that education, from the elementary type forward, deals with true freedom of the free market.

The fact is that most blacks live in America without fully appreciating the America in which they live. The primary reason is lack of educational exposure to the true concept of freedom—an entry to the free market system in a meaningful way, which makes all the rest possible, plus an understanding that the order of discipline is essential to the maintenance of that system. And the primary lesson to be learned by all peoples of the world is that race plays no significant role in the establishment of order.
The World Economy at the Crossroad

In May of 1974 the General Assembly of the United Nations adopted a monumental Declaration and Action Programme on the Establishment of a New International Economic Order. The great majority of the voting members of the United Nations solemnly proclaim our united determination to work urgently for the establishment of a new international economic order based on equity, sovereign equality, interdependence, common interest and cooperation among all states, irrespective of their economic and social systems which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and the developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations.1

The Declaration went on to proclaim: "It has proved impossible to achieve an even and balanced development of the international community under the existing international economic order."

Later that same year the demand for the new order was followed with the adoption of a Charter of Economic Rights and Duties of States which, among other provisions, would establish the right of a country to expropriate foreign owners and institute the right to form cartel or monopoly producer associations among the commodity exporting countries, ventures similar to the already famous oil cartel—the Organization of Petroleum Exporting Countries (OPEC).

This apparently distant and therefore unimportant event in the lives of most Americans deserves greater attention in the United

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1 Professor Billings is in the Department of Economics, School of Business, at Boise State University in Idaho.
States than it has to this point received. As many continue to remind us, we live in an increasingly interdependent world. Current trends and recent declarations are bound to shape the future in ways that are not presently understood. What are some of the more important implications of the proposed radical restructuring of the international market economy?

"The Rights of Englishmen"

The central purpose of this short essay involves a reminder of a precious legacy—the heritage of what Kingman Brewster, former President of Yale University, has called "The Rights of Englishmen." These rights include the sanctity of the individual and his property, the freedom of contract, the rule of law, and in general the "system of natural liberty" so enthusiastically endorsed by John Locke, Adam Smith and the founding fathers and architects of our free market order two hundred years ago.

It is my contention that the New International Economic Order would not be an "order" at all, but would indeed be, according to one economist, "an experiment in the rule of the jungle—a rule modified by the hope that the largest and most savage carnivores will be so ashamed of their present existence by virtue of the killing and eating successes of their ancestors that they will offer themselves up as willing sacrifices to the hundreds of smaller fry." This rule of the jungle is not the rule of law which has evolved through trial and error over countless centuries from the common law and the Anglo-Saxon tradition.

The inspiration for the "Program of Action" to implement a New International Economic Order has been shaped largely by a radical, Marxist critique of the international capitalist system. International imperialism and dependency—cornerstones of the existing international economic system, so the argument goes—are said to be the causes of underdevelopment. As one radical writer has voiced the argument, the capitalistic system, with its giant multinational corporations: maintains and intensifies the system of dependency and misery that now characterizes our world economy and accounts for so much of its difficulties and injustices. To overcome these evils, a system of independent socialist countries is needed in which information and technology flows freely between countries, but capital, i.e., power, does not.3

In essence the developing countries want a redistribution of power from the more advanced nations to the currently less developed countries. And as a matter of fact, the developed countries "should not merely tolerate but police the process of . . . extortion" which is to
take place through the creation of commodity cartels and unilateral processes or expropriation. The demand by the developing countries for “full permanent sovereignty” entails a demand for the right to unilaterally abrogate contracts. Or, put another way, the law of the jungle is O.K. for the presently poor, but the rule of law should continue to apply to the more advanced countries.

The Engine of Growth

The great tragedy in all this rhetoric on the injustices of the international economic system is that it deflects attention from the fundamental sources of economic transformation and change. Economic development is fundamentally and overwhelmingly a matter of the attitudes, social institutions and motivations, and therefore of domestic origin. It is a question of the structure of incentives confronting individuals, of the social milieu in which human beings are free and encouraged to develop their talents and seek their fortunes. Economic development in past centuries has been the rule in those societies which have relied largely on a system of private property and freedom of contract and exchange. Even Karl Marx was unequivocal on this point—capitalism was and is a great engine of economic growth.

What, then, are the principal ingredients in this “Program of Action” for the implementation of the New International Economic Order—proposals which would so drastically alter the international economic environment?

First, the new order would facilitate and encourage the formation of international producer associations—commodity cartels, monopolies, like the OPEC oil cartel—in order to transfer wealth from the rich to the poor. Again, the developed nations would be expected to support and encourage the formation of these monopoly ventures.

Second, the development of international commodity agreements would be brought about in order to both reduce the fluctuations in earnings from their export efforts and to increase the flow of income and wealth to countries exporting raw materials and commodities. These transfers, however, would require prices above long-run free market prices and therefore bring into being direct confrontations between producing (exporting) and consuming countries. Furthermore, there is little evidence that economic development has been retarded by fluctuations in the exports of the developing countries.

It seems doubtful that international commodity agreements can make any significant contribution to the development efforts of the less
developed nations. A less obvious problem with these commodity agreements, but of crucial importance for the free market order, is the expansion of the role of political competition at the expense of market competition in the allocation and distribution of the world's resources.

A third demand on the part of the less developed countries is to increase the flow of financial resources to the developing countries on concessionary terms. The expanded foreign aid flows would include a reduction in the burden of the repayment obligations on previously accumulated debt obligations to the developed world. On this point, suffice it to say that these demands for greater aid are supported by the presumed guilt feelings borne by the currently well-off nations for past sins of colonialism, imperialism, and exploitation—all catch words in the radical literature on this subject.

The Crutch of Foreign Aid

Once again, however, the fact must be faced that economic growth and development is not importantly a function of the volume of foreign assistance. P. T. Bauer in his book, *Dissent on Development*, provides logical and empirical refutation of the external constraint dogma so popular in many circles. Furthermore, let us note that in the post-World War II period U.S. foreign aid flows have had relatively little to do with economic development for the poor of the world, but have been associated with an interventionist foreign policy designed to encircle the Soviet Union and (at least until recently) to encircle China.

The demand for preferential access to the markets of the high income countries for the processed and manufactured exports of the developing economies is a fourth important component of the New International Economic Order. The modernization and diversification of the less developed countries depends crucially, according to this argument, on the expansion of manufactured exports by the currently poor countries. Once again, unfortunately, attention is deflected from the fundamental source of progress—changes in domestic attitudes and institutions.

Most of the high income nations of the world currently have a Generalized System of Preferences in favor of the tariff-free entry of manufactured goods from the less developed countries. The U.S. Trade Act of 1974 provides for the duty-free entry into the United States of manufactured goods from more than eighty developing economies. The problem here is that the exemption list under the U.S. law essentially comprises the very kinds of goods in which the poor nations do have a comparative advantage (e.g., tex-
tiles, shoes, and the like). Here the proponents of the Declaration are right for the wrong reason. The United States should favor free trade because it allows us to obtain goods cheaper than they can be obtained out of domestic resources.

**Free Trade Generally**

The contribution to world economic development can be made by the general pursuit of free trade without regard to particular sources. The presumption by the advocates of the New International Economic Order that free trade has been at fault ignores the significant impediments that the world currently imposes on the flow of goods across national boundaries. As one economist has said, "The NIEO policy would rest upon the dubious assertion that nonexistent free international trade is a culprit rather than a needed remedy."6

However, as the sugar, steel and electronic consumer goods issues unfortunately testify, the people of the United States have yet to recognize the advantages of specialization and free trade so profoundly demonstrated in the intellectual refutation of mercantilist doctrines two centuries ago.

Finally, a crucial ingredient in the demands of the developing countries of the world is the implementation of an "International Code of Conduct" for the multinational enterprise which has come to be such an important force on the international economic scene. In contrast to the Organization of Economic Cooperation and Development (OECD), an association of developed countries which looks to equal treatment of domestic and foreign corporations in host country markets, the less developed countries of the United Nations' Declaration would legalize and encourage the expropriation of property and the unilateral abrogation of contracts—a far cry from the enforcement of contracts under the rule of law.

It is asserted that the multinational corporation has kept "sovereignty at bay" as the giant enterprises blackmail the poor countries. However, it is simply not the case. The realities in recent years have been just the opposite. The State, even when small, has maintained firm control. Witness the ways in which the large petroleum firms do the bidding of the OPEC cartel members. Look at the treatment and terms exacted from U.S. multinationals by our neighbors, Canada and Mexico.

Despite the radical rhetoric to the contrary, as Walter Wriston of the First National City Bank of New York has said, "The reason for optimism about the future of the world corporation rests on the solid base that it is the best way that has yet been found to organize our society to
give it the optimum chance of supplying the needs of mankind in an increasingly crowded world." And I might add that this role for the multinational enterprise should take place in a world in which the State, in all countries, would not be an instrument of the merchant class; efficiency and competition would be the relevant criteria.

**Political Conflict**

In summary, the "Program of Action" under the Declaration for a New International Economic Order involves a political confrontation between a small group of high income countries and a much larger group of relatively poor countries. It would displace the world economy predicated on market transactions through voluntary exchange with a managed international economic system relying on political competition and the State's monopoly use of force and coercion. Assertions and expressions of guilt for past sins by the currently developed nations would be the rallying cry for the implementation of this rule of the jungle.

Much of the political pull and tug would take place through the bureaucracy of the United Nations—an independent force to be reckoned with on the world economic scene. As one student of the subject has noted, "The demand for a New International Economic Order is to an important extent a demand for greater power for these international bureaucrats, disguised as a demand for more justice for the ordinary people of the developing countries."8

Relations between the so-called developed countries and the less developed countries are sure to hold center stage in the deliberations on the nature and evolution of the international economic system for years to come. The United States is likely to find that a responsibility for international order will be thrust upon it, for better or worse. In a very fundamental sense we are in a war over ideas and therefore the minds of people the world over. It is simply a continuation of the age-old battle between two ideas which have dominated thinking on economic and social matters for centuries. One is the idea associated with the importance of the individual, private property, voluntary exchange and the rule of law; the other is the notion that economic activity "is or should be the chosen instrument of the State."9

The central issue facing the people of this planet has been characterized by the Nobel Prize winning economist Friedrich A. Hayek: "Unless we can make the philosophic foundations of a free society once more a living intellectual issue, and its implementation a task which challenges the ingenuity and imag-
ination of our liveliest minds, the prospects of freedom are indeed dark." Fortunately, the free market order and its international extension has something going for it—the enormous accomplishments in the past and the potential for the future in the generation of wealth, prosperity and the promotion of individual freedom. The enemies of freedom, be they socialist planners, international bureaucrats, misguided but well-meaning do-gooders, and indeed the State itself, must deal with these demonstrable realities.

There is no call or need for a new international economic order which would relegate the rule of law to the back burner and emphasize political rule of the jungle; which would encourage the transfer of wealth instead of its creation; which would have the state expropriate property instead of enforce private property rights. The "Rights of Englishmen" are on the line. The "system of natural liberty"—private property and individual freedom—should take the offensive. The current demand for a new international economic order with these coercive and extra-legal characteristics deserves to be fought and rejected by all those who value the freedom and sanctity of the individual and his property.

—FOOTNOTES—


3 Stephen Hymer in a written statement before The Group of Eminent Persons to Study the Impact of Multinational Corporations on Development and International Relations, cited in Root, p. 437.

4 Johnson, op. cit.


8 Johnson, op. cit., p. 16.

9 Wriston, op. cit.

The Importance of Saving

Although assistance from abroad can help a country grow economically, such assistance does not excuse that country from the onerous chore of saving. Outside aid can supplement domestic saving but cannot supplant it.

WILLIAM R. ALLEN, "Saving, Foreign Aid, and Growth"
A BETTER WORLD

There is one sure way that you can help make the world a better place in 1979. This is to concentrate on improving yourself.

Obviously a lot of people think they could improve the world by forcing their ideas on others. Springfield and Washington are full of such people—people who want to compel others to do things their way.

Every time you hear somebody say, "There ought to be a law," they are actually saying, "People ought to be compelled do to things my way."

In the final analysis, that is what politics is all about. It is a way of deciding who is going to exercise power over others—of deciding whose ideas shall prevail.

It is undoubtedly true that some people have better ideas than others—at times. But at different times, those "others" may have the better ideas.

One problem with trying to force our ideas on others is that they have ideas of their own as to what they want to do and how they want to do it. This is one way conflicts arise.

When you concentrate on self-improvement, there is little risk of conflict. And you may even achieve the position where others will imitate your example voluntarily.

How do you go about self-improvement? Well, that is for you to decide. One person might sign up for a class in some challenging subject. Others could begin an exercise program or start reading some mind-expanding material. Many could probably find guidance at a church or temple.

Concentration on self-improvement could both decrease the causes of conflict and produce better individuals. Then the world would be a better place, by that much, and 1979 a better year.

Mr. Patrick holds a Master of Divinity degree from Yale and has filled many lay offices as a churchman. A former chamber of commerce executive, he now is an officer in a group of small-town banks in Illinois. The message here is from his broadcast of January 2, 1979 as a volunteer commentator, radio WSOY, Decatur, Illinois.
With increasing frequency, regulatory matters have been entering into discussions of national economic policy, and for good reason. As the nation has become more concerned with inflation and its impact upon economic growth, any option which promises some hope of reducing the cost of providing basic services is a prime candidate for serious consideration.

The potential cost savings that could be achieved through regulatory reform are substantial. All told, current government regulation of business is resulting in an annual burden of $100 billion.¹ The great bulk of this cost is caused by inefficiencies imposed by regulatory constraints. These costs are not merely transfer payments. It is not as if the money is being shifted from one pocket to another. Instead these costs are described as deadweight losses.

In transportation the regulatory burden has been estimated at $10 billion or more per year. Typical incidents include truckers' empty backhauls, circuitous routing, and unnecessary extra freight handling (and sometimes mishandling) due to regulatory policies and procedures. The waste is comprised of unnecessarily burned fuel, needless wear and tear on equipment, and unproductive use of the time consumed by operations personnel. Not included is the additional consumption of management's time in coping with the complex rules and procedures of the regulatory establishment.

Not surprisingly, the revelation of the enormous potential savings from deregulation has inspired a rising groundswell of opinion in favor of such a move. Among academic economists the consensus is virtu-
ally unanimous, and has been for the last decade, that at least some deregulation is necessary. While lawmakers have been somewhat slower to change their minds, recent stirrings in the direction of deregulation have been observed.

In 1976 the Railroad Revitalization and Regulatory Reform Act offered some minor reforms in surface transport regulation. The bill allows some flexibility in rate making over what had been the rule to this point. In November of 1977, H.R. 6010 was passed and signed into law making entry into the air cargo industry virtually unrestricted as well as giving operators wide discretion in setting rates. The recently passed Kennedy-Cannon bill on airline deregulation allows greater price competition, limited automatic entry of new routes by existing carriers, and significantly relaxed entry requirements for new applicants.

Now that airline regulatory reform is accomplished, Congress is expected to take up the issue of motor transport regulation. The trend seems clearly to be toward more deregulation.

Why Regulation?

The traditional explanation of the motive for government regulation of transportation has been that it is necessary to correct the imperfections of the free market. Theoretically, the regulators would step in to insure that the public would not be victimized by a predatory industry. In practice, regulation has not worked this way. The old myths die hard, though, and regulation as a protector of the consumer is almost an article of faith. Perhaps it is significant that while the rest of society is "enjoying" the "protection" of regulation in motor carriage, a staff task force recommendation to the ICC urged that U.S. government shipments be subject to unrestricted competition among common carriers.²

A growing number of economic studies of regulation have come to the conclusion that this system is a burden upon society. The question must persist, then why must regulation continue? Why can't we do away with it? There is the continuing vitality of the myth of consumer protection. But such a myth does not survive on its own. It must be nurtured and propagated. Who would do such a thing? What would be the motive?

Economist George Stigler has suggested that a good working hypothesis is that regulation is promoted by a relatively small group of beneficiaries whose individual stake in the system is much larger than the individual stakes of the more numerous victims of the system.³ These few beneficiaries are able to collectively induce the government to enforce policies benefi-
cial to themselves. Their individually larger stakes enable them to outbid opponents and to "purchase" a regulatory system from the Government.\(^4\)

The current state of affairs is economically wasteful. It wastes fuel on needless motion caused by regulatory restrictions. It wastes capital tied up in excess capacity both in private and common carrier equipment. It wastes the irreplaceable time of individuals in unnecessary travel, in the regulatory agency itself, and in the time consumed in learning a complex compilation of do's and don't's in the provision of transportation services. Unmeasured social costs of the regulatory scheme include contributions to increased traffic congestion and pollution as well as an indeterminable amount of opportunity cost in other benefits that have been forgone over the years in order to finance the waste inherent in the regulatory process.

Perhaps the most important discovery to be made is that the mere selection of "better" regulators is no way out of the current difficulties. The problems are fundamental and cannot be attributed to incompetent or corrupt regulators. No matter how well qualified or carefully chosen any future regulators might be, no improvement can be expected unless crucial changes in the system are made.

As a minimum of reform, two aspects of the current system must be dealt with. First, the restrictions on entry must be eliminated. Second, the imposition of price controls must be discarded.

Strong, entrenched transportation lobbies have stood in opposition to any reforms which would dilute their monopoly powers. The major arguments used to prevent deregulation include: (1) that transportation is a natural monopoly, with significant economies of scale, and therefore, service can be provided more cheaply and efficiently if needless competition is banned, (2) that the absence of regulation would lead to chaotic conditions, which would lead in turn to monopoly, (3) that existing carriers have already paid substantial sums for operating rights and it would be unfair to deprive them of the expected monopoly profits without compensation, and (4) that the current system is a known condition and that any change could be a change for the worse.

The Natural Monopoly Argument

The contention that transportation is a natural monopoly has no basis in economic fact. Historically speaking, at one time the railroads may have had some monopolistic characteristics, but even then, prior transport modes were still in existence. Aside from this, conditions
have changed greatly during the last century. In no way can the railroads be said to monopolize transportation. Quite the contrary, railroads have taken on the aspects of a declining industry. A key component of the changes in transportation has been the construction of a comprehensive network of public highways. There is virtually no place in America that cannot be reached by road. The highway system has, naturally, been a boon to the motor carrier industry.

The critical element of a so-called natural monopoly is ever-increasing economies of scale. This implies large capital investment in fixed assets. There is nothing about the motor carrier industry which is consistent with the requirements of natural monopoly. In fact, economists have found significant diseconomies of scale when annual revenues exceeded $10 million.\(^5\) It is apparent, then, that transportation is not a natural monopoly. The argument that it is seems to rely upon conditions more relevant to the nineteenth century. At best, such an approach is outdated.

**The Chaos Argument**

The argument that the absence of regulation would lead to chaos is closely tied to the historical circumstances preceding motor carrier regulations. During the Great Depression, business conditions were less than ideal. Bankruptcies occurred with unpleasant frequency. A number of government programs designed to reduce competition and promote a sharing of declining business volume were introduced. The National Recovery Administration set up procedures for price fixing in broad categories of industry. This period also saw the rise of the "fair trade" concept, which allowed manufacturers to fix the prices at which their products could be resold. Rigid controls over agriculture were also adopted during this period.

The passing of the period of depression emergency, combined with a greater appreciation of the impacts of this type of price fixing and output control on the availability and price of consumer goods, has seen the elimination or curtailment of such programs (excepting the recent infatuation with wage and price control as an inflation "cure") in virtually every sphere except transportation. Chaos cannot be said to have prevailed in the deregulated spheres. In fact, the quantity and quality of consumer goods have vastly improved in subsequent years.

There is no reason to anticipate that transportation would prove an exception to this experience. Separate from the strident antideregulation propaganda, regulated motor carriers have privately expressed confidence in their ability to thrive even without regulatory protection.
They cite their experience, management expertise, financial strength, and the scope of the service they can offer, as the basis of this confidence. We must conclude that the fear of chaos is unsubstantiated and unrealistic as a scenario for a post-deregulation environment.

The Equity Argument

The third major area of argument poses an entirely different problem. The reapers of the monopoly profits may, in many instances, already have sold their special rights. The purchasers may be earning only a normal rate of return after accommodating the capitalized value of the operating right, i.e., future monopoly revenues simply compensate the carrier for the funds expended to obtain the monopoly rights. Deregulation without compensation would constitute a change in the rules—inflicting capital losses on those firms which purchased these operating rights.

While this line of argument has some merit in the question of equity, it is no justification in itself for perpetuation of a system which continues to generate monopoly gains at the expense of consumers. A number of solutions to this dilemma have been suggested. The hard line approach takes the position that no firm is guaranteed against losses from bad investments. The purchase of an operating right would fall into the category of a bad investment. Since management did not correctly anticipate future industry conditions, it must bear the penalty for this lack of foresight, vis-a-vis the evaporation of value of the operating rights.

A second approach has suggested that the government buy all the operating rights from the regulated carriers. Variations of this theme hinge on the valuation of the rights.

A third approach envisions a phased deregulation program. In this way, competition would be gradually increased and the firms would be eased into the new environment. The problem of compensation for operating rights would not be wholly resolved. The costs of regulation would be extended. The major appeal of this proposal is that it is a compromise which attempts to spread the costs of readjustment over time and between producers and consumers.

None of the above solutions is completely satisfactory. Phased deregulation would prove the most costly, with the bill ranging from the current social loss of around $10 billion per year to lesser amounts as the distortions are removed. The longer the transition, the higher the cost. In comparison, outright purchase of the existing operating rights at their current market value could cost over $4 billion.
The Fear of Change Argument

The last objection to deregulation—the fear of change—is no objection at all. The philosophy of "better the evils you know than those you don't" is contrary to the American spirit of enterprise if it is to be used to block reform of an obviously deficient system. It is true that deregulation would drastically modify the operating environment of regulated transport, but this is the whole point. The general welfare could be improved by changing an operating environment that misallocates resources. Reluctance to make the necessary adjustment is akin to the postponement of surgery to correct a debilitating ailment. The situation can only get worse.

This is not to say that corrective measures would be painless. But the discomfort surely would be milder than proclaimed by proponents of continued regulation. Other jurisdictions have transportation systems with less regulation than ours. In 1954 Australia deregulated its motor carrier industry. Contrary to the prognostications of the pro-regulators, the subsequent turn of events was quite salutary. The resulting competition has not been "destructive." It has not resulted in monopoly. Both truck and rail services have improved. No shortage of capacity has resulted. Shippers have been satisfied and carriers have thrived.7

Our standard of judgment for evaluating the transportation industry must not get hung up on a futile pursuit of perfection. There will always be problems with any system. No approach can cover all contingencies. The important consideration is to find a policy that will lead to the best possible results.

The perceived shortcomings of unregulated transport are less costly than regulation. So, let regulation be evaluated as it has performed, not in some idealistic sense in which it can be used to fix the imperfections of the marketplace at no cost to society.

---FOOTNOTES---

1Estimate by Murray Weidenbaum of the Center for the Study of American Business, Washington University, St. Louis, Missouri.
From a libertarian point of view, Otto Scott is America’s most exciting contemporary historian and biographer. He has two strings to his bow. With a clear understanding of Albert Jay Nock’s distinction between social power and political power, Scott alternates his studies. Part of his writing life is devoted to a critical appraisal of creative business enterprises (see, particularly, his story of the Raytheon company, which developed radar). His “other career,” which he pursues with a sense of dutiful but nevertheless exhilarating vengeance, is dedicated to exposing the great “fools of history.”

These fools are political types who have led mankind astray by insisting on a “higher law” that has no grounding in human nature. His book on the French revolutionary fanatic Robespierre was a devastating dramatization of what can happen to a country when a politically powerful person assumes that he and he alone has been ordained to define and impose a “general will.” The Scott biography of King James I of England was a study of absolutism allied to vice and frivolity that might have cost Britain more if it had not been an island. And now Otto Scott, with his *The Secret Six: John Brown and the Abolitionist Conspiracy* (Times Books, 3 Park Avenue, New York, N.Y., 10016, 375 pp., $15.00), has dared to apply the name of “sacred fool” to the man whose attempt to seize the government arsenal at Harpers Ferry, Virginia, and incite a slave rebellion was one of the prime harbingers of the American Civil War.

John Brown of Osawatomie, Kan-
sas, has been the subject of admiring biographers and the inspiration of one great poem, Stephen Vincent Benet's *John Brown's Body*. Mr. Scott dissents; he calls John Brown a murderer.

**Killing and Plunder**

The record clearly sustains Mr. Scott. On May 23, 1856, Old John Brown (he always seemed old to his contemporaries) led four of his sons, his son-in-law and two others on a killing expedition along Pottawatomie Creek in what was then called Bleeding Kansas. The Kansas territory was being contested between southern slaveholding sympathizers and northern Free Soilers, but Old Brown, in assuming that he was part of a "northern army" and hence privileged to kill in the name of the Abolitionist "higher law," was in no way concerned in knowing whether his victims were slaveholders or even interested in anything other than pioneering on the plains.

Mr. Scott surmises that one of Old Brown's confused motives was a desire to force a nation into a new pattern by creating terror. Brown claimed a religious sanction for invoking a symbolic vengeance on innocent men and women, but he and his murder party were also interested in loot. They wanted horses, saddles, guns and bowie knives, and they were particularly happy to walk off with a fine grey horse belonging to Dutch Henry, the big cattle dealer of the area.

Old Brown and his party were never brought to justice for five Pottawatomie murders that widowed two women and left behind a number of fatherless children. One reason for the oversight was the disorganized condition of the Kansas territory. But, more importantly, the country as a whole was bemused by the clamor of the sectional issue. The Fifties were the decade of the Dred Scott decision, the caning of the self-righteous Massachusetts Senator Charles Sumner by an outraged South Carolinian, Representative Preston Brooks, and the incendiary controversies of the Boston
Abolitionists (Garrison, Wendell Phillips et al.) and the southern fire-eaters who wanted secession. The journalists of the time were partisan, and those who wrote for northern papers from Kansas took Old Brown at his own estimate that he was engaged in a highly moral crusade.

**Supporting Intellectuals**

To Mr. Scott, the real scandal of the whole Brown story was the behavior of the Massachusetts intellectuals. The Concord group was particularly blameworthy for making Brown a hero. Ralph Waldo Emerson excused the Kansas violence by saying "better that a whole generation of men, women and children should pass away by a violent death, than that one word" of the Golden Rule and the Declaration of Independence "should be violated in this country." Henry David Thoreau agreed with Emerson that Brown was a "transcendentalist saint."

The more "liberal" of the Boston clergy echoed the Concord non sequiturs. But the real culprits, as Scott's careful research shows, were the members of the committee he calls the Secret Six. This group was composed of Dr. Samuel Gridley Howe, the Reverend Thomas Wentworth Higginson, the Reverend Theodore Parker, the millionaire Gerit Smith, Franklin B. Sanford, the town antiquarian of Concord, and George Luther Stearns, an idealistic Massachusetts lead pipe manufacturer. The Secret Six supported Old Brown with introductions, immoderate praise, and good hard cash. Unwilling to go to Kansas in person to fight the so-called Border Ruffians from the South, they satisfied their guilt feelings by supplying money and arms for Brown's activism. Announcing that "a revolution was what the country needed," Stearns at one point drew up a subscription list to provide regular shipments of Sharp's rifles to Kansas.

**Pacifist Beginnings**

The ironic thing about the Abolitionist movement, insofar as the clergy was involved in it, was that it had begun in pacifism. Theodore Weld, the theology professor who trained scores of agents in a "school of abolition," was the gentlest of souls. The Reverend William Ellery Channing, the acknowledged leader of the Unitarian movement, complained that William Lloyd Garrison, the "liberator," and his vociferous circle were "too precipitate" and "lacked tact." But as the "irrepressible conflict" of the Civil War approached, Theodore Parker proclaimed that "all the great charters of Humanity have been writ in blood." The free man, he said, "has a natural right to help the slaves recover their liberty . . . and as a
means to that end, to aid them in killing all such as oppose.”

Parker, who boasted of helping to fund John Brown, lay dying in Italy when the poorly planned and stupid raid in the Harpers Ferry arsenal misfired. He might not have survived the ordeal of returning to the United States to stand trial in Virginia as an accessory to Brown’s treasonable act. To do the Reverend Thomas Wentworth Higginson justice, he was willing to appear in court and was rather miffed that nobody asked him. But the rest of the “secret six” scurried for cover when Lieutenant Jeb Stuart captured Brown after a thirty-six-hour engagement at the Harpers Ferry arsenal. Howe, Stearns and Sanborn, fearful that they might be exposed as accessories to Brown’s act of treason, ran away to Canada. Gerit Smith, the millionaire, pretended lunacy.

Frederick Douglass, the leader of northern black freedmen, had tried to dissuade Brown from his mad escapade. But when the raid on the arsenal actually took place, Douglass fled to Canada and England. He was under no illusions about his safety if he had been called upon in a Virginia court to explain his conversations with Brown before the sanguinary event took place.

Otto Scott does not draw modern parallels in The Secret Six. But his contempt for intellectuals who support violence in the name of the “higher law” obviously extends to western liberals who favor bloody solutions in Rhodesia, South Africa or wherever. The “secret sixes” are always with us.

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The present worldwide inflation has done, and will continue to do, immense harm. But it may eventually lead to one great achievement. It may make it possible to restore (or perhaps it would be more accurate to say to create) a full 100 percent gold standard.

That could come about in a simple manner. Our government has made it once more legal to hold gold, to trade in gold, and to make contracts in terms of gold. This makes it possible for private individuals to buy and sell in terms of gold, and therefore to restore gold as a medium of exchange. If our present inflation, as seems likely, continues and accelerates, and if the future purchasing power of the paper dollar becomes less and less predictable, it also seems probable that gold will be more and more widely used as a medium of exchange. If this happens, there will then arise a dual system of prices—prices expressed in paper dollars, and prices expressed in a weight of gold. And the latter may finally supplant the former. This will be all the more likely if private individuals or banks are legally allowed to mint gold coins and to issue gold certificates.

But even of the small number of monetary economists who favor a return to a gold standard, probably less than a handful accept the idea of such a 100 percent gold standard. They want a return, at best, to the
so-called classical gold standard—that is, the gold standard as it functioned from about the middle of the nineteenth century to 1914. This did work, one must admit, incomparably better than the present chaos of depreciating paper monies. But it had a grave weakness: it rested on only a fractional gold reserve. And this weakness eventually proved its undoing.

**Not Enough Gold?**

The advocates of the fractional gold standard, however, saw—and still see—this weakness as a strength. They contend that a pure gold standard was and is impossible; that there is just not enough gold in the world to provide such a currency. Moreover, a pure gold standard, they argue, would be unworkably rigid. On the other hand, a fractional reserve system, they say, is flexible; it can be adjusted to “the needs of business”; it provides an “elastic” currency.

We will come back to these alleged virtues later, and examine them in detail; but first I should like to call attention to the central weakness of a fractional reserve system: it embodies a long-term tendency to inflation.

Let us begin with a hypothetical illustration. Suppose we have a world in which the leading countries have been maintaining a 100 percent gold standard, that they begin to find this very confining, and that they decide to adopt a fractional gold standard requiring only a 50 percent gold reserve against bank deposits and bank notes.

The banks are now suddenly free to extend more credit. They can, in fact, extend twice as much credit as before. Previously, assuming they were lent up, they had to wait until one loan was paid off before they could extend another loan of similar size. Now they can keep extending more loans until the total is twice as great. The new credit plus competition causes them to lower their interest rates. The lower interest rates tempt more firms to borrow, because the lower costs of borrowing make more projects seem profitable than seemed profitable before. Credit increases, projects increase, and there is a “boom.”

So reducing the gold reserve requirement from 100 percent to 50 percent, it appears, has been a great success. But has it? For other consequences have followed besides those just outlined. Production has been stimulated to some extent by lowering the reserve requirement; but production cannot be increased nearly as fast as credit can be. So as a result of increasing the credit supply most prices have practically doubled. Twice the credit does not “do twice the work” as before, because each monetary unit now does, so to speak, only half the work it did.
before. There has been no magic. The supposed gain from doubling the nominal amount of money has been an illusion.

And this illusion has been bought at a price. Lowering the required gold reserve to 50 percent has enabled the banks to double the volume of credit. But as they begin to approach even the new credit limit, available new credit becomes scarce. Some banks have to wait for old loans to be paid off before they can grant new ones. Interest rates rise. New projects have to be abandoned, as well as some incompleted projects that have already been launched. A recession sets in, or even a financial panic.

And then, of course, the proposal is made that the simple way out is to reduce the gold-reserve requirement once again, so as to permit a still further creation of credit.

The Federal Reserve Act

Historically, this is exactly what has been happening. Space does not permit a detailed review of what has happened in one nation after another, starting, say, after the adoption in England of Sir Robert Peel’s Bank Act of 1844. But we can point to a few sample changes in our own country, beginning with the Federal Reserve Act of 1913.

That act set up twelve Federal Reserve Banks, and made them the repositories for the cash reserves of the national banks. The first thing that was done was to reduce the reserve requirements of these commercial banks. Under the national banking system the banks had been classified according to the size of the city in which they were located. They were Central Reserve City Banks, Reserve City Banks, and Country Banks. These were required to keep reserves, respectively, of 25 percent of total net deposits (all in the bank’s own vaults), 25 percent of total net deposits (at least half in the bank’s own vaults), and 15 percent of total net deposits (two-fifths in the bank’s own vaults).

The Federal Reserve Act classified deposits into two categories, demand and time, with separate reserve requirements for each. For demand deposits the act reduced the reserve requirements to 18 percent for Central Reserve City Banks, 15 percent for Reserve City Banks, and 12 percent for Country Banks. In each case at least one-third of the reserve was to be kept in the bank’s own vaults. For time deposits the reserve was only 5 percent for all classes of banks.

In 1917, as an aid in floating government war loans, the reserve requirements were further relaxed, to 13, 10, and 7 percent respectively, with only a 3 percent reserve requirement for time deposits. Though the amendment also required that
all reserve cash should thereafter be held on deposit with the Federal Reserve Banks, the amount of till or vault cash necessary to meet daily withdrawals was found to be small.

In addition to this lowering of the reserve requirements of the member banks, the Federal Reserve System provided for the building of a second inverted credit pyramid on top of the one that the member banks could build. For the Federal Reserve Banks themselves were authorized to issue note and deposit liabilities against their gold reserves, which were required to total only 35 percent against deposits.

As a result of such changes, if the average reserves held by the commercial banks against their deposits were taken as 10 percent, and the gold reserves held by the System against these reserves at 35 percent, the actual gold held against the commercial deposits of the System could be reduced to as low as 3.5 percent.

What actually did happen is that between 1914 and 1931, total net deposits of member banks increased from $7.5 billion to $32 billion, or more than 300 percent in less than two decades.¹

These figures continued to grow. Gold reserve requirements were finally removed altogether. In August, 1971, when the United States officially went off the gold standard, the money stock, as measured by combined demand and time deposits plus currency outside of banks, was $454.5 billion. The U.S. gold reserves were then valued at $10.2 billion. This meant that the money stock of the country had been multiplied more than sixty times over that of 1914, and the gold reserve against this money stock had fallen to only 2.24 percent. Put another way, there was then $44 of bank credit issued against every $1 of gold reserves.

Exhausting the Gold Reserve

The situation was actually more ominous than these figures suggest. For under the gold-exchange system of the International Monetary Fund, it was not merely the American dollar, but the total currencies of practically all the nations in the Fund, that were supposed to be ultimately convertible into the U.S. monetary gold stock. The miracle is not that this gold exchange system collapsed altogether in August of 1971, but that it did not do so much sooner.

In short, the fractional gold standard tends almost inevitably to become more and more attenuated, and while it does so it permits and encourages progressive inflation.

When the gold standard is abandoned completely and officially, inflation usually accelerates. This has

been illustrated in the more than seven years since August, 1971. At the end of 1978, the money stock, counting both demand and time deposits, had risen to $871 billion—nearly double the figure at which it stood in August, 1971.

But what happens as long as the fractional gold standard is being nominally maintained is that the milder rate of inflation is less noticed, and even many monetary economists are inclined to view it with complacency. This is partly because they have a reassuring theory of what is happening. The amount of currency and credit, they say, is responding to the "needs of business." The loans on which the deposits or Federal Reserve Notes are based represent "real goods." A manufacturer of widgets, for example, borrows a six-month loan from his bank to meet his payroll and other production costs, then when he sells his goods he pays off the loan with the proceeds, and the credit is cancelled. It is "self-liquidating." The money is therefore "sound"; it cannot be over-issued, because it increases and contracts with the volume of business activity.

What this theory overlooks is that while the individual loan may be self-liquidating, this is not what happens to the total volume of credit outstanding. Manufacturer Smith's loan has been repaid. But under the fractional reserve system, the bank, as a result of this repayment, now has "excess reserves," which it is entitled to re-lend. Of course if the bank is fully lent up, even under a fractional reserve system, it cannot extend credit further. But when a substantial number of banks are seen to be nearing this point, pressure comes from all sides—from the banks and their would-be borrowers, and from the government monetary authorities and the politicians who have appointed them—to lower the reserve requirements further. If nothing has gone wrong so far with the existing fractional reserve, indeed, there seems to be no harm in reducing the fraction further. It will permit a further expansion of credit, reduce interest rates, and prevent a threatened business recession.

In sum, to repeat, a fractional-reserve gold system, once accepted, must periodically bring about business and political pressure for a further reduction of the fractional reserve required.

The Harmful Consequences

We have now to examine the harm that the system does whether or not the pressure to reduce the reserve requirements is continuously successful.

Let us begin with a situation in, say, Ruritania, which has a fractional-reserve gold standard and a central bank, but in which business activity has not been fully
satisfactory. The central bank then either lowers the discount rate, or creates more member-bank reserves by buying government securities, or it does both. As a result, business is encouraged to increase its borrowing and to launch on new enterprises, and the banks are now able to extend the new credit demanded.

As a consequence of the increased supply of money and credit, prices in Ruritania rise, and so do employment and money incomes. As a further result, Ruritanians buy more goods from abroad. As another result, Ruritania becomes a better place to sell to, and a poorer place to buy from. It therefore develops an adverse balance of trade or payments. If neighboring countries are also on a gold basis, and inflating less than Ruritania, the exchange rate for the rurita declines, and Ruritania is obliged to export more gold. This reduces its reserves and forces it to contract its currency and credit. More immediately, it obliges Ruritania to increase its interest rates to attract funds instead of losing them. But this rise in interest rates makes many projects unprofitable that previously looked profitable, shrinks the volume of credit, lowers demand and prices, and brings on a recession or a financial crisis.

If neighboring countries are also inflating, or expanding the volume of their money and credit at as fast a rate, a crisis in Ruritania may be postponed; but the crisis and the necessary readjustment are all the more violent when they finally occur.

**The Cycle of Boom and Bust**

The fractional-reserve gold standard, in short—especially when it exists, as it usually does, with a central bank, a government and a public opinion eager to keep expanding credit to start a "full employment" boom or to keep it going—brings about what is known as the business cycle, that periodic oscillation of boom and bust that socialists and communists attribute, not to the monetary and credit system and central banking, but to some inherent tendency in the capitalist system itself.

I need describe here only in a general way the process by which credit expansion brings about the boom and the inevitable subsequent bust. The credit expansion does not raise all prices simultaneously and uniformly. Tempted by the deceptively low interest rates it initially brings about, the producers of capital goods borrow the money for new long-term projects. This leads to distortions in the economy. It leads to overexpansion in the production of capital goods, and to other malinvestments that are only recognized as such after the boom has been going on for a considerable time.
When this malinvestment does become evident, the boom collapses. The whole economy and structure of production must undergo a painful readjustment accompanied by greatly increased unemployment.

This is the Austrian Theory of the trade cycle, which I need not expound here in all its complex detail because that has already been done fully and brilliantly by such writers as Mises, Hayek, Haberler, and Rothbard.²

The World Adrift in Turbulent Seas of Paper Money

My chief concern in this article has been to show that in addition to being the principal institution responsible for bringing about the cycle of boom-and-bust that has plagued the civilized world since the early nineteenth century, the fractional-reserve standard, once its principle of "economizing the use of gold" has been fully accepted, itself encourages an inflation that has no logical stopping place until gold has been "phased out" altogether, and the world is adrift in the turbulent seas of paper money.

In emphasizing this weakness of a fractional-reserve standard, I do not intend to imply that I have solved the baffling problem of creating an ideal money—assuming that that problem is even soluble. An opportunity now exists—for the first time in a couple of centuries—to introduce a 100 percent gold reserve standard. But if sufficient new gold supplies were not regularly available, such a standard could conceivably result over time in a troublesome fall in commodity prices. Moreover, unless there were rigid prohibitions against it, a private no less than a government money would soon tend to become a fractional-reserve standard. And if we allowed this, would we not soon be on the road once more to a constantly diminishing fraction, and at least a constant mild inflation?

I confess I do not have confident answers to these questions. But that does not invalidate my criticisms of a fractional-reserve standard. I should like to point out, incidentally, that expanding the money supply through a fractional-reserve standard—mainly for the purpose of holding down the exchange-value of the individual currency unit and thereby preventing a fall in prices—could also be accomplished under a full gold standard by constantly or periodically reducing the weight of gold into which the dollar (or other unit) was convertible. Such a proposal was once actually made

²In addition to larger works of these four writers that include discussions of the subject, the interested reader may consult the pamphlet, The Austrian Theory of the Trade Cycle, which contains an essay by each of them. (Center for Libertarian Studies, 200 Park Avenue South, Suite 911, New York, N.Y. 10003, $3.00).
by the economist Irving Fisher. I am unaware of any economist who accepts such a proposal today. But it is no different in principle from steadily expanding the money supply—under either a paper or a fractional-reserve gold standard—for the purpose of holding down the purchasing power of the monetary unit. Is this a power we would want to trust to the politicians?

As a result of what has already happened, I regret that I cannot join some of my fellow champions of the full gold standard in urging their respective national governments to return immediately to such a standard. I believe such a step at the moment to be both politically and economically impossible. Confidence in the monetary good faith of governments has been destroyed. If any one government were to attempt to return to gold convertibility, at even today's free market price for gold, it would probably be bailed out of its gold within a few weeks.

That is because holders of the currency would doubt not only that government's determination but its ability to maintain that conversion rate. People have seen their governments casually abandon the gold standard, and they are more aware of how slim and insecure the new gold-backing might be against the enormous volume of credit and paper money now outstanding. Gold convertibility of an individual currency could probably now be restored only after a few years of balanced budgets and refrainment from further currency expansion.

Meanwhile, if governments would permit private individuals or banks to mint gold coins and to issue gold certificates, a dual currency system could come into existence that could eventually permit a smooth transition back to a sound gold currency.

No Shortage of Gold

In a free market economy it is utterly irrelevant what the total stock of money should be. Any given quantity renders the full services and yields the maximum utility of a medium of exchange. No additional utility can be derived from additions to the money quantity. When the stock is relatively large, the purchasing power of the individual units of money will be relatively small. Conversely, when the stock is small, the purchasing power of the individual units will be relatively large. No wealth can be created and no economic growth can be achieved by changing the quantity of the medium of exchange.

HANS F. SENNHOLZ, Gold Is Money
Our heritage is not a static stock of sticks and stones. Neither does it consist of ancient artifacts embalmed and preserved like Egyptian ancestors in pyramided tombs.

It is a real and integral part of living. It impels us to look back on what has been, but it can never be preoccupied with history alone.

Like the Janus-faced deity of the Romans, it demands an ever-present consciousness of our future as well as our past.

Our heritage is the linkage of yesterday with tomorrow. It bridges the generations of mankind and defies the truncations of time.

It is a vitality springing out of the present, but rooted in the past that produces, in our time and upon our land, structures and monuments and places for creation and recreation, that can be used and cherished by men and women with educated minds and understanding hearts.

If these impulses lift the spirit of man in any age, the works they succeed in creating will surely become a part of the enriched inheritance of succeeding generations.

The principal value of preserving the past is that it assures the presence of models of perfection that may inspire great actions, high purposes and the production of good and beautiful works—today and in all of our tomorrows.

How did the treasure-houses that are the heritage of mankind come into being?

They were the products of the in-
spiration of individual men and women who built structures to be inhabited and used for whatever purposes suited the age in which they took shape—some sacred, some profane.

National Heritage

A humble log cabin erected on a riverbank of the Prairies in 1810, to store pemmican and furs, which later served as a schoolhouse, and later still as a granary, may be a significant part of our national heritage for many years to come.

A great cathedral that was a sacred place of worship for the establishment of our largest city a hundred years ago, and now serves as the outer shell for a dozen bright boutiques, is also a part of that heritage.

Usefulness and use are the hallmarks of the buildings and places that measure our progression through the pages of history, perhaps more felicitously than a Taj Mahal, with its perfect symmetry and matchless marble. After all, the Taj is a memorial not to life—but to death.

Few individuals today are able to conceive, create or build (let alone finance), like Emperor Shah Jahan, overpowering structures of monumental dimensions. The man who would now build inspirationally for the future is discouraged in many ways.

First, the skills of the great craftsmen who created our architectural heritage having all but disappeared from the land.

The ancient cathedrals and temples, palaces, and monuments reflect the skills and genius of the men who conceived and designed and fashioned them: the architects and stonemasons and carpenters and ironmongers and glaziers.

Their expertise is mankind's richest heritage because it makes possible a rebirth of the wonders of other ages.

Most are lost to us, save in the gardens of a few museums and in the reconstructed shops of antiquities where a handful of dedicated, costumed men and women act out the roles of spinners and weavers and cobblers and smithers and pretend to keep alive a thimbleful of lost and long-forgotten arts.

Secondly, it has grown too costly to insist on excellence and beauty.

Draining the innovative energies of the architects and engineers and builders and designers and workmen of all descriptions are the omnipresent parasites that fasten themselves like leeches upon the vessels of the body politic.

If a businessman were to plan to injure a competitor by impeding construction, he could do nothing more effective than to design the building codes that inhibit us in every part of this country.
If a foreign enemy wished to cripple our development, he could achieve no greater victory than by perpetuating the multi-tiered bureaucracies that require committees and commissions and boards and regulatory agencies and authorities *ad nauseam*, to hold hearings and inquiries and publish findings, reports and recommendations and, at will, withhold licenses, permits, exemptions and releases so that in the end, our principal and ultimate, and probably our most durable national manufactured product will be paper: a glorious end for our magnificent forest heritage!

Thirdly, the heavy burden of taxation effectively discourages those who would erect structures of an unusual character from investing their time and treasure in such luxuries because they are unlikely to produce enough to provide an adequate return on investment.

The result is evident in our cities: the monolithic office buildings containing hundreds of thousands, indeed millions of square feet, are encased in pre-fabricated grey-concrete slabs embellished by a street number outside, and wall-to-wall carpeting inside, all aping the architectural sterilities of Moscow: Stalin Style.

These structures, praised for their utility, are the outer shells of the heritage of our generation.

It is said that they are functional; that they serve a useful purpose; that they will remain standing a long time.

**Capable of More**

If they do, they will generate the same kind of bemused interest in the inquisitive minds of our heirs, as we discover in the coral deposits, which are all that is left of the lives of the anonymous billions of microcosmic creatures that mindlessly produced the vast ocean barrier reefs of the Pacific.

As homo sapiens, we are capable of producing a richer, more diverse heritage than that!

But this we shall do only if the individual and his genius are held to be of higher worth than the physical collectivity of mankind—the organization, the party, the cult, the state.

To answer the question, "How best may we conserve the structures and artifacts that are our heritage?", I would ask another question: "How best may we create the stuff and substance from which tomorrow's heritage will emerge?"

If we value our heritage of the past, we must cherish the individuals who are today capable of producing the heritage of the future.

We can affirm the worth of such persons only in an environment in which the individual is highly motivated and moved to develop his strengths to the utmost of his capacity in order that he may become an
educated and cultured citizen.

When he has learned to express himself according to the highest standards that excellence can attain, he must be free to work and to produce in a place where merit is not penalized nor success filched or taxed away from those who have achieved it.

**Clear Priorities**

It demands a recognition that beauty is more necessary to life than safety, and invention is more vital to society than security.

It requires an acceptance of the fact that a group is not an organism apart from its constituent individuals. A group has no brain or stomach of its own; it must think and feel with the brains and nerves of its members.

When a nation flourishes, it is through the success of its intellectual, artistic and political leaders.

When it declines, it is through no mystic malaise in the state, but through a failure of its citizens to assume the role of leadership in our homes and businesses, our schools and hospitals, our laboratories, fields, factories, workshops, theatres and courts.

When I speak of the need for an environment that is compatible to the creation of a great heritage, I like to believe that each age is capable of generating physical forms that will strike not only a contemporary chord that is responsive to the spirit of the times, but one that will be heard and understood far into the future.

All of this can be achieved in a society that is vigorous and robust: capable of meeting the challenges of competition in the marketplace; resourceful in adapting to changes in the sources and cost of energy; determined to resist luxury, corruption, the erosion of families and the blandishment of immorality; and determined to overwhelm the sloth of slobs with work, and to overcome the skepticism of the age with faith.

Our heritage can never flourish except through the individual who possesses these elements, and dispenses them like the gifts they are, with open hands, in his lifetime.

While the public may be interested in heritage property, it is the individual who will always be responsible for producing it.

Public policies and the law, therefore, must concern themselves, principally, with the rights and the needs of the individual in relation to property which may be, or may become a part of the inheritance of future generations.

Then, will the individual naturally come to assume his obligation to produce and preserve and perpetuate it, saying, with the Psalmist, that great riches: "are fallen unto me in pleasant places; Yea, I have a goodly heritage."
When the Cold War was at its height, it was sometimes suggested that there was a parallel between it and the religious wars of the sixteenth and seventeenth centuries. The idea behind the making of this analogy was supposedly to put the Cold War in perspective. Those who pushed the analogy were saying, in effect, "Look, don’t get so excited about this conflict. Our forebears went through just such a conflict. There was a time when men were so heated up about religious differences that they fought grisly wars with one another about them. And what do we, with the advantage of historical perspective, think of the merit of these differences? Do we think them worth fighting about? Hardly!"

There are some interesting parallels between the earlier religious wars and those of this century, more interesting even than those who have advanced the analogy have pointed out. The earlier conflicts were between Christians, people of the same basic faith. The ideological conflicts of this century are between socialists, mainly, people of the
same faith. In both conflicts, considerable attention has been paid to doctrinal differences, and differences in practice have occasioned acrimony. Moreover, socialists have been as inclined toward sectarian squabbles over dogma as Christians ever were.

There is yet another parallel. Both the earlier religious wars and the twentieth century conflicts were or are contests over political power; but since this parallel is crucial, the discussion of it should wait for a bit.

Reasoning by analogy has its pitfalls, however. Where complex phenomena are involved, as in these conflicts, it is important to attend both to similarities and to differences. It is even more important to distinguish between superficial similarities which may be accidental and critical differences which may be essential. Nor is any valid historical perspective to be gained by ignoring critical differences.

Living with Differences

It is true that Christians are generally at peace with one another in the world today. It is also true that sectarian differences which once were battle cries hardly excite a murmur. A certain amount of convergence has even taken place amongst some Christians, but it is also the case that where some union takes place, those who oppose the union often form their own denominations. The important point to get at, however, is to understand why Christians are generally at peace with one another. It is not, as secularists may suppose, that differences in doctrine no longer matter, or that there has been a decline in religion and religious fervor. It may be the case that dogmas are not generally so sharply defined or keenly felt as they were, say, in the course of the Protestant Reformation. But that is surely only a matter of degree and is by no means universal. As to a decline in religion, there has been such a decline among intellectuals in the last century, accompanied by an impact on the intellectual climate. This does not of itself signify a decline in religious belief but rather an intellectual narrowing of its import.

In any case, religious enthusiasm has waxed and waned several times in the period since religious differences among Christians were the occasion of any widespread conflict. This suggests to me that the degree of religious belief is not the key to an explanation of martial conflict over religion.

Conflicts Over Power

Religious differences only become an occasion for warfare when religion is linked to political power. To put it another way, conflict arises over the attempt of those who hold political power to force their beliefs
on others who differ with them. Or, it can arise when there is a contest between those who have differing religious persuasions over who shall exercise the power in matters of religion.

The Protestant Reformation, and the Catholic Counter-Reformation, spawned wars because state and church were intertwined and because only one religion could be, or was, established. The power contest contributed much to sharply defined dogmatic positions and thus to the proliferation of denominations. (The more sharply drawn doctrinal positions are the less the likelihood of general agreement. But doctrines must be sharply defined if adherence to them is to be enforced by law.) The way to religious peace is to deny to any religion the power to force its doctrines on others or to establish its religion over them. This idea is found in the doctrine of the separation of church and state.

The matter runs deeper than this, however. There is a critical and essential difference between Christianity and modern socialism. At bottom, Christianity is not a power theory. As was earlier affirmed, socialism—whether revolutionary or evolutionary—is a power theory. But let us consider the case of Christianity first. It has already been pointed out that when Jesus went into the wilderness and was tempted that he rejected the vision of an earthly kingdom or empire. That is, he rejected the use of force to attain his ends. He did so again, in another way, just before his trial and crucifixion. When Judas betrayed Jesus and the crowd laid hands on him, this event occurred:

And behold, one of them which were with Jesus stretched out his hand, and drew his sword, and struck a servant of the high priest's, and smote off his ear.

Then said Jesus unto him, Put up again thy sword into his place: for all they that take the sword shall perish by the sword. Matthew 26:51-52

It should be made clear, however, that these remarks were made in connection with the attainment of his ends. Jesus goes on to say that he could have legions of angels to defend him, if he would but ask. "But how then shall the scriptures be fulfilled, that thus it must be." (Matthew 26:54)

**No Use of Force**

Christianity is not a power theory. Jesus rejected the use of force to achieve his purposes. The methods he employed were concern, love, healing, sacrifice, attraction, and persuasion. Those who would follow him, he bade to take up, not their swords, but the cross (i.e., the way of sacrifice). What Jesus seeks cannot be attained by force. Men cannot be made to believe. They cannot be forced to have a change in which
they comprehend the superior reality of spirit. The sword is an instrument of death, not of life, and he said that he came to bring life.

None of this is said to deny the obvious, namely, that many of those who have professed to be his followers have taken up the sword with the avowed purpose of defending or advancing Christianity. They have often enough intertwined religion with government. They have established churches by law. They have used the force of government to attempt to compel many things that were said to be in keeping with Christianity.

But they have not done so with the authority of Jesus; they have done so because they were impatient, because they were weak, because they were willful, because they substituted their wills for the will of Him they claimed to follow. They have even beset one another in violent and destructive wars. The carnage of the religious wars, and especially of the Thirty Years’ War, was great. They took up the sword, and many perished by it. That prophecy was fulfilled, not for the first time and, sadly enough, not for the last, for it has lately come to pass once again in Ireland.

Christianity does not require the use of force. On the contrary, Christianity cannot be advanced by force. We have it on good authority that if God willed to use force He could call forth such force as none could resist Him. But He does it not, for it is foreign to His nature and to His purpose. He wills peace, harmony, love, and that men should be at one with Him. These ends cannot be attained by force. To put it philosophically, in essence Christianity is not a power theory. When this guise has been forced upon it, it has been accidental and attributable to the weakness of men.

Socialism a Power Theory

Socialism is a power theory. In essence, it is nothing but a power theory. Its affinity for the state is as near absolute as anything can be in this world. The further it goes toward its goal the more absolute its reliance on the state. None of this is accidental. It follows inexorably from the professed goal and from the complex of hatreds which animate it. The moment socialists abandon the state as the instrument for the achievement of their purposes they cease to be socialists, and socialism is no more.

Socialist thinkers did not, we may believe, consciously set out to contrive a scheme to bring about such a state of affairs. Many of them did not even embrace the state willingly, and most have professed reluctance. For Marx, the state was to be a temporary expedient, something to be used temporarily until its purpose had been achieved and it
could wither away. Gradualists have labored mightily to hide the mailed fist of the state behind the velvet glove of democracy.

What socialists contrived, whether they sought to do so or not, was a religion, or substitute for religion. It was a religion of man, and it was a man-made religion. The appeal of the idea that has the world in its grip is fundamentally religious. It has within it elements derived from traditional religions, but in it they become earth-bound and temporally oriented. The promise of the idea is that all things shall be made right here on earth and that man shall be finally liberated. The tacit promise is of an end of all restraint, and hence of an end to government and the use of force upon people. Man's inhumanity to man, a favorite phrase of those enlivened by the idea, will cease.

That the application of this idea with the avowed purpose of fulfilling the promises leads to statism, to terror, to violence, or to the ubiquitous use of the force of the state has been the burden of this work to show. But why should it do so? Indeed, why must it do so? Because of the premises which underlie socialism. Society is rent and sundered by a fundamental disharmony. The disharmony results from man's pursuit of his own self-interest, socialists claim. This, they say, turns man against man, defeats the common good, results in pervasive injustices, and is the occasion for the use of force. The received social institutions support and reinforce the pursuit of self-interest. The disharmony is thereby institutionalized.

In theory, a religion of humanity could change all this. There are, here and there, devotees of such a faith. And socialists in general subscribe to its tenets. But the idea that has the world in its grip is not the religion of humanity. Its religion is statism. The reasons for this may not be apparent, but they can be surmised. There are two main ones, I think.

The Trouble with Abstractions

The first of these is the inadequacy of the religion of humanity as a religion. It is a pallid thing. It is the worship of an abstraction which can never be personified. That is, man in the abstract, or humanity in the abstract, can be an object of veneration only so long as it does not entail actual men. Actual men have faults, something which most of us discover sooner or later, and are therefore not fit subjects for worship. A religion with wide appeal must have both personification and some sort of transcendence, or, at least, unquestioned purity. Abstraction is not transcendence, and actual men lack purity.

The other need of socialism as a
religion was a means or instrument for altering social institutions and transforming man. By their focus on man and this world, they denied a transcendent being, thereby requiring that their instrument be immanent. The dimensions of the problem made the choice of the state as the instrument inevitable. Only something with power over the whole could conceivably achieve the alterations and transformations involved.

*State* is the crucial term here. Socialists are not much given to making the distinction, and they are quite unlikely to proclaim themselves as state worshipers, but there is a crucial distinction between state and government. The worship of government is attended by the same difficulty as the worship of humanity. The difficulty is that actual governments have flaws, or rather the men who man them do.

The state is an abstraction; it is pure; it can even be an ideal. Power vested in the state cannot be misplaced, for it is the natural depository of all power over a given territory. Sovereignty, absolute sovereignty, is its prerogative, its reason for being. The state, in socialist underlying conception, is the rightful instrument of "the people," and so far as it acts for "the people," whatever power is exercised is legitimate. (Communists sometimes say proletariat rather than people, but for them the proletariat is "the people.")

A constant struggle goes on to bring the government up to the level of the state, i.e., to make it a perfect instrument of "the people." What prevents it from being so is the persistence of "the class enemy," as communists put it, or of conservatives, reactionaries, business interests, or "the vested interests," in gradualist countries. "Fascism," which is the socialist conceptual personification of all the evil forces, is ever lurking around the corner ready to seize and misuse the power of the state.

**The Disappearing State**

When the class enemy has finally been eradicated, when the last "fascist" has been rounded up, when the "vested interests" are at last divested of their power and influence, then government can be raised to the level of the state. "The people" will be identical with government, and government and state will merge. When this state of affairs comes about the use of force would be a redundancy. There could be no occasion for the use of force, for the will of the governors could be no different from the will of "the people." Communists have usually declared that this state of affairs will shortly come about. Gradualists foresee a much more extended struggle, with no culmination now in
sight. In any case, it is a struggle for power, for the monopolization of all power by "the people."

This is the mystic vision of socialism. So far as it is a religion, it is a religion of state worship. And that turns out to be a worship of power. The whole world is caught in the vise-like grip of an idea which propels it into the struggle toward power. The idea promises beatitude; it leads to destruction, to tyranny, to murder, to rapine, to suicide. The idea requires the sublimation of the individual to the state. This requirement is no less than the death of the ego or the end of the individual self.

It is possible to commit suicide, of course, without going through the whole vast process of lengthy evolution, massive revolution, the creation of a vast state mechanism, and so on. The Jones cult showed the way in the horrifying mass suicide-murder at Jonestown, Guyana. Self-immolation, the tacit goal of socialism, can be achieved directly by individuals, cults, and small groups. But that is a "cop out," so to speak, for it must be done on a world-wide scale.

What has all this to do with co-existence, with détente, and with convergence? It has everything to do with them. Can East and West co-exist? Can peace be attained by a policy of détente? Will communism and gradualist socialism eventually converge? There is no way to answer these questions definitively, of course, for they entail events and developments that have not yet taken place, if they ever will.

A Clearer Picture

There is a way to understand, however, what is involved in peaceful co-existence, détente, and convergence. It is through understanding the idea that impels the developments. Trying to make heads or tails of them with historical data in the absence of the ideological framework is akin to trying to put the pieces of a puzzle together without a picture of the completed puzzle before you. Explanations shift with changing leaders and changing policies, and no clear pattern emerges. The Chinese and Russians squabble over the meaning of co-existence. Soviet leaders hint at the possibility of convergence. Is détente anything more than the one step backward of the old Stalinist formula of two steps forward and one step back?

All these things begin to come into focus when we perceive that socialism is a power theory. Communism is a theory of coming to power, extending, and holding it by way of revolution. Evolutionary socialism is a theory of coming to power and extending it gradually by means that only subtly alter the received framework. Co-existence,
détente, and the possibility of convergence are tactics in the struggle for power. Peaceful co-existence and détente are communist tactics for moderating the conflict and allowing time and room for further communist expansion to take place. Convergence is not an avowed policy of the communists, and it cannot be so long as and to the extent that they are wedded to the idea of the necessity of revolution. Convergence is the dream, however, of many Western intellectuals. Every accord between East and West arouses hope that convergence is coming. It may well be a communist tactic to keep that hope alive.

Socialism is not just a power theory; it is a power theory animated by a mystic religion. It has a world vision. That vision is of the whole world under a single power, of every organization and every individual subordinated to that power. Only then, it is felt, can the vision of socialism become an actuality. So long as there is one independent power in the world, the peace, i.e., socialism, is threatened. I understand this to mean that co-existence can never be more than a temporary policy. In like manner, détente can never be more than a temporary policy. Thus far, history bears this out. Co-existence and détente are largely illusions of Western intellectuals and the governments under their sway.

**The Prospect of Change**

Can communism not change? It depends upon what is meant. If it is a question of tactics, there is no doubt that communism can and does change. Communist tactics differ considerably from one country to another. Chinese and Cuban communism belong to the same genus, but they are quite different national species. Moreover, the tactics change greatly from time to time and under different leaders in the same country. Many of Stalin's tactics differed greatly from those of Lenin, and Khrushchev disavowed many of Stalin's tactics. Stalin fostered militant anti-fascist tactics in the Comintern for most of the 1930s, then entered into a pact with the Nazis. Communists have sometimes formed political parties, or semblances of them, and had candidates run for office in lands where they were not in power. At other times, they have refused to run for office on the grounds that such elections were a bourgeois trap. Tactics are but accidents, philosophically speaking, something to be changed according to the circumstances.

But could communism not change in essence? Those who believe in this possibility have not fronted what is involved. What is communism in essence? Communism is power, to restate the position. It is power wedded to a mystic vision of world dominion. Or, mysticism or
not, it is power thrusting to the monopoly of all power in the world. Any essential change within communism would necessarily entail yielding up the monopoly of power which has been substantially attained wherever a communist system prevails.

If one party rule were relinquished so that two or more parties could compete, the monopoly of power would be gone. Freedom of speech and freedom of the press entail public debate in which appeals by those who differ are directed toward the populace. They would inevitably divide the populace and undercut the monopoly of power. The same goes for freedom of religion and any significant amount of private property.

A Monopoly of Power

Communist systems have that toward which all socialism tends, namely, a monopoly of power. Why would communists give it up? Better still, what would happen if they did? Communism without power is only a fantasy. It is like an electrical appliance without electricity; it is inoperative. Communism without a monopoly of power is not communism. It would be as if the revolution had not occurred. Communism without a monopoly of power would be, at most, another variety of evolutionary socialism. But evolving toward what? Evolving toward the monopoly of all power, something which communists had already attained in their own countries.

There is another reason why communism cannot change, or perhaps it is only the logical extension of the reasons given above. All socialism is braced to communism! The idea that has the world in its grip finds its culmination in communism, in the monopoly of all power in the state. All socialist roads lead to Moscow, to Peking, to Havana, or to wherever a communist regime is established. Socialist intellectuals are drawn to these centers as surely as the moth is drawn to the light. Much of the intellectual history of the twentieth century, or at least the history of intellectuals, could be written about these pilgrimages to the New Rome. It is not knowledge that draws them there, nor exactly the quest for it. It is a feeling, a feeling that they will find there the concrete reality toward which they yearn. Whether they do so depends upon the degree to which they cooperate with their hosts by succumbing to the illusions presented for their edification.

If communism should fall—that is, lose power everywhere—the whole structure of socialism must crumble with it. It would happen because there would no longer be a concrete reality to sustain socialism. Socialists would discover that they
were leaning into thin air. The measures of gradualists would be proposals to be treated on their own merits, for they would have no vision behind them. Remove the religious mystic vision from socialism, and its proposals become transparent crackpot schemes.

Communism has often enough been an embarrassment to Western socialists, of course. Communists even commit the unpardonable sin sometimes, i.e., persecute intellectuals. But it is the embarrassment which children feel about the behavior of their parents. Remove the parents, and the family disintegrates. Remove the communist parents of socialism and the family of socialism will disintegrate. Socialism was only a fantasy until World War I. It took on flesh and blood with the Bolshevik Revolution. With the Nazi Revolution it took place in yet another guise. With the defeat of the Nazis and their Fascist allies, revolutionary socialism survived only in its communist manifestation, and it is in that manifestation of it that we may know it best today.

Braces work both ways, however. To say that evolutionary socialism is braced to communism is but another way of describing the dependence of communism on the noncommunist world. The dependence of evolutionary socialism on communism is largely spiritual. It is the religious ingredient in communism—the vision of a forward marching triumphant world socialism riding the wave of History—that is necessary to sustain evolutionary socialism and propel it onward. By contrast, the dependence of communism upon the noncommunist world is political and economic.

Diplomatic Recognition

Politically, the noncommunist world provides the stamp of legitimacy to the communist powers. By treating them as regular governments—by according diplomatic recognition, by making treaties and agreements, by carrying on various sorts of intercourse—noncommunist powers say, in effect, to the captive peoples in communist countries, "Yours is a legitimate government. It rightfully imposes its will upon you, for it is entitled to all the prerogatives of a government." More, by recognizing the legitimacy of the regimes, it tends to countenance whatever communist governments do to their people as being their business since such matters involve internal affairs.

Communism is a vast counterproductive system economically. Its primary aim of exercising power and extending that power over the peoples of the world makes it a counterproductive system. It is not that the rulers of communist countries lack the desire to have economic produc-
tion and efficiency; it is rather that the repression entailed in the communist effort makes it impossible to achieve. The freedom to innovate is largely taken away, and the rewards for producing are arbitrary and insufficient to spur production. Hence, the relics of freedom in the non-communist world provide invaluable aid to communism.

Communists depend largely on the noncommunist world for inventions, for technological innovations, and for the fruits of scientific progress. Grain shipments from the West have helped much in staving off famine in communist countries in recent years. Communist rulers lust after Western machinery. Take away the West, and the retrogressive character of communist economies would be even more transparent.

These braces should be conceived as temporary, however. When a building is completed the temporary braces are removed. Communist dependence on the West is always conceived as an expedient matter by communists. In like manner, the dependence of Western intellectuals upon communism is necessary only so long as socialism has not been achieved at home. In short, the mutual dependence is temporary when viewed from either angle.

The greatest threat to peace at the present time, such peace as there may be, is aggressive, belligerent, and expansive communism. Gradualist socialist countries do not pose any great threat at this time. They are most likely to disturb the peace by resisting the spread of communism. But the prospect of that has lessened in recent years. The United States does not appear to have the will to resist communist expansion now. Indeed, resistance was always hemmed in by such subtle niceties that it was far from effective. So far as other highly developed industrial nations are concerned, their will to resist communism has never been strong.

**Domestic Problems**

This is not to say that evolutionary socialists are just naturally peace loving people without desire for power. It is rather that each gradualist socialist country has a domestic power problem. Communists usually solve their domestic power problem shortly after coming to power. They concentrate all power, subdue all organizations, and imprison or kill such opponents of the regime as can be discovered or imagined. It takes only a few years to do this ordinarily. Then, the communist thrust for power shifts outward upon the world. Gradualists, by contrast, are unwilling or unable to grasp all power over the domestic population. (They would cease to be gradualists if they did.) Thus, their power struggle con-
continues domestically; they do not have to look outward in their quest for additional power. Gaining and consolidating power over their own people remains a problem large enough to occupy much of their attention.

The United States has been a partial exception to this rule. The presidential system of government, with the president in charge of the conduct of foreign affairs and in command of the armed forces offers power incentives for foreign involvements. That is, presidential power tends to increase as foreign affairs become more important. This does provide the basis for an outward thrust to American power. However, intellectuals and the media, both domestic and foreign, appear finally to have convinced our presidents that they are not to extend their powers by way of resistance to communism. There is a way, however, to get their accolades; it is to reach accord with communist countries. Presidents Nixon, Ford, and Carter appear to have learned this lesson well. Congress has cooperated by circumscribing the presidential instruments for resisting communism: the military, the Federal Bureau of Investigation and the CIA.

It is conceivable that there could be convergence between East and West. Evolutionary and revolutionary socialism have common goals—the concerting of all human effort, the removing of all centers of opposition to it, and the use of collectivist means. They both sanction, in practice, the vesting of the state with increasing power. It is plausible to suppose that as the West becomes more and more statist, if indeed it does, it would merge with the East.

**Convergence a Dream**

Convergence is, however, a dream, and a hope only of Western intellectuals and the politicians under their sway. There is no hard evidence that communists would converge with gradualists. A deeper look suggests how unlikely this is. Total power can be joined to partial power only by either totalizing all power or reducing the total power. Thus far, all the historical evidence that can be brought to bear on the question leads to the conclusion that convergence with communism is submission to communism. That is what happened in Poland, in Hungary, in Czechoslovakia, in Bulgaria, in East Germany, in Vietnam, in Cambodia, and so on. Any survival of contending parties as communists move to take power is only temporary.

In any case, it is not possible at present to converge with communism, per se. Communism is now divided. There are communist powers independent of one another. If
convergence with communism were possible it would only be possible to converge with one or another of the communist nations or empires.

Indeed, the Cold War appears to have taken a turn. As this is being written, a submerged conflict has been taking place over Cambodia, a conflict between the Soviet Union which supports the Vietnamese invaders, and Red China which has been supporting another Cambodian government. The more pertinent question now seems to be not whether East and West can co-exist or will converge but whether independent communist powers can co-exist with one another or not, and whether they can converge or not.

We cannot know what will actually happen in this newer contest, of course. What we do know is that the idea that has the world in its grip is a mystic vision of the eventual concentration of all power into one world power. Communism is the most virulent embodiment of the idea. The existence of more than one revolutionary socialist power is more intolerable to communism than the existence of a West that has not been assimilated. The expansion of communism has taken on a new dimension and a new urgency. It is impelled by the quest for communist allies in the struggle over which will be the power center of communism. Terror and violence, the established communist tactic, will probably be stepped up, as one center of communism attempts to overawe and intimidate the other.

The religious wars of the sixteenth and seventeenth centuries suggest an even more fearful prospect. The religious wars that erupted between Protestant and Catholic lands had been preceded by a more desultory religious war, a centuries-long conflict between Christian Europe and Islam. Although the parallel is not exact, this conflict can be likened to that between evolutionary and revolutionary socialism.

The contest between communist powers has the potentiality of a fullfledged religious war, such as the Thirty Years' War in Europe. No war can equal the fury of that between peoples of the same faith divided against one another. If history repeats itself, the world may be in for a horrendous and cataclysmic conflict. Be that as it may, it is to the conquest of the individual that has already occurred or is taking place that we must turn. The world conflicts of socialism are but a reflex on a grand scale of the determination embedded in the idea to crush all independence.
It is always fashionable to criticize governmental waste and ineptitude. People constantly make reference to the fact that most government employees are overpaid and underworked, and that administrative agencies frequently waste resources.

These criticisms contain a grain of truth, but fail to focus on the fundamental issue. Although it is true that many agencies waste resources or pay salaries higher than are paid in the private sector, such censure strikes merely at the symptoms of governmental bureaucracy.

Government functions differently from private enterprise. Industries are organized in a way that maximizes production while minimizing costs. An enterprise that does otherwise finds itself quickly out of business. Competition among firms stimulates the search for cost-saving measures. Consumers reap the benefits of this in the form of lower prices. Enterprises depend for survival upon the patronage of willing customers. Government, on the other hand, does not look to voluntary contracts for its existence. Government does not rest on the need to maximize production or to minimize cost. The essence of government is organized force, which society utilizes to compel its members to act in prescribed ways, or to punish those members who refuse to obey the law.

If government is to compel people to obey the law, the broader the scope of the law, the more powerful must the government be. As the state assumes increasing responsi-
bility for activities previously left to private citizens, it becomes necessary for the government to set up additional bureaus or agencies that serve to implement the law. It is futile to censure government bureaucracy on the ground that it does not act in a fashion comparable to that of a business enterprise. The very purpose and nature of these bureaucracies do not allow for such behavior. Even if governmental agencies were managed in a manner similar to a business, it would still be impossible to objectively measure the success or failure of the agency.

The Profit and Loss System

Business organizations have at their disposal a quick and objective method for judging the success of their venture—the profit and loss system. Administrative agencies, on the other hand, lack any such objective measure of efficiency in administering or enforcing a law. And the worst judges of their performance are the agencies themselves, because they have a vested interest in enhancing their work and portraying it as attractively as possible.

At best, there might be some evidence of a general trend, but this is not always useful. For example, an agency may have prosecuted more cases in a given year than the previous year. But this statistic alone does not reveal the nature of the prosecutions. It is possible that one case has greater significance than many others combined. Similarly, the fact that an agency handled its cases according to arbitrarily drawn time targets is not an indication of its efficiency. Quality is often sacrificed for quantity, as the agency attempts to mold each case to a preconceived time target. Highly unreliable are such measures by which administrative agencies supposedly justify their activities.

Business enterprises have a double incentive to reduce costs of operation: the profit motive as well as the competition in the marketplace. No shareholder is pleased to discover that management has increased its operating costs. Yet, this is precisely what the administrative agencies are doing when they attempt to justify their existence by pointing to the extra millions of dollars spent to operate this year as compared to last year. This is supposed to be evidence that the agency was truly necessary. After all, the more money spent, so goes the logic, the more important the function.

Instructive is the behavior of an agency as it nears the end of its fiscal year. Because they are funded by the legislative branch of the government, agency heads are always trying to persuade Congress that their work will require more funds than were allocated the previous year. If agency heads were to approach the end of the fiscal year
with an operating surplus, this would be tantamount to an admission that their agency did not really need the money it asked for before; and Congressmen would most certainly point this out when the new budget is being discussed. Accordingly, administrative agencies rush to spend every dollar allocated to them. If a surplus is being generated, the agency may take care of it by hiring new employees, or embarking upon additional studies, or by intensifying programs previously neglected. The point, of course, is to persuade Congress that the agency not only is necessary, but that its work is as important as the amount of money needed to pay expenses.

No Measure of Efficiency

The efficiency of an agency cannot be measured by the fact that it leaves either a surplus or a deficit. A surplus may indeed evidence the fact that many areas that could have been covered by the agency were not, so that the implementation of the law in question has suffered accordingly. Similarly, a deficit may signify irresponsible waste on the part of the agency, as it made little, if any, effort to cut costs.

The efficiency of the work of the employees of the agency cannot be effectively measured either. Since there is no profit motive nor a market price for the services that are provided by a governmental agency, efficiency is translated into subjective terminology. This may be one of the reasons why public employee unions are growing. Public employees find that the merit system is based on many subjective factors, opening the door to favoritism and inequities.

In the private sector, employers are limited by consumers as to the wages that ought to be paid. In addition, employers have the incentive of paying more to the more productive workers to retain and attract good employees and to improve productivity. It is possible, of course, for a private employer to favor the least productive and to award solely on the basis of favoritism. The profit and loss system, however, will limit any such arbitrary behavior.

The public employer, on the other hand, is not constrained by these considerations. Rather, the work of an agency employee is evaluated in clearly subjective ways. If an employee caused an agency to spend more money in a case when he could have, let us say, settled the matter before its having had to go to court, this factor is not taken into consideration. Allegedly objective criteria are utilized to evaluate some of the work of the government employee. However, in the final analysis, it is the personal preference of the agency head that carries the most weight.

Favoritism exists. No matter how
cleverly the agencies may try to suppress it, it will not be effectively eliminated because there are no objective criteria by which efficiency may be measured. How can we measure, for instance, the effectiveness of a policeman? Can it be said that one who caught five burglars is any more efficient than the policeman who happened to be on his beat during an uneventful day? If money is set aside to be awarded to the most efficient employees, it easily lends itself to favoritism and patronage.

When agencies are established to protect the rights of the people, it is not uncommon to find that the law grants the respective agencies a monopoly in the investigation and prosecution of cases that arise under the law. Individuals thus lose the freedom to institute legal proceedings in their own defense. According to these laws, the agency chooses whether or not to assert the claim. Administrative agencies frequently cite the rate of success of their legal actions as evidence of efficiency. However, those statistics are incomplete. Of the actions that were administratively dismissed, no one knows how many would have been litigated successfully had the government allowed the parties to litigate at their own choice.

Administrative agencies frequently under-utilize their resources precisely because cost is not a significant consideration. Many talented agency employees are obliged to perform time-consuming tasks that others might have done more efficiently. Professional employees in these government agencies often are kept busy at clerical chores. Furthermore, as the government becomes more conscious of its "duty" to hire people of diverse backgrounds so that its workforce adequately reflects a sample of the population, exceptions begin to be made; the rules of efficiency that were promulgated previously cannot be enforced according to the letter of the law.

What is the solution to this problem? It is certainly not the abolition of all forms of governmental agencies. Government is essential to a civilized society, regardless of the fact that in performing its functions it may be inefficient. Rather, the solution lies in limiting the duties of government as much as possible in order to avoid this incalculable waste of resources. Limiting government to its appropriate functions would reduce the need for bureaucracies, with consequent saving to the taxpayer and society in general.
Man is not simply a spiritual being; he is a spiritual being who feels hunger, needs protection from the cold, and seeks shelter from the elements. In order to feed, house and clothe himself, a person must work. Augmenting his labor with tools and machinery, he converts the raw materials of his natural environment into consumable goods. He learns to cooperate with nature and use her forces to serve his ends. He also learns to cooperate with his fellows, his natural sociability reinforced by the discovery that the division of labor benefits all. "Trade is the great civilizer." There's an unbroken thread that runs from these primitive beginnings to the complex economic order of our own time: it is the human need to cope with scarcity, to satisfy creaturely needs, to provide for material well-being.

The visible signs of this endeavor are all about us; factories, stores, offices, farms, mines, power plants. These are the locations where work is performed, services rendered, goods exchanged, wages paid, money spent, and so on. This is the economy, and in the free society the economy is not under government control and regulation.

In the free society the law protects life, liberty and property of all men alike, ensuring peaceful conditions within the community. This lays down a framework and a set of rules, enabling people to compete and cooperate as they go about the job of providing for their material well-being. When government performs
as an impartial umpire who interprets and enforces the agreed upon rules, then the uncoerced economic activities of people display regularity and harmony—as if guided by Adam Smith's invisible hand!

The Capitalistic Economy

In a society where people are free, the economy is referred to as capitalistic. Some prefer the term free enterprise; others like the private enterprise system, or the private property system, or the market economy. Now, of course, no society has ever been one hundred per cent free, which means that we've never had a completely free market economy. Some people have always seized and misused political power to rig the market in their favor. Obviously, it is not the market's fault if some people choose to break the rules.

The appalling thing is that many intellectuals mistake these deviations from free enterprise for free enterprise itself! And so they condemn "capitalism." But the "capitalism" they condemn is actually the failure of certain people to live up to the rules of capitalism—the system of voluntary exchange among uncoerced people. We're aware of human frailties and shortcomings; we know that it's easier to preach than to practice, easier to announce a set of ideals than to live up to them. Economic theory provides us with a description of the way an economy would work among a people who exercise individual liberty and practice voluntary association. It is this theory we seek to understand and explain, and it is the deviations from this ideal that we seek to correct.

Every person of good will wants to see other people better off; better fed, better housed, better clothed, and well provided with the amenities. So everyone wants the economic order to function efficiently. But how important is it that the economic order be free from bureaucratic direction and political controls? Does it do any harm if we allow the economic order to be quartered by government? Let's examine a concrete example to indicate the serious secondary consequences of government control.

In the economic sector of our society there is a multi-billion dollar industry engaged in the production of newspapers, magazines, and journals of opinion. There is also the book trade. Those who publish and distribute the printed word constitute The Press, and one of the important freedoms cherished in our intellectual heritage is Freedom of the Press. The concept is now extended to cover the media—radio and television—where the same principle applies.

Freedom of the Press means simply that the government does not tell editors what to print and what
not to print—nor does it dictate to purveyors of television commentary. Some editors print stuff they think will sell. Some editors are men of strong conviction trying to promote a cause they believe in; others are party hacks thumping the tub for some ideological idiocy like communism, or anarchism, or the New Left, or whatever. But not a single editor in the country is out crusading for government censorship of the press; except indirectly!

Editorial Inconsistency

A large number of editors, writers and commentators who demand freedom for themselves in one breath, demand government regulation of business and industry with the next! If, at the urging of The Press, government continues to extend its controls over one business after another, how can anyone believe that government will respect the editorial room as a privileged sanctuary, and keep its hands off that section of business known as The Press? Socialize the economy and The Press becomes a branch of the government bureaucracy, free no longer.

The fact that The Press actively cooperates in its own entrapment makes the end result even more bitter. It is one thing to go down fighting; it is something else to cooperate in your own demise. Political control and regulation of the written and spoken word means excessive influence over the minds and thoughts of people. It means eventually a ministry of Propaganda and Information, and an Office of Censorship.

If you get the impression that I don’t think highly of some of the people involved with The Press, you’d be correct; they are—with notable exceptions—a sorry lot. They, along with their counterparts in the University and in the Church—with notable exceptions—are guilty of that “treason of the intellectuals” denounced by the French writer, Julien Benda, in his 1927 book of that title. The intellectuals’ treason in the modern world, wrote Benda, is to abandon the pursuit of truth and to seek political preferment instead.

Lest you think I am being unduly harsh on some of those who refer to themselves as Intellectuals, I shall quote a few words of C. S. Lewis:

It is an outrage that they should be commonly spoken of as Intellectuals. This gives them the chance to say that he who attacks them attacks Intelligence. It is not so. They are not distinguished from other men by an unusual skill in finding truth nor any virginal ardour to pursue her. . . . It is not excess of thought but defect of fertile and generous emotion that marks them out. Their heads are no bigger than the ordinary; it is the atrophy of the chest beneath that makes them seem so.1

1The Abolition of Man, pp. 34-35.
A Vital Connection

I use The Press to point up the vital relationship between intellectual freedom and economic freedom. Freedom of thought, bound only by the rules of thought itself; freedom of belief, in terms of the mind's own energy; freedom of utterance, guided by logic and within reason—these spiritual freedoms are of the very essence of our being. When they are threatened directly all of us rush to their defense. My point is that they are threatened indirectly whenever—and to whatever degree—their material and economic support is straitjacketed by government regulations and controls.

The same analysis would apply to the Academy and to the Church. If the government owns the campus and pays the professor's salary, the teacher becomes a political flunky, no longer free to research, write, and teach according to his best insights and conscience. And when private property is no longer regarded as the sine qua non of a free people, when private property suffers increasing encroachments by government, then church properties, too, become politicized. And, as taxes increase and disposable individual income diminishes, private voluntary funding of churches correspondingly declines and religious programs suffer. Accept economic controls, and what then becomes of Academic Freedom and Freedom of Worship?

In short, freedom is all of a piece; philosophy is not the same as digging a ditch, but socialize the ditch-digger and the philosopher begins to lose some of his freedom. Freedom of the marketplace and liberties of the mind hang together as one depends on the other.

The great philosopher, George Santayana, reflected sadly that, in this life of ours, the things that matter most are at the mercy of the things which matter least. A bullet, a tiny fragment of common lead, can snuff out the life of a great man; a few grains of thyroxin one way or the other can upset the endocrine balance and alter the personality, and so on. But the more we think about this situation and the more instances of this sort we cite, the more obvious it becomes that the things Santayana declared matter least, actually matter a great deal. They are so tied in with the things which matter most that the things which matter most depend on them!

Economic Liberty Paramount

In precisely the same way, economic liberty matters a great deal because every liberty of the mind is joined to freedom of the market, economic freedom. There's an old proverb to the effect that whoever controls a man's subsistence has acquired a leverage over the man himself, which impairs his freedom of thought, speech, and
worship. The man who cannot claim ownership over the things he produces has no control over the things on which his life depends; he is a slave, by definition. A man who is not allowed to own becomes the property of whoever controls his means of survival, for "a power over a man's support is a power over his will," wrote Hamilton in *The Federalist*. Economic planning implies the power to regulate the noneconomic sectors of life.

F. A. Hayek puts it this way in his influential book, *The Road to Serfdom*: "Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends."²

In a totalitarian country like Russia or China the government acts as a planning board to assign people to jobs and direct the production and distribution of goods. The whole country, in effect, a gigantic factory. In practice, there is bound to be a lot of leakage—as witness the inevitable black market. But to whatever extent the State does control the economic life of the Russian and Chinese people it directs every other aspect of their lives as well.

**The Masses Content to Drift**

The masses of people everywhere and at all times are content to drift along with the trend; they pose no problem for the planner. But what happens to the rebels in a planned economy? Suppose you wanted to publish an opposition newspaper in a place like Russia or China. You could not go out and simply buy presses, paper, and a building; you'd have to acquire these from the State. For what purpose? Why, to attack the State! You would have to find workmen willing to risk their necks to work for you; ditto, people to distribute; ditto people willing to be caught buying or reading your paper. A *Daily Worker* may be published in a capitalist country, but a *Daily Capitalist* in a communist country is inconceivable!

Or take the orator who wants to protest. Where could he find a platform in a country in which the State owns every stump, street corner, and soap box—not to mention every building?

Suppose you didn't like your job, where could you go and what could you do? Your job is pretty bad, but it is one notch better than Siberia or starvation, and these are the alternatives. Strike? This is treason against the State, and you'll be shot. Listen to George Bernard Shaw, defending Socialism, writing in *Labor Monthly*, October 1921: "Compulsory labor, with death as the final penalty, is the keystone of Socialism." Shaw was a vegetarian because he loved animals; perhaps

²*The Road to Serfdom*, p. 92.
he was a Socialist because he hated people!

Point One: Economic freedom is important in itself, and it is doubly important because every other freedom is related to it.

To have economic freedom does not, of course, mean that you will be assured the income you think you deserve, nor the job to which you think you may be entitled. Economic freedom does not dispense with the necessity for work. Its only promise is that you may have your pick from among many employment opportunities, or go into business for yourself, and as a bonus the free economy puts a multiplier onto your efforts to enrich you far beyond what the same effort returns you under any alternative system.

Under primitive conditions a family grows its own potatoes, builds its own shelter, shoots its own game, and so on. But we live in a division of labor society where individuals specialize in production and then exchange their surpluses for the surpluses of other people until each person gets what he wants. Most of us work for wages; we produce our specialty, and in return we acquire a pocketful of dollar bills. The dollars are neutral, and thus we can use them to satisfy our needs for food, clothing and shelter; we give some to charity; we take a trip; we pay taxes; we go to the theater, and so on. The money we earn is a means we use to satisfy our various ends.

These interlocking events—production, exchange, and consumption—are market phenomena, and the science of economics emerged, as Mises put it, with "the discovery of regularity and sequence in the concatenation of market events."

Economics Concerns the Means to Achieve Human Goals

Economics has often been called a science of means. The economist, speaking as an economist, does not try to instruct people as to the nature and destiny of man, nor does he try to guide them toward the proper human goals. The ends or goals people strive for are, for the economist, part of his given data, and his business is merely to set forth the means by which people may attain their preferences most efficiently and economically. Economics, as Mises says, "is a science of the means to be applied for the attainment of ends chosen." And a "science never tells a man how he should act; it merely shows how a man must act if he wants to attain definite ends."3

When people are free to spend their money as they please, they will often spend it foolishly—I mean other people, of course! As consumers they will demand—and produc-

3Human Action, p. 10.
ers will obediently supply—goods that glitter but are shoddy; styles that are tasteless; entertainment that bores; and music that drives us nuts. Nobody ever went broke, H. L. Mencken used to say, by underestimating the taste of the American public. But this, of course, is only half the story. The quality product is available in every line for those who seek it out, and many do. The choices men make in the economic sector will be based upon their scales of values; the market is simply a faithful mirror of ourselves and our choices.

Now, man does not live by bread alone, and no matter how much we might increase the quantity of available material goods, nearly everyone will acknowledge that there is more to life than this. Individual human life has a meaning and purpose which transcends the social order; man is a creature of destiny.

As soon as we begin talking in these terms, of human nature and destiny, we move into the field of religion—the realm of ends. A science of means, like economics, needs to be hitched up with a science of ends, for a means all by itself is meaningless; a means cannot be defined except in terms of the ends or goals to which it is related. The more abundant life is not to be had in terms of more automobiles, more bathtubs, more telephones, and the like. The truly human life operates in a dimension other than the realm of things and means; this other dimension is the domain of religion—using the term in its generic sense. Or, call it your philosophy of life, if you prefer.

If we as a people are squared away in this sector of life—if our value system is in good shape so that we can properly order our priorities—then we'll be able to take economic and political problems in our stride. On the other hand, if there is widespread confusion about what it means to be a human being, so that people are confused as to the proper end and goal of human life—some seeking power, others wealth, fame, publicity, pleasure or chemically induced euphoria—then our economic and political problems overwhelm us.

If economics is a science of means, that is, a tool, we need some discipline to help us decide how to use that tool. The ancient promise of "seek ye first the Kingdom" means that if we put first things first, then second and third things will drop naturally into their proper places. Our actions will then conform to the laws of our being and we'll get the other things we want as a sort of bonus.

**Point Two:** Once we understand that economics is a science of means, we realize that economics cannot stand alone—it needs to be hooked up with a discipline which is concerned
with ends, which means religion or philosophy.

There is no easy answer to questions about the ends for which life should be lived, or the goals proper for creatures of our species, but neither is the human race altogether lacking in accumulated wisdom in the matter. Let me offer you a suggestion from Albert Jay Nock. Nock used to speak of "man's five fundamental social instincts," and he listed them as an instinct of expansion and accumulation, of intellect and knowledge, of religion and morals, of beauty and poetry, of social life and manners. He then makes the charge that our civilization, especially during the past two centuries, has given free reign only to the instinct of expansion and accumulation, that is, the urge to make money and exert influence; while the other four instincts have been disallowed and perverted. Our culture is lopsided as a result, and some basic drives of human nature are being thwarted.

Let's move to the next stage of our inquiry and ask: What is the distinguishing feature of a science, and in what sense is economics a science? Adam Smith entitled his great work *The Wealth of Nations* (1776); one of Mises' books is entitled *The Free and Prosperous Commonwealth* (1927). It is clearly evident that these works deal with national prosperity, with the overall well-being of a society, with upgrading the general welfare. These are works of economic science, insofar as they lay down the general rules which a society must follow if it would be prosperous.

**General Principles**

The distinguishing feature of a science, any science, is that it deals with the general laws governing the behavior of particular things. Science is not concerned with particular things, except insofar as some particular thing exemplifies a general principle. When we concentrate on a particular flower, like Tennyson's "flower in the crannied wall," we move into the realm of art and poetry. Should we want the laws of growth for this species of flower, we consult the science of botany. These books by Smith and Mises lay down the rules a society must conform to if it wants to prosper, they do not tell you as an individual how to make a million in real estate, or a killing in the stock market. This is another subject.

The question before the house in economic inquiry is: "How shall we organize the productive activities of man so that society shall attain maximum prosperity?" And the answer given by economic science is: "Remove every impediment that hampers the market and all the obstructions which prevent it from functioning freely. Turn the market
loose and the nation's wealth will be maximized.” The economist, in short, establishes the rules which must be followed if we want a society to be prosperous; but no conceivable elaboration of these rules tells John Doe that he ought to follow them.

Economic science can prescribe for the general prosperity, but it cannot tell John Doe that he ought to obey that prescription. That job can be performed, if at all, by the moralist. The problem here is to bridge the gap between the economist’s prescription for national prosperity and John Doe’s adoption of that prescription as a guide for his personal conduct.

A Science of Means

Economics is a science of means. It abstains from judgments of value and does not tell John Doe what goals he should choose. If you want to persuade John Doe to follow the rules of economics for maximizing the general prosperity you must argue that he has a moral obligation to conform his actions to certain norms already established in his society by the traditional ethical code.

This code extols justice, forbids murder, theft, and covetousness, and culminates in love for God and neighbor. This is old stuff, you say; true, but it’s good stuff! It’s the very stuff we need when constructing a proper framework for economic activity.

The market economy is not something which comes out of nothing. But the market economy emerges naturally whenever certain non-economic conditions are right. There is a realm of life outside the realm of economic calculation, on which the market economy depends. Let me cite Ludwig Mises again, quoting this time from his great work, Socialism. Mises speaks of beauty, health, and honor, calling them moral goods. Then he writes: “For all such moral goods are goods of the first order. We can value them directly; and therefore have no difficulty in taking them into account, even though they lie outside the sphere of monetary computation.”

In other words, the market economy is generated and sustained within a larger framework consisting of, among other things, the proper ethical ingredients.

Point Three: The free market will not function in a society where the sense of moral obligation is weak or absent.

Nearly everything on this planet is scarce. There are built-in shortages of almost everything people want. For this reason we need a science of scarcity, and this is economics—a science of scarcity. Goods which are needed but not scarce, such as air, are not economic goods. Air is a free good. Economics

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4Socialism, p. 116.
deals with things which are in short supply, relative to human demand for them, and this includes most everything we need and use. Our basic situation on this planet is an unbalanced equation with man and his expanding wants on one side, and the world of scanty resources on the other.

**Human Wants Insatiable**

The human being is a creature of insatiable wants, needs, and desires; but he is placed in an environment where there are but limited means for satisfying those wants, needs, and desires. Unlimited wants on one side of this unbalanced equation; limited means for satisfying them on the other. Now, of course, it is true that no man, nor the human race itself, has an unlimited capacity for food, clothing, shelter, or any other item singly or in combination. But human nature is such that if one want is satisfied the ground is prepared for two others to come forward with their demands. A condition of wantlessness is virtually inconceivable, short of death itself.

What does all this mean? The upshot of all this is that the economic equation will never come out right. It's insoluble. There's no way of taking a creature with unlimited wants and satisfying him by any organization or reorganization of limited resources. Something's got to give, and economic calculation is the human effort to achieve the maximum fulfillment of our needs while avoiding waste.

Let me, at this point, offer you a little parable. This story has to do with a bright boy of five whose mother took him to a toy store and asked the proprietor for a challenging toy for the young man. The owner of the shop brought out an elaborate gadget, loaded with levers, buttons, coils of wire, and many movable parts. The mother examined the complicated piece of apparatus and shook her head. "Jack is a bright boy," she said, "but I fear that he is not old enough for a toy like this."

"Madam," said the proprietor, "this toy has been designed by a panel of psychologists to help the growing child of today adjust to the frustrations of the contemporary world. No matter how he puts it together, it won't come out right."

**Relative Scarcity**

Economics is indeed the science of scarcity, but it's important to realize that the scarcity we are talking about in this context is relative. In the economic sense, there is scarcity at every level of prosperity. Whenever we drive in city traffic, or look vainly for a place to park, we are hardly in a mood to accept the economic truism that automobiles are scarce. But of course they are, relative to our wishes. Who would
not want to replace his present car with a Rolls Royce if it were available merely for the asking?

These simple facts make hash of the oft repeated remark that "we have solved the problem of production, and now we must organize politically to redistribute our abundance." Economic production involves engineering and technology, in that men, money, and machines are linked to turn out airplanes, or automobiles, or tractors, or typewriters, or what not. But resources are limited, and the men, money, and machines we employ to turn out airplanes are not available for the production of automobiles, or tractors, or anything else. The dollar you spend for a package of cigars is no longer available to you for a hamburger.

The economic equation can never be solved; to the end of time there will be scarce goods and unfulfilled wants. There will never be a moment when everyone will have all he wants. "Economics," in the words of Wilhelm Roepke, "should be an anti-ideological, anti-utopian, disillusioning science," and indeed it is. The candid economist is a man who comes before his fellows with the bad news that the human race will never have enough. Organize and reorganize society from now till doomsday and we'll still be trying to cope with scarcity. This truth does not set well with those who have the perfect solution in hand—and the woods are full of such. No wonder economists are unpopular!

**Point Four: Things are scarce, and therefore we need a science of scarcity in order to make the best of an awkward situation.**

The modern mind takes the dogma of inevitable progress for granted. Most of our contemporaries assume that day by day, in every way, we are getting better and better, until some day the human race will achieve perfection. The modern mind is passionately utopian, confident that some piece of social machinery, some ideological gadgetry, is about to solve the human equation. Minds fixed in such a cast of thought, minds with this outlook on life, are immune to the truths of economics. The conclusions of economics, in their full significance, are incompatible with the facile notions of automatic human progress which are part of the mental baggage of modern man—including many economists!

I'm not denying that there is genuine progress in certain limited areas of our experience. This year's color television set certainly gives a better picture than the first set you bought in, say, 1950. The jet planes of today deliver you more rapidly and in better shape than did the old prop jobs—although there's some

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*A Humane Economy*, p. 150.
truth in the remark of some comedian: “Breakfast in Paris, luncheon in New York, dinner in San Francisco—baggage in Rio de Janeiro!” Automobiles are more luxurious, we have more conveniences around the house, we are better equipped against illness. There is real progress in certain branches of science, technology, and mechanics.

But are the television programs improving year by year? Are the novels of this year so much better than the novels of last year, or last century? Are the playwrights whose offerings we have seen on Broadway this season that much better than Shakespeare? Has the contemporary outpouring of poetry rendered Homer, Dante, Keats and Browning obsolete? Is the latest book on the “new morality” superior to Aristotle’s Ethics?

Are the prevailing economic doctrines of 1979, reflecting the Samuelson text, sounder than those of a generation ago, nourished on Fairchild, Furness and Buck? Are today’s prevailing political doctrines more enlightened than those which elected a Grover Cleveland? Henry Adams in his Education observed that the succession of presidents from Washington, Adams and Jefferson down to Ulysses Grant was enough to disprove the theory of progressive evolution! What would he say if he were able to observe the recent past?

The dogma of inevitable progress does not hold water. Perfect anthills may be within the realm of possibility; but a perfect human society, never! Utopia is a delusion. Man is the kind of a creature for whom complete fulfillment is not possible within history; unlike other organisms, he has a destiny in eternity which takes him beyond biological and social life. This is the world outlook of all serious religion and philosophy. The conclusion of economics—that life holds no perfect solutions—is just what a person who embraces this world view would expect. Economic truths are as acceptable to the religious world view as they are unacceptable to the world view premised on automatic progress into an earthly paradise.

Another Dimension Transcends the Natural Order

If there is another dimension of being which transcends the natural order—the natural order being comprised of the things we can see and touch, weigh and measure—and if man is really a creature of both orders and at home in both, then he has an excellent chance of establishing his earthly priorities in the right sequence. He will not put impossible demands on the economic order, nor will he strive for perfection in the political order. Earth is enough, so he’ll leave heaven where it belongs, beyond the grave! The effort to build
a newfangled heaven on earth in countries like Russia and China has resulted in conditions that resemble an old-fashioned hell. Let us strive for a more moderate goal, let us work for a tolerable society—not a perfect one—and we may make it!

**Point Five:** *Economics tells us that the Kingdom of God is beyond history.*

Economics is a discipline in its own right, but it has some larger meanings and implications. Its very nature demands a framework in which there are religious and ethical ingredients. Establish these necessary conditions—together with their legal and political corollaries—and within this framework the economic activities of men are self-starting, self-operating, and self-regulating. Given the proper framework, the economy does not have to be made to work; it works by itself, and it pays rich dividends in the form of a free and prosperous commonwealth.

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**Shari Gifford**

**The Effects of Regulation on an Industry**

**What a situation!** A person, who has decided to go into business for himself, discovers that he must first obtain a license from the government. To get the license he must prove to the authorities that he is a citizen of moral character with financial, technical and other qualifications. He must describe in detail all equipment, buildings, location and any other apparatus necessary for operation. He must describe his proposed production techniques, including times of operation. He must survey the community leaders to determine the needs of the community and describe how he proposes to meet these needs. He must also show that he is financially capable of setting up and operating his business for one year without any revenue from the sale of his product.

To facilitate the acquisition of the license he must hire a lawyer in

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*Shari Gifford is a student of economics at the University of Florida.*
Washington, D.C., spend tens of thousands of dollars, and wait perhaps five years before the license is approved. He must also have a permit from the same regulatory agency to begin construction of his operating facilities and must apply for an extension of the permit if construction is delayed by causes beyond his control. Before beginning operation, he must have approval of his operating hours and the name of his company.

If he should die or become legally disabled, permission must be obtained for transfer of control to a legally qualified successor. If he lives long enough to want to expand his business, he must obtain permission for that also.

Every three years he must apply for renewal of his license to continue operating his business, at which time he must supply detailed examples of his previous production process and proof that he has used a sufficient amount of a certain factor which the authorities consider beneficial to society but which may actually be unproductive. At this time he may be denied permission to continue operation.

Considering the difficulty of obtaining a license, the high costs involved, and the eagerness with which licenses are sought, it seems safe to assume that the possible return on investment is high.

This has been a brief and incomplete description of some of the regulations of the radio broadcast industry imposed by the Federal Communications Commission. The FCC was brought into being by the need to allocate a scarce resource—the radio wave bands. The Radio Act of 1927 gave the Federal Radio Commission (now the FCC) the power to license radio broadcast stations according to guidelines, a few of which have been listed above.

The Rationale for Licensing

Licensing was deemed necessary because of the limited number of frequencies and the impossibility for simultaneous broadcasts on the same frequency in the same area at the same time. But the limits to competition in the radio broadcast industry caused by the barriers to entry—namely, limited and costly licenses and the high costs of meeting regulatory requirements—does a disservice to the listening audience by limiting their choices of broadcast entertainment and a disservice to advertisers by increasing the cost of advertising on the radio.

A radio broadcaster produces one product, an audience to sell to advertisers. His inputs are land, labor and capital (buildings, equipment, license). The costs of these factors can run into millions of dollars a year. The production process is his programming, which is geared to attract the largest audience to sell to
advertisers. Local advertising sales are a station's major source of revenue. Radio stations direct their programming toward a particular age or social group and advertisers choose the station from which to buy time according to the group of people they wish to reach. Small communities often have only one station serving a particular group and so it may be considered the only supplier of that audience. This is in effect a monopoly, with other radio stations or newspapers as partial substitutes.

The number of competing stations is limited by the relative unavailability and high costs (in money and time) of new licenses. The number of licenses available is restricted, of course, by the desire to avoid interference by one station with another. But the number of licenses is also limited (by the FCC) according to the population of the community. Smaller communities are allocated fewer frequencies. Also, powerful distant stations are allowed a large range of reception which precludes the use of their frequencies in neighboring communities. The unavailability of new licenses, of course, increases the value of existing licenses, which amounts to a windfall gain for the original licensee. Nevertheless, many licensed broadcasters consider most FCC regulations to be costly, wasteful, and inappropriate in relation to the freedom of other news and entertainment media.

**Alternative Allocation Methods**

The allocation of frequencies to prevent interference is necessary. However, the present method of allocation is questionable because of the amount of government intervention and regulation it entails. Alternative methods come to mind that would require little if any detailed government control.

One method would be to allocate newly available frequencies to the highest bidders. This would tend to keep the cost of licenses high. But, at least, it would allocate the frequencies to those who value them most. Another method could be the allocation of frequencies by draw, thereby awarding some licenses to people who could not afford to bid high enough. This, however, may result in a misallocation of resources as some frequencies would go to low-value users. A third method could be on a first come, first served basis with a “homestead” provision that would require the recipient of the license to commence broadcasting within a specific period of time. This last method would be similar to the present method if there were not also the elimination of the volumes of requirements and regulations that control the broadcasters now.

Once a license has been given (sold, awarded or earned), the nor-
mal success motives, talents and abilities of the licensee should be all that is needed to determine whether the station operates successfully or joins the ranks of thousands of business failures that occur every year in other industries. Success or failure would be determined by the ability of the station to attract an audience. Thus, the broadcaster would be guided by the market to offer what the public demands, not what the FCC mandates.

The elimination of the FCC rules and regulations would decrease the operating costs of stations considerably and also allow for more local stations. Their increasing competition for advertisers would lower costs of advertising. Local advertisers, who supply most of a station's revenue, are interested in the local market; therefore, the restriction of stations to local broadcasting to prevent interference in neighboring communities would not reduce their attractiveness to advertisers and would allow the existence of more frequencies in each community. The increased number of stations would increase the service to the public by providing a larger variety of entertainment and news.

In short, the FCC controls in minute detail the ownership and operation of all radio broadcasting, ostensibly to achieve efficiency, equity, safety, and satisfaction of public needs. The primary results of these regulations are to protect the stations from competition and to limit the satisfaction of the radio audience. Just as the airline companies, with the recent deregulation of the airline industry, experienced an increase in profits, so the broadcast industry would see an increase in the quantity of air time demanded and an increase in profits if the restrictions and costs of regulation were eliminated. Just as more people are now enjoying what was once the luxury of flying, so more people would enjoy listening to their radios with an increase in amount and variety of broadcasting offered.

Hanford Henderson

We ask of the State and Society only one thing—a fair field and no favors. This does not mean the raw anarchism of the tramp and hoodlum, for such anarchism would have no government whatever; but it does unequivocally mean a strict limiting of the functions of government, a strict cutting out of all paternalistic activities, and the unaltering insistence that government shall really perform its basic and fundamental duty, the protection of the individual citizen from violence and interference.
HUMAN HISTORY reflects man’s tale as a continuing epic scramble between the concept of freedom and the human tendency to coerce others. Parallel to this combat appears mankind’s skirmish with nature, his never-ceasing attempt to overcome his frailty and to improve his material and spiritual lot in life. These dual endeavors are not wholly separate battles; they are related aspects of human action.

Free men devise better ways to cope with the relentless problems of living posed by finite and sometimes irrational men inhabiting an infinite and ever orderly universe. The material advancement and human betterment marking the first century of American history bear dramatic witness to this truth. Conversely, slaves tend to live poorly, produce fewer results, exhibit more pettiness and contentiousness, and think less creatively than persons enjoying relative freedom. The oppressed possess no incentive for improvement, thereby limiting the creative endeavors of society to the narrow perimeters of the master’s mind.

History consists primarily of unending constraints garbed in varying guises. “Man’s inhumanity to man” conveys a warped picture of reality, for restrictions often flow from humane creatures possessed of the best of intentions coupled with gross myopia.

American citizens currently experience substantially less liberty than their forefathers, and each passing generation sinks more rapidly into the mire of bondage. Concomitantly, every moment wit-
nesses an almost imperceptible but inexorable erosion of the worth of the individual and his ability to combat the external world. In the battle of freedom versus coercion, the latter is winning handily.

Mankind has learned to control flood, famine and pestilence; it has also developed expertise in controlling those human actors who seek different creative alternatives, who make disparate choices, and who think outside the traditional channels. The recapture of liberty merely refers to a return to a condition of greater individual choice and less governmental coercion; it does not imply a conservative reversion to some prehistoric Golden Age, for it envisions an incessant movement toward ever increasing freedom once the foothold of the past has been regained.

Reflection envisions our task as that of surmounting a progressive stairway of three steps of increasing depth and difficulty:

1. Recognition that a problem exists and awareness of the nature of that problem;
2. Comprehension of the theoretical solution to that problem by application of the philosophy of human freedom;
3. Implementation of the solution by a program of action calculated to apply the theoretical cure to the existing problem.

This paper examines the stairway to greater creativity and a freer life. It does not purport to exhaust the analysis, but rather to introduce the subject and illuminate the way for others to follow, each person impressing his or her own unique and individualistic imprimatur upon the task.

I. Cognition of a Problem

Few reflective persons would disagree with the declaration that problems beset the current world. A cursory glance at one's surroundings reveals a host of upsetting and perplexing worries attending mankind in general and creative man in particular. Examples include:

- The reduced military preparedness of relatively free and Christian nations, a reduction which threatens the very survival of liberty.
- A paralyzing and demoralizing condition of depression and hyperinflation, illuminating gross misallocations of choice and resources, as well as destroying the compass used by the average citizen to plan his affairs.
- The rapid increase in violent and senseless criminal conduct, displaying an utter disregard for the sanctity of human life and property.
- An ineluctable breakdown in the traditional values and spirit of sympathy, cooperation and neigh-
bvronliness, and the concomitant development of contentiousness and litigation-mania.

- A growth of a series of counter-cultures which feature drug addiction, sloth, slovenliness, theft, and sexual promiscuity in place of self-reliance, pride and creativity.
- An enveloping state which witlessly creates problems out of supposed cures and endlessly regulates and oppresses the individual into a mere pawn of little repute and no inherent value.

The list of concerns appears boundless. One should accept the foregoing as illustrative rather than exhaustive. The mere fact that certain thinkers place greater emphasis upon one problem to the exclusion or diminution of others should not detract from the existence of all competing concerns.

The Specter of Subjugation

A startling fact is that the most severe and depressing problems assailing mankind today derive not from his combat to survive in the external world but rather as the result of man’s aggression against, and oppression of, his neighbor on this planet. War, monetary chaos, crime, and societal disintegration stem not from natural forces but germinate in the hearts of individual actors. Thanks in large part to a past century of relative freedom, man today fears disease, flood, famine, pestilence, fire and earthquake less than ever before—but he should quake at the specter of subjugation at the hands of his artful fellows, practiced as they are in the art of harassment, maltreatment and abuse.

However, past advances against natural forces do not herald continued headway in this regard. History repeats only if conditions remain static; liberty forms a most salient causal condition for human development; demolition of freedom means reduction both in material and spiritual satisfaction and in the tools useful in jousting with the universe. Citizens in the United States have lived well in the past fifty years despite increased depredations by the state. This well-being has produced a narcotic euphoria, a belief that good things will continually appear; in fact, we have lived as parasites off the results of relative freedom practiced during the first century of American history, and the horizon portends a significant decrease in the goods, services and ideas emanating from our predecessors.

The enumeration of “problems” conceals the reality that the concerns recited, and others too numerous to mention, emerge from a single, multifaceted problem, the sinister tendency of man to coerce others. Inflation, wars, bondage, regulation,
taxation, crime, looting, all partake of common roots; figuratively, they represent various aspects of the same edifice, as the walls, windows, and chimney of a tall building. We deal with many features of a single problem; once we accept this fact, the more likely we will emerge victorious from the fray.

Reduced to simple and basic terms, man’s problem today remains identical to that which has hindered and challenged men from the times of Moses and Socrates: A predilection to power. Men enjoy subjective values. Each actor can pursue his destiny by applying his dynamic subjective value scale to the orderly world in which he resides. Application of these preferences may take one of two wholly distinct pathways: choice or power. One may coerce, or create. He may achieve his ends by the use of force and the coercive application of power against his fellow citizens, depriving them of their choices based upon their subjective values, or he may cooperatively apply his skills to the voluntary achievement of ends he deems important. He cannot combine both attitudes, for the coercive aspects will overwhelm the creative.

II. The Solution: A Philosophy of Freedom

Surprisingly few individuals even care to mount that halting first step, and a relatively small portion of those who attempt the climb master any but an uneasy balance and a stilted posture thereon. Yet the second step offers an even more grand challenge, for it compels one to deduce an answer to the problem posed on the first foothold: How to solve the multifaceted dilemma of man’s tendency to employ power to conquer human choice?

Here, as elsewhere, man enjoys alternatives, the ability to choose between competing courses of conduct. He may choose a world dominated by force or he may choose a world ruled by choice. Man possesses all of the frailties of a finite nature. One characteristic of this finity appears in his thrust for power, his tendency to trample the rights and longings of other inhabitants in a relentless surge to his own goals. Yet, another trait coexists with this dark side of human nature: Man possesses the ability to improve, to cooperate, to choose, to achieve, to improvise, through voluntary social action. Man will solve many of the aspects of the puzzle besieging him if he selects the contract in place of the bludgeon.

Given this state of affairs, mastery of the philosophy of freedom becomes imperative. Allow me to suggest six basic postulates upon which liberty rests: (1) Personal freedom, (2) individual responsibility, (3) private property, (4) a mar-
ket economy, (5) limited government, and (6) subsidiarity. Each postulate contains a wealth of subissues for enlightenment, consideration and discussion. I mean in this regard to merely touch upon each axiom in passing, leaving a detailed study for another time.

**Personal Freedom.** The doctrine of personal freedom forms the touchstone for any study of the philosophy of liberty. Freedom means naught without *individual* liberty of action and freedom of choice. Talk of social or group freedom descends into meaninglessness: Such phrases merely provide a euphemism for coerced action substituting the subjective values of the leaders, or those enjoying power, in place of the value preferences of individual actors. The essence of personal freedom resides in the major premise that it is both morally propitious and pragmatically efficacious that each individual human being remain able to seek his own destiny without the aggressive intervention of mankind.

**Individual Responsibility.** The concept of individual responsibility refers to the reverse side of the "personal freedom" token: One cannot exhibit meaningful freedom unless he remains ever willing to abide by the natural consequences of his choice freely exercised. We inhabit a world where action produces consequence by the inexorable grinding of natural law. Individual responsibility marks the willingness and ability of the actor to accept the results of his acts rather than shunting the consequences onto the shoulders of his neighbors who did not make the choice in the first instance.

**Private Property.** One who accepts the premise of a personal right to free choice and action must logically and necessarily defend the concept of private property against its many and varied invaders. A right to live one's life apart from the aggression of others rationally includes the right to produce, maintain, and transfer all value created, whether in the form of goods, services or ideas. One repetitive aberration in the modern world concerns the person who decries state-imposed theology while applauding governmental regulation of productive pursuits. Freedom of speech, of religion, of press, and of association mean little where individuals or groups, by legally-sanctioned power, can control meeting houses, newsprint, sound trucks and billboards.

**Market Economy.** Again, both moral and material reasons support the voluntary exchange or market system of transfer: Such an institution produces more and better goods, services and ideas at a lower cost,
and such a system harmonizes with the fundamental doctrines of personal freedom, individual responsibility, and private property; they thrive in no other garden. Whether mislabelled "free market," "free trade," or "free enterprise," the market economy imposes no limitations upon the nonaggressive transfer of created value between willing individuals and groups.

**Limited Government.** The theory of limited government lends political support to the economic doctrine of a voluntary market. In order to effect a society which displays personal freedom, individual responsibility, private property and a market system of exchange, certain governmental preconditions must exist. On the one hand, the state must not impose strictures upon free nonaggressive action, be it in the form of regulation, taxation, subsidies, rules or orders, for to do so would amount to a denial of the tenets stated. On the other hand, the state must exert some force and apply some sanction, in its role as the repository of community power, lest the baleful nature of mankind discussed in the first section of this article take precedence. Community action must tread deftly between the quagmire of restraint and the nightmare of anarchy. The proper role of the state rests in the restriction and punishment of initially-aggressive human action—the prevention of force and fraud—and in the peaceful settlement of otherwise insoluble disputes between citizens by means of orderly and established rules of law.

**Subsidiarity.** Finally, the doctrine of subsidiarity provides a means of governmental decision-making appropriate to the limited government idea. Subsidiarity merely refers to the normative rule that no higher or more general organ of government will issue a rule or determine an order when the same task can be accomplished by a lower and more specialized form of government. The limited government theory presupposes that the state which governs least, governs best, while subsidiarity expresses the proposition that the government nearest the affected society, governs best, in regard to those matters which deserve state attention.

Properly understand, these six principles of freedom provide the basis for comprehension of the philosophical foundations of liberty. In addition, once explained, they establish grist for the explanation of such related doctrinal disciplines as natural law, natural rights, sovereignty, police power, state action, public interest, society, diffusion of risk, justice, egalitarianism, and choice.
Furthermore, these same six principles exhibit the additional virtue of truth—they reflect the orderly reality of the universe. One can deny their existence but he cannot thus obscure their validity. One can disparage their efficacy, but he must stand willing to pay the natural law cost exacted for his denial of truth. A controlled economy will necessarily produce fewer and shoddier goods, services and ideas than a voluntary market; those who promote national health insurance, wage and price controls, or unreasonable restraints against market entry must accept the fact that their action, if successful, will insure a health care crisis, unemployment, and unhealthy monopolies in the examples cited. One disobeys natural laws or denies natural rights only at a cost universally imposed; few recognize that toll and fewer still can accept the result of their conduct.

III. On Implementing the Solution

However difficult the first two steps on the stairway to liberty, the final run affords a more intense and testing challenge yet. This third plateau consists of the question of appropriate action: in a phrase, how to spread the concept of liberty to others, assuming that one has at least partially surmounted the issues of the problem and the solution.

The key word in this endeavor is consistency. Freedom can only be achieved by reason, never by force. Liberty and power exist as antitheses and alternatives; thus, one who loves liberty cannot effectively or justly employ power to accomplish the nemesis of power—freedom. Consider the inquiry in the light of fundamentals: Force and freedom pose a contradiction of terms. I cannot impose my subjective value structure upon an unwilling recipient without depriving him of his freedom of choice and action, even if his uncontrolled conduct would cause him harm in my considered opinion. Were it otherwise, good intentions would forever justify interposition of force—and that marks the precise problem confronting the modern world!

An example may clarify the point. Health care poses a real concern to many citizens; good health affords a pleasant life, as much as nutrition, air, water, attire and shelter. The common solution to allocation of resources for health care appears to consist of massive doses of governmental funds alternated with an even greater degree of regulation. Yet, the government possesses only such goods, services or ideas as are coercively appropriated from producing citizens.

Compulsory Sharing

Federal funds represent value removed from creative citizens by means of compulsory taxation; state
regulation represents deprivation of free action or removal of choice of alternatives from some human actors. Thus, this common solution fails to accord with the most basic principles of liberty. It denies personal freedom and choice, individual responsibility, private property, voluntary market solutions, and limitations on government action. In addition, it really supplies no solution at all, but actually intensifies the ailment. Compulsion drives producers from the market, misallocates resources, incurs an excessive handling charge, reduces the quality of the service, and penalizes producers.

Nevertheless, some followers of the freedom philosophy propose to alleviate their condition by a forceful attack upon the problem and the common solution. One cannot improve matters by introducing rifles in place of syringes. Talk of violent revolution, coup d'etat, and insurrection fails to accord with the principles of freedom to the same extent as the "common solution": I cannot force you to be free at sword point.

All manner of directives emanate from the assembly halls and executive mansions across the land each day, most of them aimed at the cure of real or feigned ills, none of them effective to correct the malaise. Indeed, the application of power necessarily magnifies the subsisting cause in place of effecting a cure. Deep truth prevails in the old saying, "There is no problem on earth that the meddling of a politician will not make worse."

If forceful means provide an inapt device to implement the freedom solution, we must repair to an alternative source. The alternative to power is freedom. Implementation of the freedom philosophy requires use of freedom principles to effect the goal of liberty. In brief, we can achieve a voluntary society only by acting in conformity to the basic principles outlined in the second section of this essay. One must use persuasion, contract and example instead of imposition, status and requirement.

No Blueprint Available, for Freedom Is Unpredictable

Those who seek a blueprint for action in these words may be sorely disappointed. I know the principles, not the particulars. I know how liberty can be recaptured, not the details of the encounter. The curious and convincing feature of liberty remains its open texture; a free society consists of myriad human actors voluntarily seeking their personal ends in an orderly and rational world; one cannot predict the direction of free action, only that it will harmonize most nearly with the Infinite Truth of the universe.

However, adherence to consistent tenets of liberty does not necessarily
compel one to sit idly by while the state mulcts him of his created value. The precise manner selected by any particular person to advance the course of human freedom depends upon that individual's choice, which in turn depends upon his personal value structure and perception of truth. I cannot propound a battle plan and command all who would join me to repair to my banner, for to do so would be a compromise of the very principle of choice, of fundamental human action. Each of us must choose his path, learning from others and constantly evaluating his principles, his strategies, and his successes or failures.

Nevertheless, this reticence to prescribe philosophical or political medication in absolute terms need not deter one from suggesting some effective procedures.

**Light a Candle.** One who learns the problem and the solution well may practice the conveyance of his wisdom in a disarmingly simple manner: He may live his life consistently with the principles espoused. No form of communication exceeds that of an exemplar. Think what could be wrought if literally thousands of citizens refused to accept social security or medicare checks, or failed to employ "taxpayer identification numbers," or opted not to cast a ballot to either of two unholy thugs seeking an office.

**Explanation of Action.** The second aspect of activism builds on the foundation of the first. Once the actor learns to light his candle in the darkness, he must develop skills at communication, for the light will attract others interested in his conduct and its underlying rationale. Few individuals possess substantial skill in comprehending the philosophy of freedom, and fewer still exhibit much aptitude in explanation; it represents a subject deserving of attention and nurture.

Accept a respectful *caveat*: Beware of preaching and forceful exposition. Most listeners and readers shy away from the effusive and emphatic proponent who literally or figuratively grasps his hearer's lapels and seeks to shake the truth into him. Infinitely greater success attends those who live a consistent life and explain their action calmly and without hyperbole when asked.

**Exercise the Franchise Wisely.** Many misguided souls view the electoral process as the answer to our prayer: "If only we could elect our guys, everything would straighten out." Political figures, however, partake of the identical frailties afflicting mankind, and exhibit all the glaring defects of character which mar the nature of man. Indeed, since politics rests upon power, political action generally seems inimical to liberty. Politicians lust for power,
WHEN it is time to vote, apparently the voter is not to be asked for any guarantee of his wisdom. His will and capacity to choose wisely are taken for granted. Can the people be mistaken? Are we not living in an age of enlightenment? What! are the people always to be kept on leashes? Have they not won their rights by great effort and sacrifice? Have they not given ample proof of their intelligence and wisdom? Are they not adults? Are they not capable of judging for themselves? Do they not know what is best for themselves? Is there a class or a man who would be so bold as to set himself above the people, and judge and act for them? No, no, the people are and should be free. They desire to manage their own affairs, and they shall do so.

But when the legislator is finally elected—ah! then indeed does the tone of his speech undergo a radical change. The people are returned to passiveness, inertness, and unconsciousness; the legislator enters into omnipotence. Now it is for him to initiate, to direct, to propel, and to organize. Mankind has only to submit; the hour of despotism has struck. We now observe this fatal idea: The people who, during the election, were so wise, so moral, and so perfect, now have no tendencies whatever; or if they have any, they are tendencies that lead downward into degradation.

FREDERIC BASTIAT, The Law

thus insuring that the worst and most defective of men will place their names on the ballot, in place of the righteous who generally do not wish to substitute their judgment for that of their fellowman. Thus, the polling place offers small solace to one who desires to reinstitute liberty.

This is not to say that a lover of freedom should boycott the ballot, although that choice certainly represents his prerogative. On occasions, a refusal to vote may constitute the highest form of citizenship; on other, all too seldom, instances, one may actually exercise his franchise in a meaningful manner by voting for one who truly believes in liberty.

Furthermore, too many of us equate the ballot box with election of men—governors and presidents, senators and representatives—rather than the decision of issues. In some political units, the voter enjoys
participation in the political process by means of a direct election system, normally consisting of the initiative, the referendum and the recall. Here, the devotee of freedom can utilize the franchise for two discrete purposes, both completely harmonious with the principles of liberty: He can propose legislation which expands freedom of choice and removes restrictions on nonaggressive human conduct, he can sponsor repeal of constraining laws, or he can champion recall of venal officials. In so doing, the actor employs the ballot box to secure freedom in a nonaggressive manner and, even if unsuccessful, he may attract and persuade interested, like-minded persons to his banner.

Fight for Your Rights—Nonviolently. Recall the proper functions of the state: Prevention and punishment of aggressive force and fraud, and settlement of otherwise insoluble disputes. The dispute-determining process involves the administration of a common system of justice and, hence, a court procedure. The state, its servants, and its proponents may be answerable to your summons in a judicial atmosphere. It is perfectly consistent with the principles of liberty to commence an action, suit or proceeding at law or in equity to determine and thwart a violation of your rights. As with the direct legislative process, even a substantive loss in the courts may amount to a tactical victory for persuasion and common sense. A jural system provides the appropriate atmosphere for a non-violent and nonaggressive resolution of crucial issues on a rational basis. It does not possess perfection, being peopled with finite creatures, but it represents the best process developed in human history.

Epilogue

Mastery of the problem besetting the world we inhabit can develop from the tripartite process put forth in this essay. The answer is not easy because of the complexity of the inquiry and the human resistance to the solution offered by the philosophy of freedom. The fractious side of human nature causes not only the problem but also the hostility to the solution and the ineffectiveness of the implementing devices. Yet hope exists precisely because of the reality of human nature, for man displays a higher facet as well as a sinister visage. Appeal to this brighter aspect represents the means of regeneration of mankind and the mode of the recapture of liberty.
In Defense of the Corporation

In the now distant Nineteen Thirties Senator Joe O'Mahoney of Wyoming carried on a one-man crusade for the federal chartering of corporations. I remember his expounding on his favorite thesis that the corporation was a special creature of the state, a fictitious entity with no inherent rights of its own. He hoped a federal incorporation law would help the work of that other fractious Wyoming native, the trust-busting Thurman Arnold, in prosecuting alleged monopolies.

Creatures of the state, said O'Mahoney, should obviously be subject to license by the state. True enough, the majority of big American corporations seemed to be incorporated already in the state of Delaware, so why the need for federal chartering? O'Mahoney's logical answer was that the normal corporation was set up to do business on a continental scale, so it was to the federal government that it should apply for the right to exist.

O'Mahoney's crusade, a casualty of World War II, has been pretty much forgotten, but now Ralph Nader has picked it out of the dustbin of history without much concern about giving his predecessor credit for it. The new life that Nader has pumped into the O'Mahoney theory has provoked Robert Hessen, an authority on the steel industry, into joining issue with Nader and all his anti-corporate raiders. Hessen's own trail-blazing book on corporate theory, In Defense of the Corporation (Hoover Institution Press, Stanford, California 94305, 127 pp., $7.95 hardcover) is an eye-opener to me, for I had always considered that the one issue of corporate limited liability did involve a special state dispensation. Mr. Hessen now tells me that I have been wrong, and he puts up a strong historical and legal argument for his case.

The notion that the corporation is a creature of the state is deeply embedded in the common law. The reason for this, says Hessen, is that in feudal England, when the com-
mon law evolved, only the king had the power to endow groups of individuals with special rights—really permissions—to do anything. Guilds, with royal charters, were empowered to establish their own price and wage controls. The medieval church, a corporation, held its lands in feudal tenure. Every association, from a university to a hospital, was in or of the system set up by William the Conqueror to ensure that nobody should have an inalienable right of his own. In the late seventeenth century, parliament cut itself in on the deal, assuming its responsibility for protecting "English liberties," but it was never conceded in England that any right was "inalienable." It took the Virginian, Thomas Jefferson, to assert inalienability for the American colonials.

Unfortunately, that other Virginian, Chief Justice John Marshall, who was steeped in the legal commentaries of Sir William Blackstone, chose to paraphrase English authorities going back to Lord Chief Justice Coke when, in the Dartmouth College case of 1819, he declared that "a corporation is an artificial being, invisible, intangible, and existing only in contemplation of law." Marshall's opinion has ruled ever since. But why, so Hessen asks, should precedents evolved by the courts to apply to medieval feudal institutions be extended to business corporations created centuries later to expand the inalienable idea of freedom of association to the marketplace?

**Matters of Contract**

Against the medieval Nader idea that the corporate features of "entity status, perpetual life and limited liability" are state-created privileges, Hessen poses his own "inheritance theory." To do this he has to break down the distinctions ordinarily made between partnerships and corporations. In Nader theory, which derives from tradition, a partnership is an aggregate, an association of individuals acting together to pursue such things as the making of a profit. Unlike a corporation, it does not have a legal being that exists independently of its owners. The proprietors of a partnership incur unlimited personal liability for business debts. They can be sued for all they own. But if a corporation cannot meet its obligations, shareholders can't be assessed to cover deficits.

This is the theory of the matter, but Mr. Hessen finds it deficient. Looking at actual business practice, Mr. Hessen says that "entity status, perpetual duration and limited liability" are all contractual matters. Partnerships can avail themselves of them, too. Entity status happens to be an optional feature available to unincorporated businesses includ-
ing partnerships (owners can designate trustees to represent them in lawsuits, for example). Partners can make their enterprise perpetual by adopting a continuity agreement specifying that the firm will not be liquidated if one of the partners dies or withdraws.

As for limited liability, how is it to be explained by contractual theory in contrast to state-created privilege? Mr. Hessen says limited liability is actually the result of an implied contract between corporate owners and their creditors. It is a freely accepted and negotiated market transaction. You do business with a corporation on the understanding that your "right of recovery" (the phrase is Adolph Berle's) is limited to what is in the corporation's common fund. As for partners in a partnership, they may safeguard themselves by purchasing liability insurance. This amounts in practice to a limitation on their liability. Corporations use liability insurance, too.

So, if Hessen's line of reasoning is to be followed, there is no real difference between partnerships and corporations when it comes to the rights of individuals making use of them to do business. Mr. Hessen speaks of the rights of individuals to pursue goals. No matter what form of voluntary venture they choose, they neither gain nor lose any of these rights. Regardless of the type of organization a person selects, it can only acquire those rights which its members possess as individuals.

**No Special Privilege**

The English legal historian, Frederick Maitland, noted in 1900 that the description of a business association as a corporation was "a mere labour-saving device, like stenography or the mathematician's symbols." The use of the symbol should not be to obscure the individual rights of its members, whether they are shareholders, directors or officers. At every stage of growth, a corporation is still a voluntary association based on contract. At no stage is it dependent on state-created privileges.

In history many corporations have evolved out of partnerships. They do this when the proprietors, finding it inconvenient to operate as so many individuals possessing agency powers, decide to choose one or a few of them as managing partners and remove agency powers from all the others. From here on the way to reorganization as a corporation, with the partners becoming the original shareholders, is an easy one. Mr. Hessen asks a single question: at what point in the continuum from partnerships to corporations do individuals lose their rights? At what point does an enterprise become a "creature of the state"?

Galbraith, before Nader, is re-
sponsible for the theory that corporations are actually huge "private governments." But this, says Hessen, obliterates the distinction between politics and economics. Governments can compel obedience to their laws and forcibly collect taxes. Businesses, on the other hand, can only succeed by offering something of value in an uncoerced exchange. To force a merger of state and corporation, which Nader wants to bring about, would scramble everything. It is what Fascism tried to do, and it did not work.

THE NEW PROTECTIONISM: THE WELFARE STATE AND INTERNATIONAL TRADE
by Melvyn B. Krauss
An International Center for Economic Policy Studies Book
114 Pages • $4.95, paperback

Reviewed by Amy Mann

SUPERSTITION dies hard. Over two hundred years ago, Adam Smith exposed the fallacies inherent in the protectionist practices of England (and other nations) at that time. Trade between nations was scarcely free. Today we can pick up any newspaper and read the latest demands of a myriad of industries and special interest groups—e.g., the steel producers, shoe manufacturers, sugar growers, labor unions—all seeking protection from "unfair" foreign competition.

Protectionism has been with us for a long time. How, then, does the "new" protectionism of the title differ from the "old" protectionism? Economist Melvyn Krauss, of New York University, answers this question admirably. There is, he says, not only an increase in the amount of protection, but, more important, a difference in its form. He considers a number of factors responsible for this situation, and traces most of them to the growth of the welfare state.

Welfare state policies have definite effects on international trade. The growth of the new protectionism in the Western nations parallels the growth of welfare or interventionist economies at the expense of market economies. The author's "new protectionism" takes into account all forms of government intervention into the private economy.

The system of world commerce set up by GATT (the General Agreement on Tariffs and Trade) after World War II envisioned international trade as free from domestic intervention and protection as possible. The rationale for the GATT agreements was that free trade increases consumption alternatives.
for everyone, and the economy as a whole benefits. Free traders fear that protection of special interests can increase the role of government in society, which can in turn lead to more centralization and thus jeopardize the autonomy and freedom of markets. Protectionists, however, argue that economic benefits for special interest groups (usually their own) are more important than the general benefits to the whole of society.

If there must be some form of protection, free traders would choose tariffs over quotas or other non-tariff barriers to trade. Tariffs distort prices, consumption levels, and resource allocation, but they are still more compatible with the free market system than non-tariff interventions, which do not work through the price mechanism and cannot always be recognized for the harm that they do.

Professor Krauss discusses at some length the effects of the numerous non-tariff restrictions on free trade. A partial list of these would include domestic subsidies, export subsidies, cartels, environmental measures, government procurement policies, and adjustment assistance payments to workers and managers. He also analyzes the effects of massive income redistribution on "capital flight," "guest workers" (migrant labor), and the volume and terms of trade between nations.

One form of protection which is relatively new is protection of the environment. The rallying cry of environmentalists is that we all have the "right" to a clean and safe environment. Further, it is the duty of government to bring this about. What is often accomplished instead, however, is protection of domestic industry. Take automobile safety standards, ostensibly designed to clean up the air, or to prevent accidents. In effect, these regulations keep out of the United States certain very popular and reasonably priced foreign cars such as the Fiat 500 and 600 models. The intent of the regulations may or may not be to keep out the imports, but that is the result. Motive here is unimportant.

In explaining the mentality which leads to welfare and protectionist measures, Krauss quotes Daniel Bell, who has spoken of "the revolution of rising entitlements." Welfare statists insist that every person has a right to economic security, a right to the job of his choice in the place of his choice, and almost at the salary of his choice. Again, citizens have the right to be shielded from changes which may bring them economic adversity, or force them to find other employment. Whole industries also—as well as private citizens—claim the right to be protected from economic dislocations.

But at what price to the individual consumer? Industries receiving
protection are the weak, inefficient ones. Wages rise too high relative to productivity. Consumers are forced to pay higher prices, often for inferior goods, and consumption opportunities are reduced. Disincentives to produce run rampant. Why work hard? A government committed to "cradle to grave" security will presumably bail out any firm or industry, regardless of economic performance. Over-regulation and high taxation stifle investment and production.

While taxes rise to pay for new programs, people do everything possible to avoid paying them. Workers and professionals take a higher proportion of their income in the form of leisure time. Barter, a growing form of tax avoidance, reduces the efficiency of the economy. Finally, a hidden purpose of so many of the protectionist programs comes clear: to redistribute income from savers and producers to nonproductive individuals. Egalitarianism is touted, while the competitive spirit and work ethic are undermined.

An economy can be likened to a living organism which, if it is to grow and thrive, must be able to adapt to the demands of a changing environment and must receive adequate sustenance (capital). High rates of social welfare expenditure keep the economy from adjusting to change and impede capital formation. Stagnation inevitably results. Or, as Professor Krauss concludes: "... the welfare state is self-destructive. It both depends upon economic growth and destroys it. In the long run, the demand for a secure economic income at a given level or rate of increase, regardless of the changes that are being wrought elsewhere, proves illusory because the attempt to attain secure income reduces the ability of the economy to produce it."

The New Protectionism is highly recommended. Economists and laymen alike can learn much about the consequences of interventionist policies on international trade and investment. Considering the recent experience of England, American legislators who vote for such measures would be well advised to read this book.
A Strategy for the War of Ideas  Sylvester Petro 323
Why scholarly books are the best ammunition in the struggle for the truth about freedom.

Inflation Fighters Bark Up The Wrong Tree  Oscar W. Cooley 334
The point, again, is that inflation is strictly the result of monetary manipulation.

Nutrition Planning  E. C. Pasour, Jr. 337
Critical shortcomings seen in proposed governmental food policy.

Amazing Strange  Jess Raley 344
The remarkable consequences of the removal of milk from price control.

Around the World . . .  Perry E. Gresham 347
This distinguished scholar shares some impressions gained during an 80-day cruise on the QE2.

World in the Grip of an Idea
30. The Individual: Victim of the Idea  Clarence B. Carson 352
The tendency of organizations is toward a governing force that reduces the independence of the individual.

Excess Losses  J. Brooks Colburn 367
In terms of consumer satisfaction, resources are better used to generate profit than to show a loss.

The Nature of Work  Robert LeFevre 370
Let the parent help the child adopt and follow goal-oriented procedures of a constructive nature.

Input Slavery and Output Slavery  Ira Gottlieb 378
In open competition, neither employees nor employers are exploited.

Book Reviews:
“The Right and Wrong of Compulsion by the State, and Other Essays” by Auberon Herbert.
Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.
NEVER BEFORE have there been so many persons and institutions engaged on the side of laissez-faire in the war of ideas over the proper role of government. And rarely before have socialism and interventionism enjoyed greater success in expanding the role of government while diminishing personal autonomy. Can it be that as the forces favoring laissez-faire grow, the role of government tends necessarily to increase?

Such a conclusion is unacceptable, for to accept it would imply that the proper course of action for every libertarian is to abandon his libertarianism.

The more acceptable interpretation is that while the number of libertarians may have grown absolutely, their influence has diminished relatively. This is the starting point of the present reflections on a strategy for spreading the truths of laissez-faire libertarianism: that statism is winning the war of ideas because the truths of libertarianism have not been published in sufficient quantity and quality to overcome the fallacies of statism.

Myths and Public Policy

It is not hard to establish that statism has been gaining ground throughout the 20th century simply because ideas and factual assumptions favorable to it have prevailed during this period. Today, most believe that the market economy

Dr. Petro has written The Labor Policy of the Free Society and numerous other scholarly books and articles. He is Research Professor of Law, Baylor University, and Director of The Institute for Law and Policy Analysis, Winston-Salem, N.C.
abused consumers and exploited workers in the "bad old days." The free society will never have much of a chance as long as most people believe that it has been tried and has failed. It is no good saying that businessmen have learned to behave themselves better under the pressure of interventionist legislation and union disciplines. For people correctly ask themselves: if the free market could not protect workers and consumers from the predations of business and if it could not provide security against health and old-age hazards without the intervention of government before, why should it do so now?

Statism seems always to advance. Politicians and leftist ideologues daily blame businessmen and the market economy for the bad results of the treacherous villainy of government. Although inflation, unemployment, energy shortages, and their even more wretched consequences all trace to government interventionism, the people believe it when they are told that business is to blame. Why are they so prone to believe the worst of the best public servants the world has ever had—the business firms which feed, clothe, and otherwise provide for us so munificently while government only takes, and takes, and persons such as Ralph Nader have never succeeded in producing anything other than exploitation of the consumer in the name of "consumerism"?

People don’t think very well of government, either, it is true. But this fact serves only to emphasize how suspicious they are of the free market and of businessmen. Trusting government very little, they trust business even less and are therefore prone to believe the worst of it. Why? Let us examine one area of public policy which may provide a clue to the answer.

The Law of Labor Relations

Consider the law of labor relations. Scarcely a more destructive field of interventionist public policy exists. This policy, though dating back to the 1920s, rests on five still prevalent ideas: (1) that employers and employees are natural antagonists; (2) that in this antagonistic relationship the employers have all the advantages; (3) that in a market economy the employer is driven by competitive exigency to use his power-edge to abuse and exploit his employees; (4) that protection from such abuse lies in strong unionism and collective bargaining which the government can promote only by giving worker organizations special legal privileges at the expense of the common-law rights of employers and anti-union employees; (5) that the common-law courts cannot be trusted to administer such a regime
of special union privileges, so they must be replaced by administrative tribunals (such as the National Labor Relations Board), agencies which can be relied upon to implement the pro-union policies and not to be bothered by what Felix Frankfurter called the “pernicious abstractions” of liberty and property and the rule of law which tend to influence the decisions of the regular courts.

Widely Popularized

Practically everyone accepts as unshakeable truth one or more of these commonly held beliefs: university professors, preachers, high school and grammar school teachers, businessmen, journalists, “intellectuals at large,” novelists, comic-strip creators, singers, dancers, actors, newspaper columnists, TV commentators. How then can the general public help taking these premises as gospel? And if they share the belief that the common law and the market economy, left unhampered, will abuse workers, how can they prefer free labor markets under the rule of common law? And if the general public does not want them, what response is to be expected from politicians, the turgid mirrors of muddy public opinion?

The big unions are today no longer as popular as they used to be. Still, no one is seriously proposing that the special privileges which account for their destructive social effects be repealed. No government, even today, with union popularity at a low, seriously considers repealing the existing pro-union legislation.

The situation is even worse. In fact, the moves in Washington are for more special privileges for unions. Each year lately the great political battle has been between those who wish to mulct the public with still more favorable laws for unions and those who say “thus far and no further.” To repeat, proposals to repeal existing pro-union laws are rarely if ever made, and when made they are always ignored. Why is this so?

Ruling Ideas

There is an argument going on in libertarian circles between those who contend that ideas rule the political world and those who believe that interests rule. Probably the dispute here is basically a terminological one. Interests and ideas are, as Mises might have said (if he thought the dispute worth noticing), congeneric and concentric. Decisions about what interests to pursue are shaped by values and ideas, and values and ideas are interacting phenomena. Much more important than this, while proposals may be made by interest groups largely out of base greed, with ideas secondary in their calculations, the big question for them and for the country lies
in whether the demands for special subsidy and privilege will be granted. Interests may propose; but the ruling ideas of the country dispose.

So there can be only one answer. The five premises summarized above continue to prevail. These ruling ideas preclude any possibility of repeal of the pro-union labor policies despite their pernicious effects.

With the country at large enthralled by these premises, not even sound scholars of libertarian bent are totally immune. Fritz Machlup, for example, has written that "there is no doubt that the use of the injunction against labor [sic] had been abused and it was in reaction to such abuse that the Federal Anti-Injunction Act was passed in 1932, severely restricting the use of the injunction." [The Political Economy of Monopoly 325 (1952).] But the first exhaustive study ever made of the use of the injunction in labor disputes from 1880 to 1932, only recently published,\(^1\) demonstrates beyond any reasonable doubt that during the period of so-called government by injunction the judges dealt with unions leniently and were already according them special privileges.

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Sources of the Myths

A thoroughgoing, systematic process instilled these great labor myths into the minds of Europeans and Americans. The process began early in the 19th century in Europe, came to America toward the middle of the 19th century, and has been burgeoning ever since. A young libertarian scholar, Dr. Howard Dickman, is at work today on an exhaustive study of the English, European, and American scholars responsible for the gradual descent into the chaos of trade-union syndicalism which is threatening the survival of Great Britain and is tying the United States in knots. When Dickman's work is published we shall be able to fix with precision the sources of the ideas which now rule almost all Americans, as well as the British and the Europeans, about the relations between employer and employee.

But we already know how their influence has spread from their lectures, articles, and books to our own university professors and from them to all the rest of us. Young American graduate students in the 19th century went to England and to Europe to complete their education, and they came back with the incoherent mess of guild socialism, pure socialism, syndicalism, and communism which has in most countries of the western world produced the atrocious paradoxes and incoheren-
cies which we know as the "welfare state."

These young American scholars came back from Europe to become teachers and writers themselves, and, later, political activists—active in the service of syndicalism. Their students never quite knew what their teachers were for, because socialists and syndicalists tend to be confused and contradictory among themselves. But they all were equally and fervently convinced of one thing: the inhumanity and degradation of unhampered free enterprise. On this all their teachers were as one. And their students emerged with at least one clear idea: capitalism is ugly and hateful and hurtful.

And these students spread across the land, spanning all occupations, and became vocal thought-leaders everywhere. Some became themselves university professors, thus heightening the multiplicative effects of their teachers. Others became journalists, another socialist-multiplying activity. Many became preachers—more multipliers. And then there were those whose role it became to put the destructive ideas of syndicalism actually to work: lawyers, judges, legislators and other politicians.

One of the best examples was Felix Frankfurter, already mentioned as the author of the phrase, "the pernicious abstractions of liberty and property." Born an Austrian and already when he emigrated to America imbued with the Austrian statism which Mises has described, Felix Frankfurter was educated in this country by the epigoni of the European socialist syndicalists.

### Moving to the Left

Some have thought Frankfurter a kind of conservative, but the facts are different. While a professor at Harvard Law School he became nationally known as an ardent supporter of leftist causes. For many years he published in the law journals articles decrying the common law and arguing for legislation granting unions special privileges. Not satisfied with mere scholarship he was also active politically. His masterpiece, *The Labor Injunction* (1930), supplied the intellectual ammunition, just as his personal efforts provided the political stimulus, for the Norris-LaGuardia (anti-injunction) Act, easily one of the most effectively pernicious pieces of legislation ever passed.

During the New Deal, F. D. Roosevelt appointed Frankfurter to the United States Supreme Court. There Frankfurter completed the cycle from idea to action. His decisions, especially in the field of labor law, pushed the Norris-LaGuardia Act to extremes of pro-union privilege which even his own previ-
ous writing had disavowed. As a professor, he had written that the Norris Act did nothing more than prevent courts from enjoining aggressive union activity. On the Court he was to say that the Norris Act made such activity lawful for all purposes, so that aggressive union strikes and boycotts were freed of all legal control—actions for damages and criminal prosecutions, as well as petitions for injunctions.

Meanwhile the federal government and its bureaucracies also felt the Frankfurterian influence in the form of numerous of his Harvard Law School students. But that is by no means all. Great as his personal efforts and influence were, they were not so great as the influence of his major written work, *The Labor Injunction*. In exploring this fact, we shall come to a conclusion of perhaps considerable value.

The study mentioned above goes far to demonstrate that Frankfurter's book was thoroughly meretricious: massively and pretentiously documented though it appeared, the book was actually all show and no substance. Despite its mountainous footnotes, charts, and appendixes, the book was full of untruths, half-truths, and distortions; notwithstanding its scholarly appearance, in the end it was no more scholarly or cautious than the rabid editorials of the *Communist Daily Worker* or the *CIO News*. For example, Frankfurter repeatedly charged employers and judges with anti-union animus but never bothered to examine why such animus developed. He referred over and over again to the "pernicious abstractions of liberty and property" but nowhere showed how those ideas had brought about vicious results.

**An Influential Book**

Yet, with all its faults, *The Labor Injunction* has quite possibly been the most influential law book ever written in this country. Its main charges practically duplicate the five ruling myths of current labor policy mentioned earlier. Frankfurter said that in the antagonistic employer-employee relationship, employers were exploitative; unions were the only possible protective devices for the abused employees; but the common law judges, fired with anti-union passion and victimized by "pernicious abstractions," were making it impossible for the unions to do the great and good work that they alone could do.

If any person can be credited with a dominant role in fixing those ideas in the American mind, Felix Frankfurter was that person, and his book, *The Labor Injunction*, was the means. Even before it was published, courts cited it as authority for denying injunctions against vicious union conduct, in cases in which the obvious victims of such
conduct were employees or members of rival unions. In the succeeding fifty years since it was first published, *The Labor Injunction* has been cited as authority for noxiously pro-union decisions literally thousands of times.

Its scholarly influence has been at least as great as its legal influence. I have never read any significant work dealing with the labor-injunction since 1930 which does not bow first to Frankfurter's book. When the author of such a work blithely declares that the courts abused the labor-injunction in the "bad old days," he does not bother to cite a case as an example; still less does he try to demonstrate that such and such a case represented an abuse of the injunctive process. He merely cites *The Labor Injunction*—and proceeds from there to the most astoundingly outrageous legal proposals, confident that his premise is invincible because *The Labor Injunction* is his "authority."

The influence of *The Labor Injunction* spreads on and on. Since all the labor law teachers (and all the teachers of related subjects in economics, sociology, and politics) believe *The Labor Injunction* to be the gospel truth and say as much to their students, the students accept its wild accusations as gospel, too. They are in no position to check its accuracy. Till recently, they could find no fully and convincingly documented refutation on the library shelves. Hence *The Labor Injunction* was bound to fix their opinions on the subjects it treated. If they dared write a term-paper on unionism and the law without citing *The Labor Injunction* as an authority, doubtlessly their teachers would slash biting comments about "lack of standard authority" with their red marker pens across the offending pages. And if in class a student were to challenge the fullness and fairness of the Frankfurterian research, how could he defend his extraordinary temerity? The instructor would cut him to bits, and the other students would munch placidly at the pieces.

**Write Books!**

It has taken me a long time fully to absorb the meaning and implications of Mises' frequent exhortation: "write books!" A solid scholarly work on an important subject has a much longer life and greater influence than any living person has. It is in some important ways better than speeches, better than panel discussions, better than articles in popular journals, better than pamphlets, better than thin monographs, better than politicking, better than any other activity measured only in the average human life-span. The only thing that comes close to sharing the advantages of a solid scholarly book is a comprehensive and detailed ar-
article published in a journal which is covered by one or more of the good periodical indexes.

This is not to say that people should quit writing brief articles, giving speeches, or engaging in politics, if that is their desire. It is only to bring attention to some of the advantages of solid scholarly work in the eternal war of ideas.

Any decent scholarly work will be purchased by all the great university and public libraries. If it is really good, it will find its way into smaller university, public, and private libraries. Its presence will be signalled for ages to come in the library's card-catalogue, under author and subject and perhaps, if the cataloguer is good, under all the major topics it treats. Its silent and passive look on the shelves is deceptive, for no decent scholar will write a serious work without at least consulting the library card-catalogues available to him. If really serious, he will travel far and wide to find additional works on his subject. When he finds a work which he believes relevant, if he is honest he will bring it to life. It then no longer sits passively on the shelves, doing nothing. It enters his mind. It may have an electrifying impact. This has often happened to me. I first ran across Henry Hazlitt's writing in a card-catalogue. I encountered Mises’ *Human Action* by chance in another card-catalogue. Life has never been the same for me. Books are not passive.

The Need for Exhaustive Research

The country and the world are in much worse shape than necessary. Since mankind is imperfect its condition will always leave something to be desired. But even so, things could be better than they are, despite our inherent limitations and flaws. The correctible aspects of mankind's condition trace to faulty facts or faulty theory or both. As already mentioned, these faulty facts and theories have a long history, a monumental literature, and an almost universal influence.

Fortunately, since The Foundation for Economic Education was established in the 1940s (at about the same time as the Mont Pelerin Society was formed), a large number of institutions committed to the advancement of freedom and of the market economy have come into existence. These institutions are variously engaged. Some are conducting educational programs of an academic sort, some operate on the seminar or conference system, some publish journals, usually of a popular kind, some publish brief monographs and pamphlets, and some, essentially philanthropic institutions, provide support to the foregoing, as well as to individual authors for work which is at times quite ambi-
tious from the scholarly point of view.

All these libertarian programs are good. Doubtlessly, libertarianism would enjoy more success, if each were expanded. But I believe that what libertarianism must have now, if it is still to exist after the next dark generation has passed, is an extensive literature of heavyweight, exhaustive, thoroughly documented books demonstrating the fallacies and the destructive consequences of the anticapitalist policies which are now ruling the world and which are likely to bring it very close to destruction in the generation ahead.

For reasons stated above, seminars, conferences, brief articles, pamphlets, and other such ephemera will not suffice. They serve to inspire greater efforts by those they reach; they may even postpone the social destruction already so well on its way. But they cannot extirpate the queer mix of syndicalism and socialism that is now sweeping all before it. They cannot do this for largely the same reasons that you can’t sink a battleship with a popgun. The policies which are daily increasing the inanity and ugliness and insecurity of life are the products of the mountainous literature which has implanted the kinds of deeply imbedded myths listed earlier: the myths about the natural antagonisms between employer and employee, the abusive and exploitative character of the unhampered market, the necessity of more and ever more government in order to correct the alleged inhumanity and the inequities built into free markets.

All you can do in a brief article or speech or seminar is call these things “myths.” You cannot definitively expose their mythic character, you cannot annihilate their credibility, you cannot strip them of every pretension—by anything less than exhaustive and definitive scholarly work. The myths are too deeply imbedded, too widely shared. Throwing pamphlets at the towering myths which rule our times is like trying to knock down the Empire State Building with a slingshot. It’s even less promising than that.

It will take generations of sound scholarship and teaching to eradicate the worst of the fallacies which now prevail. The only way to reach those generations is by planting on library shelves books that document definitively the theoretical blunders and the historical calamities associated with the syndicalist mess we are in. Let those powerful books sit on the shelves of libraries where scholars and students are bound to come across them.

The Truth Will Out—if Pushed

Those who participate in the war of ideas are constrained by psychic necessity to believe either in truth as an ultimate value, worth a total
commitment; or, in any event, that discovered truth, cogently presented, will ultimately triumph; or probably in both, in varying proportions. Real engagement is otherwise unlikely, for there can be no such thing as sustained effort without strong conviction.

We posit a situation, such as the present, when drastically false conceptions of both theory and historical fact prevail. We posit also that education, particularly "higher education" at the university level, is the dominating vehicle for the propagation of ideas, good and bad.

Condensing a complex process to its essentials, we assert that education propagates ideas either orally or by the written word. If we eliminate that extremely rare person, the genuinely original teacher who confines his propagation to the spoken word, never committing his discoveries to permanent written form, the ultimate vehicle of propagation is the written word. This has to be true because the total sum of ruling ideas in all fields of systematic knowledge has been produced in a proportion of at least 99:1 by persons now dead. The expression "there is nothing new under the sun" probably overstates the case. But not by much.

Oral Transmission Limited

Many important ideas and factual assumptions are handed down across the generations by word of mouth. Still, one may doubt whether a single such idea or assumption is either confined to oral tradition or transmitted mainly by word of mouth. Complex theories or factual beliefs are hard to convey exclusively orally. The teacher commonly says at a certain point in every oral discussion: "for further development of this complicated matter, see so-and-so at chapter or pages so-and-so." Thus even orally propagated ideas and assumptions are at least complemented by published literature.

If there is in existence a substantial literature which controverts the theories or facts promulgated by a teacher, he ignores that literature at his peril. An enterprising student more than likely will run across the challenge and may take pleasure in embarrassing the teacher with the discovery. Or a colleague in the department or at another school will expose his violation of scholarly tradition.

The situation is different if there is no substantial literature which controverts the prevailing orthodoxy. Recent history is instructive for the strategist in the war of ideas. We have learned that there is no such thing as a truth settled once and for all, at least not in the field of social policy. That the case for laissez-faire capitalism may have been completed in the 150 years between Hume and Böhm-Bawerk
obviously did not guarantee the
dominance of laissez-faire in the
20th century. In the world of scholar­
ship as in politics, apparently, the
idea implied in the expression, "but
what have you done for me lately,"
prevails.

Restate the Truth

The conclusion seems clear: upset­
ting a fallacious orthodoxy cannot
be left to the literature produced by
past generations. This does not
mean that everything written as of
1900 is no longer of any value. It
means that truths stated in 1900
must be restated in 1979 if a con­
trary fallacy then prevails. It is not
enough to say that Keynes is "de­
molished by Say's Law." It is not
even enough to say that Nader's
consumerism was exposed as fal­
lacious much earlier in this century
by Professor Hutt's description of
free-market capitalism as the sys­
tem ruled by consumer sovereignty.

The strategic rule, then, seems to
be that current fallacy must be ex­
posed by current exposition of the
truth. More than that, to overthrow
a current fallacy requires a power­
ful, thorough, exhaustive, definitive
exposition of truth—for otherwise a
strong and widespread orthodoxy
finds it easy simply to ignore the
truth. Think of how the works of
Mises have been ignored, despite
their compelling, diamond-like pre­
cision and lucidity.

The war of ideas like the war
between good and evil goes on and
on. Nothing is permanently settled.
Each new-born child, each new gen­
eration, comes naked into the world,
as bereft of the moral and intellec­
tual virtues as it is of clothing. The
child and its companions in each
generation are endowed with a po­
tential and little or nothing more.
Those who wish to see that potential
flower in truth and goodness must
work at it.

If sound theory and accurate facts
are to displace the ignorant non­
sense now prevailing in the field of
public policy a mountain of current
literature must be raised, a moun­
tain so high that even degenerate
university teachers cannot risk ig­
noring it.

As Mises said "write books!"—or
encourage others to do so.

T. S. Eliot

If we take the widest and wisest view of a Cause, there is no such thing
as a Lost Cause because there is no such thing as a Gained Cause. We
fight for lost causes because we know that our defeat and dismay may be
the preface to our successors' victory, though that victory itself will be
temporary; we fight rather to keep something alive than in the expecta­
tion that anything will triumph.
Inflation Fighters
Bark Up The Wrong Tree

The war against inflation, as waged by the United States government, is in reality a war against the forces of supply and demand. The identity of the enemy is missed by Washington. Hence, it is not surprising that no ground is being gained.

Inflation is the over-supply of money in relation to the demand for money; it is not the rise of prices. For this reason, the wage and price guidelines, which are directed at the rising prices of goods and services, are irrelevant. They call to mind a coon dog barking up the wrong tree. And mandatory price controls, which Alfred Kahn keeps telling us are undesirable, but may become “necessary,” would also miss the mark, for the same reason.

Prices have not risen uniformly. The prices of farm products rose on the average by 40 percent in early 1979. In the same period, the price of coffee beans fell. If inflation is a rise of prices, why did not the price of soybeans and of coffee beans rise at the same rate?

The answer, manifestly, is that the forces of supply and demand impinged differently on soybeans and on coffee. This may have been due to weather, war, different degrees of government meddling with markets in the U.S. and in Brazil, or to a multitude of other causes, special to each commodity. The combination of market forces, in the case of soybeans, pushed the price upward, while in the case of coffee the opposite occurred. Every individual good and service faces its own forces
of demand and supply and, these being the determinants of price, its own pattern of price changes. This is normal and healthy.

Inflation, on the other hand, is neither normal nor healthy. It is a disease, specifically a disease of money. It is not the effect on price of changes in demand and supply of this and that good. In truth, it is totally unrelated to these fluctuating market forces. Inflation affects all goods alike—all goods for which the inflated money is exchanged.

That inflation is tied to money, not to goods, is indicated by the fact that each nation has its own unit of money—dollar, franc, yen—and each nation likewise has its own rate of inflation. These differ widely. While the United States has inflation of maybe 9 percent per year, Britain has 18 percent, Brazil 30 percent.

But a staple commodity such as wheat or cotton, has a world market price, which is virtually the same—adjusted for varying costs such as transport—in all countries. This world market price is a resultant of the world market forces of supply and demand, not of the inflation force which prevails in any one country due to mismanagement of the money in that country.

Admittedly, inflation pushes prices up—this is why rising prices and inflation are so often equated—but it is a quite different "push" from that exerted by demand and supply. Drought may affect the demand and supply equation, but drought surely is not the cause of inflation.

A useful analogy is that of the tide and the waves. Throw a cork into the ocean. The cork will rise and fall as a result of two entirely distinct forces: the tide, which is a rise in the general level of the ocean over a vast dimension—a rise caused by the gravitational pull of the moon; and the waves, which are rises of varying degrees at various points on the ocean's surface, caused by the winds as they impinge on those points.

Inflation may be likened to the tide, while the varying changes in prices of individual goods and services are the waves, kicked up by the winds, which are local in nature and fickle in force and direction. Our cork may run into a gale and be hoisted accordingly, or it may encounter a calm, its level changing little. In either case, the tide will be operating under it, causing it to rise gradually but inexorably as the tide comes in.

Although the tide and the waves both affect the cork, they are totally unrelated to one another. So also are inflation and the demand-supply force. They are as little related as deficit financing is to drought.

To continue the analogy: it is possible to calm the ocean's waves at any one point by pouring oil on the
water. Now the cork would not rise on a comber because there would be no comber. But the oil would not have the slightest effect on the tide. That would come rolling in as usual.

Price and wage guidelines are a typical oil-on-water exercise. Using enough oil—including a generous portion of bear oil—one might smooth out a few waves, temporarily, thus modifying the rise of this or that cork, but all the oil in Saudi Arabia would not smooth out the tide.

The same would be true of mandatory controls. Here and there they would modify a price or wage change, but they would have as little effect on inflation as oil on the ocean would have on the gravity of the moon.

Inflation is dilution of the nation’s money, as a result of overproduction of money units. Each unit, because of its excessive supply, loses value.

This dilution, in turn, is a result of the desire of government functionaries to spend more money than the taxpayers provide.

Congress has again raised the limit to which the national debt may legally climb. This is to accommodate the ever-present desire to spend more dollars than are in the Treasury. That more will be created, generating more inflation.

But Washington dislikes to have the American people realize that the government itself is causing the inflation, and so it assiduously spreads the notion that the rising prices constitute the inflation. People conclude that the Arabs are to blame because they have hiked the price of petroleum; the weather is at fault because it did not grow more fodder and consequently farm prices rose; the businessmen especially are responsible because in their greed they have jacked up the prices of manufactured goods.

Never is the relation of the money supply to inflation acknowledged by a Washington bureaucrat, seldom by a journalist, and only occasionally—sad to say—by an economist.

Hans F. Sennholz

IDEAS ON LIBERTY

Step by step the federal government has assumed control over our monetary system. It thus captured a potent source of revenue and a vital command post over the economic lives of its people. This is why every friend of freedom is dedicated to the restoration of free money which is also sound money. It is the gold standard.
To forge an effective food policy we will need to... determine what people's nutritional needs are and what levels and types of production are necessary to meet those needs. This will require an ability to translate nutritional needs into production terms. ... A new food policy must reassess which areas of agriculture are supported and promoted. In the future, the basis of such decisions must be to meet nutrition and trade needs. This will necessarily involve a reorientation of production patterns. (From a speech by Carol Tucker Foreman, Assistant Secretary of Agriculture).

These statements were made at the opening session of the 1977 USDA Food and Agricultural Outlook Conference. The implications of this proposed bold new food policy are far reaching and have received little attention in the press and even less by policy analysts. It should be stressed that Foreman's comments do not represent an aberration of Administration policy but appear to be fully subscribed to by Secretary of Agriculture Bergland:

We intend through our research to build a constructive nutrition program from the facts... We want to know how much animal fat, how much sugar, how many eggs it's wise for a person to eat. Then we're going to build a new farm policy based on these truths.

The full implications of the policy approach visualized is apparently not recognized even by the proponents. The idea that the USDA or any other agency can determine our dietary needs and then reorient production to assure that these dietary requirements are met represents misplaced hubris in a country where consumer sovereignty holds sway. The proposed policy faces three crit-
ical shortcomings—information problems, restrictions on individual choice, and the planner’s illusion.

Information Problems

The first step in the proposed policy is to determine the components of a proper diet, i.e., determine “people’s nutritional needs.” Even this first step, however, is fraught with difficulties. There is a great deal of controversy among nutrition experts both about the state of current diets and about the effects of various proposals to alter these diets.

Concern about current diets was manifested in the widely publicized report of the Senate Select Committee on Nutrition and Human Needs. Gilbert Leveille, Chairman of the Department of Food Science and Nutrition at Michigan State University disagrees with the thrust of this report and other allegations about the quality of the U.S. diet.

The American diet today is better than ever before and is one of the best, if not the best in the world today. . . . We have virtually eliminated morbidity and mortality from acute nutritional deficiencies (Leveille cites pellagra, rickets, and goiter as examples). . . . We have seen a remarkable increase in the life expectancy of the American population. We have seen many improvements in the quality of our food supply as measured by its safety, wholesomeness and variety, it is unparalleled in the world today. (Speech presented at USDA Outlook Conference, November, 1977)

Dietary Goals

The lack of consensus by nutrition experts on the effects of dietary modification is illustrated by the set of dietary goals proposed in 1977 by the Senate Select Committee. A reduction in overall fat “from approximately 40 percent to about 30 percent of energy intake” was among the dietary goals proposed. Leveille contends that the case against animal fats as a cause of heart disease is unproven and that the goal of substituting polyunsaturated fatty acids for saturated fat consumption represents “a risk which has yet to be fully evaluated.” Leveille also disagrees with the committee’s goal concerning reductions in salt and sugar intake as well as the proposed goal involving a shift from foods of animal origin to those of plant origin. These examples illustrate the disagreement among nutritionists as to the potential impact of specific dietary changes.

Another problem in determining proper diets is that tolerances and requirements for specific nutrients and foods vary widely between individuals. The Senate Select Committee, for example, recommended a reduction in salt use as a means of reducing the incidence of hypertension. However, there is no consensus among nutritionists as to the proportion of the population whose blood pressure would be influenced by salt intake. As Leveille states:
It should also be recognized that not all hypertensions will respond to a reduction in salt intake. Further, virtually all professionals examining the dietary goals of the Select Committee are in agreement that the recommended level of salt intake of three grams per day is excessively low and represents a level which is not achievable.

The goals developed by the Senate Select Committee imply that nutrition goals have not been important in the U.S. because we have had no "nutrition plan." However, there have long been diet guidelines in the form of Recommended Dietary Allowances (RDA’s) initially established by the National Research Council in 1941 (and periodically revised). These RDA’s represent an attempt to meet the dietary requirements of "virtually the entire population" and are subject to the problem that tolerances and requirements vary widely between individuals. Assuming the RDA’s are known, these data along with information on nutrients and prices of various fruits, vegetables, and meats enable individual consumers to meet the RDA’s in a variety of ways depending upon individual tastes and current prices. The following discussion demonstrates that the best diet for an individual consumer cannot be determined solely on the basis of RDA’s.

The idea of a "national diet" assumes away problems associated with individual differences. Even if nutrition experts were able to agree on the components of a well balanced diet, different nutrient requirements can be satisfied in a variety of ways. Protein, for example, can be obtained from various meats as well as from peas and other vegetables. Similarly, virtually all nutritional requirements can be met from a range of foods. Thus, mere knowledge of nutritional requirements reveals little information about which specific foods will be chosen by individuals to consume to meet these requirements since food consumption by individuals is heavily influenced by individual taste as well as by nutrient availability. The most reliable information we have about people’s food preferences is revealed through their market choices.

Restrictions on Individual Choice

In a free society, welfare is defined in terms of the welfare of individuals. This individualistic approach assumes that the individual consumer is the best judge of his own welfare. The individualistic ethic implies free choice of diet.

Free consumer choice presents an insurmountable obstacle for any policy which attempts to base agricultural production policy on individual diets. Dietary requirements, as suggested above, can be met in a variety of ways. That is, RDA’s of
various nutrients can be obtained from a wide variety of fruits, vegetables, and meats consumed in many different combinations. Individuals, based on their tastes and preferences and market prices, will choose widely different combinations of goods to satisfy specific nutritional goals. This poses several problems for planners attempting to base agricultural policy on nutrition facts. First, there is no way for the nutrition planner to determine how much of which foods everyone in the country should eat. Second, when allowances are made for differences in individual tastes, and the wide range of ways in which various foods are eaten, "nutrition facts" provide little guidance concerning which foods to promote through public policy. Third, the proposed approach ignores political realities which will inevitably arise when congressional action is taken to reduce beef, tobacco or peanut consumption.

The idea of basing levels and types of agricultural production on nutritional needs ("translating nutritional needs into production terms") can only be successful if there is a way of insuring that the nutrition plan is implemented. Thus, to successfully translate nutritional needs into production terms, the Foreman-Bergland plan must determine which foods constitute the "national diet," the amounts required of those foods, and then ensure that those foods are produced and consumed—it must dictate individual diets.

The Planner's Illusion

Secretary Bergland has stated that the "USDA does not intend to dictate diets for the people." However, the USDA has been noticeably silent as to how nutritional needs will be translated into production terms so as to meet "nutrition and trade needs."

Nutrition planning faces the same limitations as other forms of central planning. The idea that a central planner can determine a nutrition policy based on nutritional requirements and then develop a food policy based on these requirements is an example of what Professor Hayek calls "scientism"—the extension of scientific techniques and methods applicable in natural sciences beyond their proper boundaries to include all human activity. In the present context, there is a basic difference between nutrition planning for livestock and for people.

The concept of nutrition planning is being successfully applied in feeding livestock. Mathematical programming techniques are used to formulate least cost diets for cattle, broilers, hogs, and so on. The animal scientist can provide information on nutrient requirements for various classes of livestock and feed
specialists have information on nu-
trients provided from various feed
sources including corn, oats, wheat,
protein supplements, and the like.
Given data on nutrient require-
ments, nutrient availability from
various feed sources, and market
prices of the product and various
feeds, the least cost diet is reduced
by a mathematical problem which
can be rapidly solved by electronic
computer.

The analogy between formulating
least-cost livestock rations and
planning human diets, however,
quickly breaks down. Most people
would insist that palatability con-
siderations are much more impor-
tant in the diets of people. Further-
more, allowances for individual
variation in tastes and preferences
in human diets are crucially impor-
tant in all but the most totalitarian
of human societies.

If consumer choice is deemed to be
important, there is no way for the
nutrition planner to determine op-
timal diets for individuals. If the
planner were given data on con-
sumer tastes, prices, and nutrient
requirements, nutrition planning is
reduced to a mathematical problem
and nutrition planning is possible.
These data are, of course, not given
to the planner. Furthermore, no al-
ternative to the price system has
been discovered as a way of coor-
dinating and transmitting informa-
tion concerning individual tastes
and preferences from consumers to
producers (or planners as Hayek
demonstrated 40 years ago). Ra-
tional nutrition planning of the type
visualized is impossible in the same
sense that central economic plan-
ing is impossible—it is not consist-
tent with the aim which it is
intended to serve. There is no way to
successfully “translate nutritional
needs into production terms” while
maintaining individual freedom of
choice.

The Variability of Needs

Despite the seemingly obvious
problems of nutrition planning, the
illusion that central planners can
plan production for consumers more
efficiently than the market dies hard.
Unless individual freedom and
choice are ignored, human action
cannot be planned and predicted in
the same way as phenomena in the
natural sciences. The idea that the
planner can obtain enough informa-
tion on nutritional requirements,
individual tastes, production re-
quirements, trade flows, and the
like, in such a way as to determine
“what levels and types of production
are necessary to meet those needs”
represents an illusion which has
much potential for mischief even
though it is incapable of achieve-
ment.

Government policies can surely
affect the pattern of agricultural
production. However, there can be
no assurance that a change in production of particular crops will have the desired effect on diet. For example, corn can be processed and consumed (among other ways) in the form of canned corn or in the form of sweetened breakfast cereal. Many nutritionists would favor an increase in consumption of the former and a decrease in consumption of the latter. A policy of subsidizing corn production, however, might be expected to reduce the price and increase consumption of all corn products. Similarly, the dietary implications of increasing production and consumption of potatoes, wheat and many other products are ambiguous.

It seems obvious that Draconian measures would have to be used to achieve the kinds of dietary changes envisaged by Ms. Foreman. How, for example, would the regulator limit the use of salt? By prohibiting the use of salt on potato chips, french fries, peanuts, and so forth? By limiting the consumption of these products? Or, by selling salt on a prescription basis?

How is the use of sugar to be reduced? By limiting the use of sugar in cereal, candy, cake, and so on? Or, by limiting the consumption of these products? The amount of regulation involved in ensuring that dietary goals are achieved is staggering to contemplate.

Even if there were no other problems, political implementation of a nutrition plan would be a formidable obstacle. Policy is inextricably involved with politics and political considerations will impinge on the decision-making process at all levels. This was clearly demonstrated during 1978 by the widely divergent attitudes of various government officials in the Carter Administration toward the tobacco price support program. Conflicts are inevitable given the different constituencies of HEW, USDA and other government agencies. Thus, "nutrition planning" as a basis for policy faces formidable political as well as economic barriers.

The Problem Persists

In view of these seemingly insurmountable political and economic problems involved in nutrition planning, why have these problems been largely ignored by public officials? The illusion of the planner is nothing new and was clearly foreseen by Adam Smith 200 years ago:

The man of system... seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board; he does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon
The illusion of central planners today appears remarkably similar to that held by Smith's "man of system" 200 years ago.

**Conclusions**

The need for diet information is obvious. In developing sound dietary practices, consumers need information on dietary requirements as well as nutrients available from various foods. The question is not one of whether diets will be planned but rather of who will plan individual diets.

Nutrition planning is but one example of central planning. The problems of "translating nutritional needs into production terms" are fundamentally the same as those identified in the "market socialism" debate of the 1930s. Information problems are quite as troublesome in nutrition planning as in other types of central planning. The individualistic ethic means that individual diets must vary according to individual tastes. The nutrition planner has no way of determining *a priori* how individuals will respond to nutrition information.

There is a vast difference between providing dietary information to consumers and "nutrition planning" in the sense of attempting to reorient agricultural production based on a national dietary plan. If only diet information is provided to individuals, there can be no assurance which foods will be chosen to meet various dietary requirements and, consequently, how much of various foods will be consumed. Knowledge of how to "reorient production patterns" so as to "meet nutrition and trade needs" requires information on amounts of various foods which will be consumed, sold in the international market, and imported.

The quantity of a food consumed, produced, imported, or exported hinges to a large extent on price. Thus, "translating nutritional needs into production terms" means that the planner must be able to control price not only of food produced domestically, but also of food imports. The amount of information required to implement such a plan staggers the imagination. Even if the planner could obtain the required information, changes in supply and demand conditions would quickly make the plan obsolete. Comprehensive nutrition planning is possible in the sense that dietary goals can be proposed and production and consumption patterns can be altered by government subsidies. However, short of dictating individual diets, nutrition planning is incapable of achieving the stated goal of building a new food policy based on nutrition facts.
"Now that's amazing strange," the old man said as the king snake not so much slithered as rolled away after killing and swallowing another snake that appeared to be about the same size. We—six or eight boys and three men—were skinny-dipping that long ago day and had watched, off and on, for hours as the king snake killed and swallowed its adversary. Since that time, in my own mind, the superlative of anything unusual has been "amazing strange." But it was almost fifty years before I experienced another incident that seemed to qualify completely.

In the state where I live the retail price of milk has been controlled for years by an organization generally referred to as the milk board. This organization did not set a maximum price. A grocer could sell milk for as much as the customer could be persuaded to pay, but for not one cent less than the minimum figure decreed by the board.

There was one place, a convenience store on U.S. 11 in the northeastern part of the state, that insisted on setting its own price on milk. The schemes this villain attempted in an effort to circumvent the laws passed by the milk board made good copy. From time to time the whole state was treated to a blow-by-blow account, via press and radio, of the latest confrontation between this rebel and the bureaucracy. Since the grocer always

Mr. Raley is a free-lance author, speaker, philosopher from Gadsden, Alabama.
seemed to lose, these accounts were very hard on the blood pressure of all devotees of a free market economy.

No real challenge to the milk board developed until a large interstate chain lowered the price of milk about fifty cents a gallon overnight. This lawless reprobate was brought to bay in short order, of course, but not before another chain had entered the contest and sold milk, as a leader, for $1.19 a gallon—until the law moved in.

The First Round

The milk board won the first scrimmage as expected, with arrests, fines, and threats of cutting off supplies. After all, this is a nation of laws. But these actions did get the matter before a court. The chain manager who had first defied the law placed ads in various papers stating that the milk he was forced to sell in this state for more than $1.80 per gallon was obtained from the same source, at the same price, as milk sold in adjoining states for about $1.30 a gallon. This information was something less than a news break, since most everyone had known or suspected as much. But when the case came to trial, the court’s decision was certainly a surprise bordering on astonishment. The judge found that the milk board, because of some technicality, was illegally constituted; therefore, the laws invoked by it were null and void.

In this age when more and more snooper vision makes the free market less and less able to function, I hold that this court’s decision was amazing strange. In the first place it injected a wee small fissure in a solid wall of laws, many years long, calculated to harass the theory and practice of a free market economy. Secondly, there is little if any political clout to be gained by encouraging the uninhibited exchange of goods: no positions created for friends, relations and supporters of the in-gang; no potential outstretched palms made available to producers and distributors. Yes, this was truly an amazing strange thing for a man of law to do in this day and age. And what was to be its effect in the market place, upon the consumer and producer?

For the first few weeks most all grocers sold milk, as a leader, at about cost—or perhaps a few cents less as some of the large chains butted heads. The price hovered around $1.20 a gallon for some time. Then, as one grocer after another tired of the game, the price slipped into its natural slot at about $1.35, where it remained until forced up gradually, along with other produce, by the unrelenting pressure of inflation.

I watched this process from the corner of my eye, as it were, fully
expecting the superficial philanthropist of the milk board to bring forth a new law to protect all and sundry from the ravages of a free market. When no new law was forthcoming after several months, it appeared to be time to look at the other side of the coin; after all, a reduction of almost one-third in the price of an item must be assumed to squeeze somewhere.

**Special Interests**

Processors and distributors are reluctant to discuss the matter on a dollar basis, which is their prerogative, of course. Those to whom I was able to talk were definitely in favor of price control, minimum price control, that is, on their products. Insofar as I have been able to determine, however, none of the state's distributors has quit or gone bankrupt.

The dairymen who produce milk—feed and milk the cows, clean the barns, mend fences, sow pastures, put up silage, ad infinitum—were much more willing to talk. After all, these rugged individuals often work ten to twelve hours a day, seven days a week, in a valiant effort to make ends meet; they have nothing to hide. As a matter of fact, the price of milk at the farm was not cut when the milk board was ousted, so the actual producer is no worse off than before. Naturally, milk producers would like, and think they should have, an increase in the price of their product. But, at present feed grain prices, those with whom I talked admitted that they were not hurting unduly.

So, draw your own conclusions as to what happened to the extra fifty cents for each gallon of milk sold when the board was in command. Without this boon, the producer is no worse off. Processors and distributors are still in business and apparently doing well. The grocer is still happy; he can sell milk as high as the market will stand or run it at cost to draw more customers. Needless to say, the consumer is better off and one would think a wee bit happier.

The price of milk has inched up since that time, about the same as other foods to keep pace with inflation. But it is still about fifteen per cent less than it was two years ago, and the shortage predicted by the milk board has failed to materialize. Faced with evidence of this nature, one may ponder what the bottom line would look like if all laws that inhibit the voluntary exchange of goods were struck down. More specifically, what would it be like to live in a free market economy?
Yogi Berra is reputed to have made the sage remark: "You can observe an awful lot just by lookin'!" A few days in a country can yield only an impression, but when the visit is preceded by study, and the observations are supplemented by interviews and visits with informed persons, the impressions may have more validity.

For eighty days I have been sailing around the world on the Queen Elizabeth 2. We have spent some time in several interesting nations such as Brazil, Uruguay, South Africa, India, Sri Lanka, Singapore, Hong Kong, China and Japan. My studies in philosophy and economics have prompted me to ask many questions and look in on many projects. The world-wide fellowship of academic people has been a great help to me. With a few exceptions I have been able to avoid talking with any of the officials who have a point of view and a position to defend. I have, with the help of a good interpreter, talked with people involved in the several cultural and economic activities that make up a national character and image. These impressions I have gained are of such interest to me that I feel impelled to share them with anybody who finds them interesting or instructive—even irritating!

It seems to me that any country in which the government is hostile to business and industry, for political reasons, damages the quality of life for the people in general. Marx is long dead and frequently shown to be wrong in his observations, yet...
politicians and bureaucrats cling to his dogmas of the rapacity, culpability, and greedy self-interest of people engaged in the production and distribution of goods and services for profit. Responsible persons seem never to learn the wisdom of Samuel Gompers who said, "The company that does not make a profit is the enemy of the working man"! A government that socializes its economy kills the goose that lays golden eggs for the poor and needy. Still it goes on around the world.

**Uruguay** is a prime example. Here is an attractive country about the size of Washington state which has just gone through the socialist wringer. It all started with a welfare program that promised everything to everybody. It was indeed reported to be a worker's paradise wherein everybody could retire at forty on a fat state pension. Private enterprise was squeezed out in favor of the system which Bastiat described as an arrangement wherein everybody attempts to live at the expense of everybody else. The State went broke. A military strong man moved in. Everything is rationed and equality is widely proclaimed, but privilege is apparent and poverty continues. The privileged few are the politicos, the bureaucrats and the leaders of the ruling junta. People live on, as they must anywhere in the world. People survive the loss of freedom and the excesses of governments. But without liberty they are locked in. Without free business and industry they cannot gain freedom or mobility for themselves. How prosperous these people could be if capital could be formed, industry and trading encouraged and the people free to make something of themselves rather than to exist as the wards of the state!

**Singapore** shows what can happen to a tiny country that encourages trade and production. That celebrated entrepreneur, Sir Stamford Raffles, started the little island out as a business center when political people were attempting to divide up the earth. The influence of the founder is remembered by successful enterprise as well as of the old hotel which bears his name and which inspired Somerset Maugham to write so many exciting stories centered in Singapore and the Raffles. Poverty-stricken people from all sides come into Singapore for the same reason that southerners poured into Detroit to work for Henry Ford. The politicians, ambitious as they are, see the need to preserve the high standard of living which successful business affords. There are some curious contradictions wherein the government joins hands with industry to build housing for the workers, but when people do not work they do not go on dole.
Welfare payments are restricted to working people with the result that there is no unemployment, with the very small exception of unemployed welfare cases. The function of government to protect its citizens from injury by anyone using force or fraud seems to be rigorously performed. There is little or no crime; there are no beggars; there are no coddled criminals. The death penalty is enforced by hanging.

Business comes in from all over the world to bring prosperity to a little overcrowded island which has negligible natural resources. Business comes because it feels secure from the raids of the politicians who have in less fortunate countries stolen the capital which has been invested there. Overregulation and confiscatory taxation are not on the Singapore menu. Trade unions are not given special privileges under the law. Business prospers, people work, the government intervenes, but not to the destruction of business by which the place lives. Civil rights are defended still by appeal to the Privy Council in London.

Hong Kong is an even better example. Here is probably the nearest thing to a free market to be found anywhere in the modern world. The government of Hong Kong is an attempt at the least possible, given the peculiar problems of overcrowding and geographical limits. Investment bankers for the whole world center here. Capital is placed for the oil-rich Middle East and markets are found for productive countries like West Germany and the USA. The limited government is aimed toward providing conditions that lead to prosperity and peace. No wonder business looks this way in a world in which dedicated bureaucrats and politicians are working—as much as they work at anything—trying to tax and regulate business out of existence. When they succeed the result is socialist business which is best illustrated by the postal service in the USA.

Plato, who had little interest in democracy, saw the political process as running from too much clamor and conflict in a leaderless democracy, moving to a socialist state, to be followed by a dictator. Sri Lanka is just emerging from the last stages of the overregulated and over-socialized government. This small island about half the size of Alabama has 15,000,000 people. Tea and rice are the predominant products since natural rubber demand has diminished. Some gems of rare quality are found on the island. Politicians promised everything and attempted to deliver, with the result that taxation and inflation could not keep the overspent budget close to balance. When bankruptcy comes in a socialist state, nobody admits it,
but the stability disintegrates and a strong alternative moves in, making the controls even more stifling. Some of my sophisticated friends see a glimmer of hope in the fact that the beleagured government may at last see the wisdom of trade and perhaps even foreign investment. Some imagination and a look around at some nearby countries might very well start the "Hong Kong effect."

The market, which Adam Smith called the invisible hand, operates anywhere. It is not some optional form of political economy. It is more like the law of gravity which works even when distorted and impeded. Communist China is just now re-discovering the operation of the market. When farmers were granted the right to the product of a small plot of ground, the land thought worthless suddenly became fertile and the crops were amazing. Incentive makes for resourcefulness and effort. Farmers not only grow foodstuff for themselves but also grow enough to take to the streets and sell for cash. Now the central government is trying to open the doors to trade. How could they avoid noticing the prosperity of Taiwan in contrast to the poverty of Red China? Tourism is going to be big business in The People's Republic. I sat at dinner with the Minister of Tourism for all of China. This man has a vision of a tidal wave of tourists all bringing hard money into his country. The greatest need of that vast nation is for capital. A person with a broom or a shovel has only a small investment back of him. When he can have a powerful street sweeper or giant steam shovel his capital back-up will be great and his productivity will be multiplied. Chinese traders have been famous for centuries, and they are ready to trade again if they can get the stifling ideologists off their backs. People who write about China tend to assume that any improvement rests with the government. Get the government impediments out of the way and you will see the miracle of Hong Kong begin to operate.

Japan is a study in the effect of open trading and the encouragement of business and industry. Fifty years ago Japanese products were thought to be shabby if not phony. Today their technology is unsurpassed in the world. At the close of World War II Japan was freed from the expense of a vast military establishment. This was a help. The people were eager to work. This was a greater help. Even today the Japanese work week is six days. Electronic devices of quality are manufactured at a fraction of the cost of those produced in other countries. These things are not the result of sweat-shop labor, for the
Japanese workers are very well paid by any standards. Now, however, the government effect of intervention is beginning to operate. Regulation and taxation together with inflationary government spending may very well soon reduce productivity along with product quality and Japan will be caught in the web of bureaucracy not unlike that of the USA.

These impressions and opinions need the correction of more careful observation and study, but they are enough to deepen the opinions I have long held about the nature of human well-being when government intervention takes its toll. Politicians and bureaucrats are not evil people. They are out for themselves as a self-respecting person must be—regardless of the system. Interest groups push for benefits and politicians promise to pass a law to spread the cost. Bureaucrats need to defend their positions and increase their power and the enforcement machinery multiplies with excessive personnel. Governments grow; the politicians promise more and more, the bureaucrats multiply and the bewitching socialist chimera enchants the people. The government overspends, the economy falters, business and industry fail and the people are in distress. The predicament is only worsened by the dictatorship which must follow.

Now and again, however, there comes a glimmer of hope. China begins to open up and trade; Sri Lanka takes a new look at Hong Kong; Britain tries to get hold of the inflationary spiral; America takes a look at taxes and government spending. Plato smiles at the succession of government blunders, Karl Marx wonders what went wrong with his classless society, and Adam Smith nods knowingly as he sees reality overtake ideology. Yogi was right. "You can observe an awful lot just by lookin'!"

The Conditions for Progress

In a nation without a thriving business community, private wealth is generally stored in vaults, or used in conspicuous consumption, or invested in real estate, or placed with business communities abroad. But where a country's private business is not subject to Procrustean measures of control, this private wealth is less likely to be shipped abroad, buried, or otherwise diverted into circuits of low economic potential.

HAROLD M. FLEMING

IDEAS ON LIBERTY
"There's only one general feeling at Westminster [the British Parliament]. That independence must be stamped out at all costs. . . . The policymakers in all three parties are in complete agreement on that."¹

The thrust of the idea that has the world in its grip is to take away the independence of the individual. This thrust inheres in the idea as it is formulated here as well as in the socialist way of looking at conditions which are supposed to be remedied.

The formulation of the idea being used here is that the aim is to concert all human efforts for the common good. The only direct way to achieve this is to make the individual into a cog in a vast machine, to make the efforts of each individual coordinate with those of the human race. Such a coordination is only possible when individual independence no longer exists or is no longer capable of action.

The animus of the idea runs deeper than this. It is, as has been stated before, to root out the penchant of the individual to pursue his self-interest. It is a religious, or quasi-religious, aim at bottom, an
aim which entails the transformation of the individual. On the socialist view, man's original sin is the pursuit of self-interest. It is, they think, the source of all the ills in the world. A massive effort has been made to transform men along these lines.

But all efforts to eradicate man's pursuit of self-interest have been to no avail. The greater the effort to erase it, the more determinedly do men pursue their self-interest as they conceive it. There is abundant evidence that even when the most drastic efforts have been made to remove the opportunity for the pursuit of self-interest, in slave labor or concentration camps, for example, men continue to do so, even to the detriment of their fellows. When man is bereft of all else—wealth, family, position, the comfort of religion, and the amenities of society—he pursues self-interest as long as any will remains in him.

There is reason for this. The denial of the right to pursue one's self-interest is, in effect, the denial of the right to life. Our very survival hinges regularly on a lively interest in self. From the most primitive savage to the most urbane civilized man this has been true. Nor could it be otherwise. Each individual must attend to the means for sustaining himself and avoiding the dangers that threaten him. He must either see to his bodily needs, or it must be done for him. He must be constantly wary of things about him that can do him harm: fire which can burn him, water in which he may drown, high places from which he may fall, objects that may fall upon or hit him, and a thousand and one other dangers. He must be on the lookout for ways to provision himself and be on guard lest his provisions be taken from him.

The Foundations of Society

The individual is not necessarily alone in his efforts to survive, though he may sometimes be. Ordinarily, though, he may have help from others and render assistance in return. Society is founded upon mutual exchange and aid, and the individual finds advantage to himself both in making exchanges and rendering aid. None of this alters the fact that the individual's pursuit of self-interest is as deeply embedded in his nature as is the will to survive, and necessarily so. There is no need to suppose that it is man's only motive, or always his predominant one, but whether it is or not, it is ineradicably there. Socialists to the contrary notwithstanding, the opposite of the pursuit of self-interest is not the pursuit of the common good; it is the abandonment of the self to destruction.

Socialism does not succeed, then, in eradicating the individual's inherent bent to pursue his self-
interest. It can, at most, induce him to conceal it by making hypocritical claims about the motives behind his acts. Socialism does not do what it cannot do; it does instead what it can. It does not root out self-interest; instead, it reduces and attempts to remove the means for individual independence. The individual has an ingrained bent toward independence, too, but the means have to be available or acquired, and they can be largely removed.

Independence is essential to individual freedom and responsibility. Freedom without the independence to choose and act is a contradiction in terms, a notion without content. In like manner, the individual cannot logically be held responsible for acts not freely and independently done, nor can he assume responsibilities without a measure of independence. As a practical matter, freedom consists of the right of the individual to dispose of his own energies, employ his faculties, use his own resources—that is, manage his own affairs—for his own good and constructive purposes. Responsibility entails both attending to those obligations which arise from his situation and taking the consequences of his acts. Socialism victimizes the individual by its continuing assault upon his independence. Tacitly, socialism promises freedom without responsibility; in fact, it takes away the means—individual independence—for exercising either.

**Organization and Numbers**

Socialists use two devices mainly both to undermine and take away the independence of the individual and to instrument him as a cog in a wheel. They are organization and numbers. The discussion of numbers will be deferred for later treatment so that we can focus on organization here.

The most basic and comprehensive organization used by socialists is government, but all organizations are utilized to the extent that they can be. The secret police in Russia are referred to as "the organs" by people generally. This is a most appropriate nomenclature for them. They are organization in its most completely diabolical form. They are a secret society, in effect, empowered by the rulers to use whatever means are necessary to bring the populace to heel. Communists use all organizations to this end, some more directly than others, but all of them in some way. Gradualists tend to interpenetrate all organizations, control them, and make them instruments of government power.

To understand how organizations have been used and the impact they have on the individual—plus why socialism fails—it will help to look at the nature of organization, not just governmental organizations,
not just organizations penetrated by
government, but organization itself.
It is a subject needing much deeper
treatment than can be given to it
here as well as much more thorough
analysis. Much of the trouble in
these times can be ascribed to our
failure to limit organizations and
assign responsibilities clearly
within them. We have tended to
venerate organizations and to sup­
pose that any ills arising from them
can be attributed to abuses of them.
Or again, we seek to counter organi­
zation with other organizations, and
the effect is often enough that the
individual tends to get crushed by
contending organizations. Hence, at
least a sketchy understanding of or­
ganizations is to our purpose here.

One Man in Charge

It is in the nature of the organiza­
tion that there should be one person
at the head of it. Attempts to have
several people with coequal author­
ity at the head do not work out well.
Such an arrangement sets the stage
for a struggle in which one person
finally emerges as the recognizable
head. The most dramatic illustra­
tion of this principle has been what
has happened in the Soviet Polit­
bureau when the Premier, or what­
ever office the head might hold,
died. There would be solemn decla­
rations that henceforth the Polit­
bureau would operate on the princi­
ple of collective responsibility. A
struggle has ensued each time, and
at the end one man has emerged as
the leader. This is generally the pat­
tern for every organization what­
ever its size, though the struggles
may not be so dramatic or have such
far reaching consequences.

Every organization of any consid­
erable size is hierarchical. That is,
there is some sort of chain of com­
mand, or whatever it may be called,
through which the determinations
made at the top are passed down
through the ranks. The hierarchy
may be rigid and clearly visible to
everyone, as in a military table of
organization, or it may be much
more subtle and informal. Indeed,
some heads of organizations are so
determined to hold all power that
they never allow any dispersions of
it to become clearly settled any­
where else. This is one of the
hallmarks of an arbitrary and des­
potic organization. Be that as it
may, all sizeable organizations have
some sort of hierarchy.

Whatever its purpose, any organi­
zation has one other characteristic
that it is essential to grasp. The
organization is a device for exercis­
ing control through or over those
within it. This control has a confin­
ing impact on individuals. By direct­
ing and controlling individuals, or­
ganizations tend to restrict the in­
dependence of the individual and
take away from him the manage­
ment of his affairs in those areas to
which the organization extends. To put it another way, an organization tends to confine the acts of the individual within limits set by those at the top, and what gets done tends to be limited to the vision of a single man.

The Family and Government

All societies have had some form of organization. Indeed, two organizations are essential to human society: the family and government, the family as a means at least of nurturing the young and probably caring for the old, and government for keeping the peace and protecting from aggression. Family and government are probably the models for all other organizations. Complex societies have often had a considerable variety of organizations: armies, religious organizations, trade guilds, industrial enterprises, and so on. In looking back on them, we usually see readily how they limited, restrained, and confined the individuals within them. For example, it is easy for us moderns to perceive the confining character of the Medieval manor, the guild, the monastery, and other such organizations. Indeed, the authority of the Medieval Catholic Church seems to most of us to have entailed great restrictions on the liberty of the populace in general.

It is most unlikely, however, that the generality of men at that time viewed the matter in that light. Ordinarily, the organizations within which they lived and labored were a part of the parameters of life; one might as well complain of floods or droughts as of the manor, the guild, or the church. Undoubtedly, man complained of the hardness of particular overlords or the limitations of some particular restriction—especially if it were new—, as they are ever given to doing; but the general framework was accepted as a thing established of God and its doings hardly distinguishable from acts of God. It is only when arrangements have been unsettled as by some catastrophe, such as the Black Death which swept Europe in the fourteenth century, or the confrontation with other cultures, such as happened following the discovery of America, or the decay of some vital institution, such as that of the Catholic Church in the fourteenth and fifteenth centuries, that men are apt to resent and resist the confines generally.

Transforming Man

A specter has been haunting Western Civilization since the time of the French Revolution. It is the specter of the transformation of man. The catastrophe entailed was forestalled following the French Revolution, but the residue left from that and other efforts has been gaining ground since the late nineteenth
century and has now spread to the whole world. It is here referred to as the idea that has the world in its grip. The idea gains control in part by taking over organizations and using them to ends implicit in the idea.

The revolutionary ardor of those under the sway of the idea is usually expressed as an assault upon our received organizations generally. (For example, some nineteenth-century socialists were so anti-government in their animus that they became anarchists.) This continually misleads us, and perhaps them, as to what they are about. Once those under the sway of the idea are in power we may learn, however, that their object was not to destroy organization, as such, but to use it to extend control over the individual, to sap his independence, and take from him the management of his affairs. True, revolutionaries sometimes crush particular organizations, but that is only as prelude to replacing them with others more effective for their purposes.

It is as appendages of organizations that contemporary man is most vulnerable to the thrust of gradualist socialism. It is by way of his dependence on organization—for his job, for his education, for his pension, for his sustenance—that the individual is drawn into the maw of the state. Economic independence underlies all independence. "For economic independence," as C. S. Lewis said, "allows an education not controlled by Government; and in adult life it is the man who needs, and asks, nothing of Government who can criticise its acts and snap his fingers at its ideology. Read Montaigne; that's the voice of a man with his legs under his own table, eating the mutton and turnips raised on his own land. Who will talk like that when the State is everyone's schoolmaster and employer?" Since the thrust of gradualist socialism may not be toward the state's becoming everyone's employer, it might be better to modify it to say when the state controls everyone's employer. Communism, of course, makes everyone under its power into an appendage of its organizations.

**Platform for Collectivism**

What I am getting at is this: It is the prevalence of organizations in modern life that set the stage for the triumph of collectivism. It is the modern dependence upon and veneration of organization that has paved the way for the fastening of the grip of the state upon us. It is the very control over the individual that is characteristic of organization that socialists use to build upon. This control is a disadvantage in all organization, even as it may be the means to strength of the organization, and it is the primary reason for
the economic failure of socialism. Let us look at the impact of this control more closely.

There is a usually unstated premise which undergirds the belief in organization. It has sometimes been phrased this way and, if memory serves, Marx so phrased it: The whole is greater than the sum of its parts. (This is a variation on the mathematical axiom that the whole is equal to the sum of its parts.) There is a sense in which this is true when an organization or collective is considered as a whole and men are considered to be parts.

An organization is much more effective in intimidating, coercing, restraining, and exerting force than are the same number of individuals in their separate capacities. A small army can conquer a large populace which has no organized military force. Indeed, a few bandits, under the control of a leader and prepared to use force, can intimidate and terrorize a community. Massed pickets of a labor union can stop production in a whole industry. The principle which underlies the effectiveness of organization can be stated bluntly this way: An organizational whole is greater than the sum of its parts in its destructive potential.

The principle has a most important corollary. It is this: An organizational whole is less than the sum of its parts in its constructive potential. It is the belief to the contrary that undergirds collectivism. The idea that has the world in its grip holds that if all efforts could be concerted the results would be of a magnitude incomparably greater than would those of individuals acting independently from one another. But the very attempt to concert all efforts by organization runs athwart the above principle.

The Failure of Socialism

The validity of the principle—that the organizational whole is less than the sum of its individual human parts in constructive potential—has been dramatically illustrated in the Soviet Union. Virtually all of the land in the Soviet Union is in the hands of the state and the work force is organized either in large state or collective farms. But the farming people have been allowed from time to time to have small plots from which they as individuals or families are permitted to keep and sell the produce. The difference between the produce from these tiny plots and the giant farms was summarized this way by Eugene Lyons:

According to the government's own figures . . . , private plots with a mere 3 per cent of the nation's sown acreage accounted for 30 per cent of the gross harvest, other than grains; 40 per cent of all cattle-breeding, 60 per cent of the country's potato crops, 40 per cent of all vegetables and milk, 68 per cent of all meat products. Their fruit yields . . . are
double those of state orchards for equivalent areas, its potato harvest per hectare two-thirds higher than on collective farms. Even in grain, which is a very minor element in the private sector, it produces one-third more per sown unit than an average socialized farm.\textsuperscript{3}

The reason for these dramatic differences can be readily explained. When an individual is working on his own plot, managing his own affairs, and receiving the fruits of his labor, the effort can engage the full potential of the individual. It engages his intelligence, his ingenuity, his knowledge, his skills, and his watchful attention. (Watchful attention is often decisive in farming; tending and harvesting at the right time can make a great deal of difference.)

**Limiting Human Initiative**

We see from this example, too, the reason for the validity of the principle. Organizations are unable to muster the full constructive effort of the individuals within them. Any organization tends to subject the individuals who are to do the constructive work to the determination of those higher up in the hierarchy, and ultimately to a single man. By so doing, it tends to limit the extent to which the individual can and will put his whole attention to it and apply all his capabilities.

The principle, then, has the look of being universal, of applying to every sort of organization, governmental and private, and I believe it is. That is, an organization will get less constructive results from a given number of individuals than those individuals could produce if they were managing their own affairs and assuming full responsibility for them. We know from experience, of course, that such universals require for their validity the universal qualifier—*all other things being equal*—as well. That is, a given number of individuals acting on their own could produce more than the same number organized, if there are no supervening factors. The critical supervening factor in the modern world has been the widespread and ever more extensive use of *capital*, i.e., tools, equipment, technology, and supporting materials. With capital, the principle is modified to read: A given number of individuals with capital in an organization can produce more than the same number without capital acting on their own.

**The Will to Do**

The operative word, however, is can, *not* will. This qualification moves us back nearer the principle from which capital tends to pull us. The farm workers on a Soviet state farm often have a great deal of equipment—tractors, gangplows, harvesters, and so forth—for use on the state lands which is not available on their own small plots. The
disparity in production has to be accounted for in other terms than those of capital.

Whether organized workers with capital will produce more than those acting on their own without capital depends on the extent of the control over them and the incentives they have to produce. The tighter the control over them the less opportunity there is for individuals to exercise their constructive potential. The more remote the workman is from ownership of capital or receipt of the fruits of his labor the less incentive he has to produce. The greater the force exerted the less are the constructive returns. To turn it around, well paid workers who have freely chosen their employ and have leeway in going about their work along with being held individually responsible for what they produce may come close to realizing their constructive potential within an organization.

Even so, if the principle is correct, organization introduces a drag on the constructive potential of individuals. Large doses of capital may compensate for or hide it. Where complex operations are involved, many of the disadvantages of organization may be offset by combining the efforts of individuals with diverse skills and specialties in uniquely productive ways. This is a way of saying that capital and specialization can temporarily compensate for the drag of organization. The organizational drag remains, however, and in a never ending effort to overcome it we are pressed toward ever greater capitalization and specialization.

Bureaucratic Drag

We castigate one of the aspects of organizational drag as bureaucracy. Unionization adds the drag of an organization to organizational drag. Governmental privileges, subsidies, preferences for capital, recognition and aid to organizations, and use of power to facilitate the operation of organizations tend to help overcome organizational drag. Governmental control and regulation tend to add to the organizational drag.

In a free market, there would no doubt be organizations. They would come into being where complexity of getting the job done tended to favor organization. But they would be open to continual challenges by individuals and partnerships who would have the natural advantage of engaging their whole beings in the effort. This would tend to press organizations always in the direction of giving more leeway to their employees in the performance of their work and placing more responsibilities on them. Indeed, organizations would be pressed in the direction of renting out or selling their equipment and contracting the tasks on a piece work or project work
basis. The market tends to reward constructive effort and penalize destructive effort; thus it presses always in the direction of individual ownership, control, and responsibility.

What has all this to do with the idea that has the world in its grip? It lays the groundwork for understanding how the individual is held in the grip and subdued, what the impact of governmental control is, and points the way toward restoring the independence of the individual. The most direct relevance is this. Business used organization to integrate manufacturing and distribution of goods. By so doing, it provided the basic idea with which socialists have been enamored since the late nineteenth century, namely, of concerting all effort through organization and ultimately by the use of the force of government. The factory system provided the model of economic organization for socialism. To see how this happened, it will be helpful to review a little the history of the rise and character of that system.

The Factory System

The factory system had forerunners in mines and mills, but it took definite and distinct form in the textile industry in England in the late eighteenth and early nineteenth centuries. From there, it spread to other countries. The crucial thing that happened was the concentration of production in central locations, in factories. Theretofore, most textile manufacturing had gone on in homes, and if it was done for sale, it was often handled in what was called the "putting out" system. "Factors" put out raw materials to workers in their homes, and the yarn or other products were then picked up and paid for from time to time. The workers were what we would call self-employed, providing their own simple equipment and housing (capital), doing the work themselves, and being paid by the quantity they produced. A critical change occurred when production was moved into factories.

Why production was moved into factories is not difficult to explain. There were several inventions—the spinning jenny, the "mule," and an assortment of other machines—which made it possible for a given worker to produce much more in a given span of time. Much of this equipment not only required a greater outlay of capital than had earlier devices but also it could be much more effectively utilized with greater energy than humans could exert. Falling water provided the power for early textile factories, and it was the quest for this power that induced entrepreneurs to concentrate manufacturing (a word which originally meant hand-made) in factories.
The factory system was a mixed blessing, if blessing it was. There is no question but that a great increase in production took place with this innovation. Goods poured forth from it in such quantity that people from every walk of life were able to have more and better clothes. Financially, too, the factory system was a great success; it was the foundation of increasing prosperity in England, and before long in other lands of the West.

**The Dark Side**

There was, however, a nether side to this development. It was in the character of work life in the textile factories. Much has been written about the harshness of conditions in these early factories, of small children chained to machines working from dawn to dusk, of pallid and pinched faces rarely touched by the sun, of girls for whom the flower of youth was nipped in the bud by unremitting toil, of bodies warped and bent to the shapes required for tending the machines.

Whatever of exaggeration there may be in particular accounts, the picture that generally emerges must be substantially accurate. The making of yarn and cloth had traditionally been work mainly for women and children. The nimble fingers of children were right for the tasks, and the attendance to detail and patience most highly developed in women was an asset. The employment of children, and particularly girls, made the factory system especially unpleasant for later generations to accept.

What I would focus on in the context of this work, however, was the loss of independence and the management of one's own work affairs in the factory system. Work in these factories entailed some of the worst features of organization. The factory owners or managers prescribed the time for workers to come to work, how long they would work, what tasks they were to perform, and how the work was to be done. In the early stages of the factory system, control was often not restricted to the work life; it was extended over the whole life of the workers. Villages were built around the factories, and workers might be required to live in and pay rent upon the houses so provided. These villages often had a company store in which the scrip in which they could be paid might be spent. Often enough there were company police, augmented by spies who kept the managers informed about the behavior of the workers.

**A Counter-Movement**

In significant ways, the factory system ran counter to the great liberating movement which had been going on in England and, to a lesser extent, elsewhere. In agriculture, great headway was being made
in separating ownership of property from control over people. Serfdom, which tied the peasant to the soil and made service to the owner obligatory, had been abolished. Before long, indeed, serfdom and slavery would be abolished in all lands where Western and Christian influence was strong. New arrangements had been devised for farming land which left the tenant increasingly on his own to manage his own work affairs; the only thing he owed the landlord was a portion of the product.

Even so, the factory system was in many ways the product of a particular historical setting. The initial inventions for textile manufacturing were made at a time when falling water was the only considerable non-animal power system available. Thus, places for housing the machines had to be built adjacent to the water supply and the machines had to be concentrated near the master wheel. Also, the principle of separating the ownership of property from control over people was incompletely realized. Servants and farm workers were hired for wages. Indentured servitude was still common. It was a widespread practice for fathers to hire out their children or sell them into indentured servitude. Given the attitudes of the time about the subordination of women and children to men, it would have been odd if the factory masters had done other than assert control over them.

Be that as it may, the great productivity of the factory system should be attributed primarily to the use of machines and power from falling water or, in time, steam engines (i.e., to capital). It is doubtful that the increase in productivity should be attributed either to the greater industriousness of workers or to an organization which regimented and controlled the workers. Any organizational drag, however, was much more than offset by the advantage of using large machines harnessed to a non-animal power source.

The Use of Machines

The crucial role of capital can be demonstrated by a simple machine such as the early cotton gin. Eli Whitney’s gin turned by one man could separate as much lint from the seed as could twenty-five men working with their hands. To put it another way, the most skilled and industrious person could get, say, three pounds of lint in a day. Whereas, an equally industrious person could get seventy-five pounds, say, by using a machine. The machine, in this case, would be the only difference. The principle remains basically the same for all constructive effort, though complexities cause difficulties both in perceiving and applying it.
The factory system provoked the concern and wrath of many men. Indeed, the history of the nineteenth century is laced with uprisings, revolts, strikes, movements, ideologies, and what not, aimed at doing something about it. The Luddites went about it in the most direct way. They proposed to solve the whole problem by breaking up the machines, probably the most irrational of a whole host of largely irrational reactions. Some of the early socialists, too, tended to blame the machines. Robert Dale Owen, himself a factory owner, wanted to dispense with all sorts of mechanical devices. But it was Karl Marx whose analyses and prophecies gave the turn to socialism that became central to the idea that has the world in its grip.

Marxian Misinterpretation

By a grotesque distortion of classical economics, Marx arrived at the conclusion that the industrial worker was being cheated out of his rightful share—virtually all of it—of production. His labor theory of value tacitly attributed virtually the whole of productivity to industrial workers. Capital, which was the primary source of increased production in the factory system, was downgraded to the point that it was an insignificant factor in production.

Marx did not attack organization, as such, fundamentally, and the matter of control over the worker was only secondary. This is not surprising. He, along with other socialists, was no doubt precommitted to seeing the problem as being private ownership and the solution as collective control. The factory system, as such, was not rejected; instead, Marx saw it as the means to a bright and glorious future. Once the workers had seized the factories and were running them, all the problems of the world would be solved. As a result of the seductiveness of his ideas and the faulty reasoning they incorporate, much of the world is now confined in a system that institutionalizes the worst features of the early factory system.

The State as the Factory

Communism is the nineteenth-century factory system writ large. It is the factory taken over by the state and government bureaucrats substituted for owners and managers. It is the mill village confiscated by the state and housing become a prerogative of those who serve and please the government. It is the company store become a state store and the state’s scrip substituted for company scrip. It is the fence that once surrounded the factory now expanded to surround the whole state to keep the inhabitants in. It is the organizational control of the workers universalized with no alternative em-
ployers or way out. It is the company spies and police now the instruments of a totalitarian state with the force of government at their disposal. It is the carrying out to its ultimate conclusion of the notion that man's prosperity can be achieved by integrating him into the organization using him as a cog in a giant wheel.

All this was implicit in Marxism but concealed by his proclaimed opposition to capitalism and his concern for the worker. What he really opposed was individual ownership, and what he really proposed was using the force of the collective to control the worker. In the hands of Lenin and Stalin, collective control became government control.

**The Handles for Control**

Organizations provide the handles which evolutionary socialist governments use to control and victimize the individual. They take away from him, by these, the independence of the individual and control over his affairs. Earlier, gradualists had a great deal of animosity toward privately owned organizations, but that appears to have diminished as government control has proceeded. Gradualists do not create new organizations, as a rule, as communists do; they rather focus upon controlling those already in existence, and, through them, individuals. Organizations provide convenient handles, such as for collecting taxes, for example, or for imposing rules.

The socialist bias in favor of organizations and against individual independence is often concealed by a rhetoric of opposition to business as well as by sporadic actual assaults on business organization, as in anti-trust action. But a closer examination divulges the information that the preponderance of organizations in our lives can be ascribed to government intervention. The government support of organization may be as simple as the Internal Revenue Service rule that only contributions to organizations may be deducted as gifts, never those to individuals, however worthy the cause. But the truly massive support of organizations vis-a-vis individuals is found in government intervention generally.

**Government Intervenes**

Organizational drag favors individuals and partnerships rather than organizations over any span of time. This drag can be offset or temporarily overcome by new infusions of capital and by specialization (expertise, techniques, and so forth). New infusions of capital are provided, in considerable measure, by government fueled inflation. Specialists are trained and provided largely by government-supported educational institutions. There are a
host of other ways by which government intervenes to enable organizations to expand and grow, for otherwise they decline and die because of organizational drag. But perhaps enough has been said to suggest how government has acted to bring more and more people under the sway of organizations. In addition to what all this may suggest, government empowers labor union organizations, and governmental organizations themselves grow apace.

The idea that has the world in its grip would concert all human action. The thrust to do this is experienced as loss of independence by the individual in the management of his affairs. Organization is one of the main means by which this is accomplished. The reduction of the individual to a number is the other, and we must now turn to that.


---FOOTNOTES---

1John Fowles, Daniel Martin (New York: New American Library, 1978), p. 336. This is spoken by a character in a novel and does not necessarily indicate the opinion of the author.

Organizational Demands

In the field of politics, the dispossessed dream of a social order which shall be based on righteousness, a system in which men will not exploit their fellow men, in which each shall contribute according to his capacity and each shall receive according to his need. Upon this conception a political party is built. It gives battle, over the years, to the existing order of things. . . .

In the course of time the party achieves power. By this time it is led no longer by starry-eyed idealists, but by extremely tough guys—who then proceed to use their newly acquired power to establish a stronger despotism than the one they overthrew, and to sew up all the holes in it that they themselves discovered in the old. What emerges is not freedom and social justice, but a more comprehensive and totalitarian control, used to maintain a new privileged class, which, because of the earlier experience of its members, is still more ruthless than the old.

W. J. BROWN, "Imprisoned Ideas"
ALL OF US are familiar with the phrase “excess profits,” used so frequently today as an epithet directed at banks, oil companies, and other corporations. However, paradoxical as it may seem, no profits are excessive but all losses are. To understand why, we need to examine these corollary concepts, profit and loss.

Profit is any surplus over cost of production which accrues to the producer of a commodity. The cost of the commodity, whether it be a good or service, will include such expenses as those required for the raw materials needed to produce it, the amount paid for the labor which was employed, and, of course, the charges for whatever capital goods—plant and tools—were utilized. Thus the cost of producing a simple wooden chair includes whatever was paid out for the wood (raw material), the wages of whoever planed, cut and assembled the wood (labor), and the price of all the tools utilized in the labor process (capital). If the sum of his per unit costs is less than his commodity’s per unit price, then the producer generates a profit.

The claim that profits are excessive can be interpreted either of two ways: (1) it can mean that all profits, simply by their nature, are exces-

Dr. Colburn is a Professor of Philosophy, deeply concerned with the principles of business management and public relations.
sive; or (2) it can mean that only some profits are excessive. Those who accept the first interpretation are usually Marxists in fact, if not in name, because their argument rests on Marx's labor theory of value. According to it, the surplus of return over cost which constitutes profit comes from not paying the laborer what his labor time is "worth." To rebut the labor theory of value is far beyond the scope of this paper, and, more important, would be redundant given the classic refutations of Böhm-Bawerk (Capital and Interest) and von Mises (Human Action, Socialism). Besides, it is the second interpretation which is the more interesting because it is so much more common than the first.

How Much Is Too Much?

Anyone who holds the second interpretation—that some profits are excessive, others not—must determine the standard by which the excess can be measured. What might that be? One common suggestion is that it should be whatever is the average profit within the industry. Anything above that would be excess. A major problem with this is its vagueness: what is meant by "the industry"? Are the profits of our chair maker to be compared with those of all furniture makers, or with those who make only chairs, or with those who make only wooden chairs? How similar to the commodity of the entrepreneur in question must be the commodities which constitute the standard class, i.e., "the industry"?

Since there are an unlimited number of possible standards for measuring alleged profit excesses, we cannot examine each of them. However, if we could show that they all shared a certain serious weakness, regardless of where exactly they drew the line for establishing excess, we would have reason for rejecting all of them. That, in fact, is the case.

Consider our chair maker. In order to stay in business, he must satisfy some demand. People must want his chairs. If there were some unit for measuring demand, and if it could be shown that by producing chairs more demand was being satisfied than if they were not produced, then, according to that standard, our chair maker would have increased the sum of social utility by increasing the amount of satisfied demand. He would, in other words, be justified in producing chairs.

There is such a measuring unit: the medium of exchange, money. Each dollar bid on a commodity is an indicator of demand. The more of a scarce resource offered for something, the more valuable, relative to that resource, the thing is. And, as we all know, money is indeed a scarce resource.

The costs our chair maker must
pay for his raw materials, labor, and capital constitute the measure of demand for those resources prior to their embodiment in his chairs. That is, had he never begun production, those resources would still be worth the cost he was forced to pay for them. But in fact they are transformed into his chairs. Since the chairs sell per unit at a price greater than their per unit cost, more demand (measured in dollar votes) is satisfied than if the economic resources constituting them had not been combined into chairs but simply allowed to remain as they were when they commanded the lower costs our entrepreneur paid for them.

A Measure of Efficiency

The overage between the price and cost—profit—is the measure of how much greater is the demand being satisfied by chairs than by the wood, labor, and tools, prior to their utilization by our producer. It attests to the entrepreneur's ingenuity and efficiency in adapting scarce and valuable resources to better serve willing customers. The more profits generated, the greater demand satisfied. Therefore, so long as we want our economic demands satisfied, no profits can be excessive.

With losses, the situation is reversed. If the price per chair is less than the per unit cost, then there was greater demand for the economic resources prior to their embodiment into chairs. In producing chairs, the entrepreneur has caused less demand to be satisfied than if he had produced nothing. Therefore, all losses are excessive because they are indicative of having introduced disutility in the form of less satisfaction of demands.

In short, profit signifies that a valuable social function has been performed, and the larger the profit the greater is the satisfaction of economic demand. We have offered an argument which proves that, prima facie, unlimited profit should be encouraged while any loss should be discouraged. Our argument places the burden of proof upon those who would restrict profits. They would have to show that restriction, despite its minimizing of demand satisfaction, would nevertheless be a good thing. To do this, they must meet the same standards of argument that we met: determine a criterion of value to replace ours of demand satisfaction, and then indicate their method for measuring the presence or absence of that criterion, as money bid in the marketplace measures ours. It's up to them.
Work means the application of one's energies toward the accomplishment of a given task. In a sense, the application of one's energies, even when there is no task to be performed, is a kind of work. We could say, for example, that a man who is lolling under a shade tree is "employed" in day-dreaming. Normally, we don't refer to actions of this kind as work. When we talk about work, we usually mean that a goal has been established and means are being employed toward the attainment of that goal. However, a man who is engaged in a sport activity is "working" at it. A man who has become destructive and is trying to rob a bank or a filling station is "working." In common usage, we reserve the word work for our constructive goals. So, if the goal is not constructive, we say that the man is playing or loafing. And if he is robbing a bank, we say that he is engaged in robbery and we don't dignify that action by calling it work.

Begin thinking of your child as a worker. Certainly, he is going to play and day-dream and waste a good deal of time. This is only to be expected of any individual who doesn't really know what to do and hence doesn't know which means to adopt in order to employ his energies. The more quickly your child accepts certain goals as his own, the more quickly you can help him learn the proper means for the accomplishment of those goals. Work, as used here, will be limited to goal-oriented procedures of a constructive nature.
Interestingly enough, the child may resist the idea of working at the outset. This is usually because he doesn’t understand what he is to do or why he is to do it. Children really enjoy being busy. And it is no hardship for them to be busy constructively. Actually, they are going to be “working” one way or another, in that they will certainly be engaged in expending their energies. The child who understands reality and how he fits into it, will have an enormous advantage over the child who doesn’t. The former will very soon find things that he wants to do. Because he is motivated by what he wants to do, he will be eager to discover the ways and means to proceed in the direction he wishes to go.

The Joy of Working

How important is it that a person work? Most people stress economic necessity, indicating that if you don’t work, you won’t earn the money by means of which you can be self-supporting. This is true enough, but it is only part of the story. Factually, you and your child are going to be engaged in expending your energies. And the happiest and most successful people are those who work and work hard.

To begin with, the work of your child is going to be concentrated to a large degree in various learning processes. Make no mistake about it, that, too, is work. It takes discipline, concentration, self-control, and commitment to be either a good student or a good teacher. But the whole purpose of education is to assist the individual in putting his knowledge to work. To know something for the sake of knowing it may be fine. But to know something that can be used constructively is what we all desire.

Viewing humanity as a whole gives us another insight into the business of work. All men are con-

Mr. LeFevre founded and for years presided over the Freedom School in Colorado and has written extensively in behalf of freedom and the market.

This article is a chapter, reprinted by permission, from his latest book, *Raising Children for Fun and Profit*, a home-study course to equip the parent to instill in his progeny the necessary knowledge and values, including character, integrity, self-responsibility, and self-esteem, by means of which the child can deal with the facts of life, both in school and beyond school.

The book is available at $10.00 from P. K. Slocum, 7333 Corey Street, Downey, California 90242.
sumers and their wants and desires are insatiable. We all want more and more things to consume. There is no mystery about it. If those things are going to exist, they will have to be produced. Somebody is going to have to do the work that makes production possible. Man, by his nature, is a consumer. Educated, mature man is also a producer. We begin life as consumers and we will continue to consume until we die. Production is a learned skill. We don't come into the world prepared to work and to produce and distribute and serve. Children are little, animated appetites and they demand goods and services incessantly.

Look at it this way. An individual will consume during his entire life. But how much of his life will be spent in production? Usually, only the middle portion. When a man is yet a child, he does not produce, as a rule. And when he becomes truly elderly or possibly when he becomes ill or decrepit, he will not be able to produce. So the work span of man is much shorter than his consumption span. What does that mean?

It means that for human life as we know it to continue to exist, and hopefully to be a better life with more opportunities for joy and fulfillment, those of us who are engaged in producing are going to have to produce a great deal. We are going to have to produce enough in our productive years to bridge the much longer time in which we won't be producing.

The Importance of Saving

Human survival is based upon the ability to create surpluses. If we consumed today everything we produced today, we would begin each day in a situation of unbearable want, deprivation, and starvation. Properly, the parents are productive enough so that while they are raising their children they are producing enough to take care of their own wants and also to invest in the wants of the children. Hopefully, when that is accomplished the parents will continue to produce so they can create sufficient surpluses to tide them over their later years when they will not be able to produce enough, or possibly when they cannot produce at all.

There is still another reason why surpluses are important. Every act of production is preceded by an investment of one kind or another. Investments are only possible where surpluses exist. So the more we can produce, the larger our surpluses can become. The larger our surpluses, the more we can invest. The more we can invest, the higher our standard of living and the more constructive our employment. The more constructive our employment, the greater our degree of security and well-being. In short, the more
and the better we work, the better for us all.

Interestingly, most of us have been conditioned in our earlier life to look forward to our vacations and our time off from work rather than to our work. This is a complete departure from reality. Vacation times are not necessarily happy times. They may be necessary, just as sleep is necessary. But if a person is correctly educated, he will find work that he will enjoy and he will look forward to it because he can do it well and he gets all kinds of rewards for doing it.

The person who is yearning for vacation and for sleep and for time to loll under a tree as his main interest in life is, to a degree, longing for death. He wants to disconnect from the reality of this world, hoping to find surcease from pain and effort, one way or another. If children are properly educated, they will long to work; they will find great fulfillment in work; and they will work very hard and very long in the attainment of their goals.

The happy man is not he who has nothing to do. Examine the records covering men who retire once they reach the age of sixty-five, either because they are compelled to retire or because they choose to do so. Unless they can find hobbies or some other kind of work that will engross them, their life expectancy is reduced rapidly. Living really means working (i.e., constructively employing one's energies). These are some of the reasons why work is important.

Three Types of Work

Work could be classified in various categories and at several levels. Remember, we are considering only constructive, goal-oriented endeavors. There is physical work. This is the employment of our energies, in doing simple tasks where our muscles and bones are employed directly. There is always some measure of skill entailed in any kind of work, even very simple work. A man who digs a ditch, runs a hand lawn-mower, or loads a freight car is using some skills, but the principal demand on him is in the expenditure of his own physical energy.

The next classification would be called skilled labor. The skilled worker has learned to deal with machines or mechanisms or power or electronic tools which, in themselves, do most of the work. A typist is a skilled worker. So is a man who drives a tractor, a truck, or a bulldozer, or who operates a linotype machine, a lathe, a drill press, or an electronic calculator. Most of the actual work in such cases is done by the machine. However, very skillful management of those machines is required to keep them doing their best. A skilled worker can work just as hard as a physical worker. But he
uses a relatively smaller amount of his own physical energy, concentrating usually on how he moves his fingers, or possibly his arms and legs. Frequently, the skilled worker can sit down as he works, although that is not always possible, depending on the tool he uses.

Then there is the mental worker. He employs his brains in the accomplishment of some objective. Mental workers would include both teachers and students, as well as lawyers, writers, analysts, researchers, and inventors. Almost always there is a certain amount of skilled labor that accompanies mental labor. The teacher must study, and that means getting books and turning pages, and taking trips to see things and possibly experimenting with various tools and substances. And then the teacher must communicate. An architect is a mental worker, but he also employs the tools of the artist in his craftsmanship. The lawyer must be able to prepare a brief and to argue the case of his client. A writer must not only think what he wants to say, he must do the skillful work of selecting the right words and putting them down on paper. You can think of scores of examples in each of these three categories.

Because mental work is the most difficult, and also the least visible, we often feel that mental workers are somehow superior. This is probably as it should be. To become a competent user of the mind takes some extraordinary skills. Further, in this world we tend to reward mental workers at a rather high rate of pay. So there is a kind of prestige that attaches to mental work, including the advantage of more dollars.

However, this does not mean that there is anything wrong or demeaning about other kinds of work. All kinds of jobs need doing. Housewives do a lot of physical work requiring only modest skills. Also, they do other kinds of work requiring a much higher degree of skill, as when they cook and prepare and plan meals. Additionally, when a housewife becomes a teacher, she is really engaged at the mental level. We demand a very great deal from the housewife.

**Rare Skills Rewarded**

The businessman and the investor also works very hard in a variety of ways. He has certain very rare skills if he is to succeed. And this will require physical, skilled, and mental energy.

Sometimes, in our economy, we pay the very highest wages, not to those with the best mental ability, but to those with very rare skills. Professional athletes draw salaries that are sometimes two and three times more than heads of giant corporations. Yet all they do is carry a
ball very well, or possibly they can knock a ball over a fence better than anyone else. Still others perform in the art world or the theater with its many phases. Men and women who are skillful in the arts can earn fantastic pay. But the demands upon them are sometimes staggering.

In teaching your child about work it is important that you find out where his motivations and his abilities take him. Naturally, you will want him to advance as far as he can toward his chosen goals. And it might be well to realize that the higher the goal (higher in the sense of the limited numbers of persons able to perform), the more different types of knowledge and skill that will be demanded.

Many parents refrain from giving their children physical chores around the house, feeling that such chores are beneath the child, since he has rather conspicuous talents of a more advanced nature. This may actually stunt the child's development. Few people work any harder physically than a ballet dancer, an opera singer, a housewife, or even a good writer. It takes discipline and untold hours of dedicated practice and commitment to become competent in these fields. They can begin learning muscular coordination, which is always important, by running errands, dusting, sweeping, mowing grass, and carrying packages. If the proper attitude is developed toward work, you will usually find little difficulty in getting your child to do chores around the house.

Perhaps the child feels that his parents are imposing upon him and taking away his freedom when he is asked to help. But this is probably because he wasn’t asked in the right way.

A Goal to Achieve

Your child needs to be goal oriented. He will have greater happiness and greater self-assurance if he is active in moving toward something he wishes to accomplish. Activity for your child is not exclusively physical. If the mind of the child is active, and especially when the mind and the body can be active in harmony aimed at an accomplishment, the tendency to feel imposed upon will be reduced or will disappear.

Parents must take care that they don’t harm the child by keeping the chores away from him. Also, they should not impose. The important item to bear in mind isn’t the amount of work the child does, but his motivation in connection with the work. Curiously the child who busies himself with chores is usually the child who gets more done in other areas, too. Busy people get more done of their own choosing than people who loaf. When the child gets into the habit of loafing,
he not only will not help but he probably won't even help himself.

The child who is thought of as important, not only in what he does but in what he thinks, is usually well adjusted. He feels that he is part of the team, that the team wouldn't function quite as well without him. He will begin taking pride in the things he does and he will find ample time to pursue his own development as he begins setting major goals for himself.

Of overarching importance is the child's mental and moral outlook. If the child becomes convinced, as a result of his early training, that one of the most important things he can do is to become self-supporting so that he "hurts no man," including his parents, and if, at the same time, his parents trust him and consult him and listen seriously and even gravely to his observations, even though he will reveal his lack of experience, that child will probably be happy. And the groundwork will have been laid to make him successful.

The Appropriate Attitude

In our present situation, work is looked down upon as an evil. It is viewed, of course, as necessary. But it is a necessary evil. If you will go to work to eliminate this kind of thinking in your home and certainly with your child, the rewards to you will be substantial.

No child will be happy if his parent sneers at him as a result of the work he does. Sometimes parents unintentionally begin to nag their children, feeling that their offspring could do so much more and so much better than they are doing. So they keep prodding with little remarks dropped from time to time to indicate a lack of satisfaction in their children's behavior. Usually, this will not have the result the parents desire.

When a child embarks upon a task and doesn't do a good job, the parent should exhibit a good sense of proportion and humor. And he should focus his attention upon the job, not upon the child, if the work is done badly. Instead of saying: "Mary, you can do better than that," it would be better to say: "Mary, I think it is possible for that job to be done better." Then, don't scold or find fault with the person. Stick with the reality of the job requirements.

Possibly the reason the task was poorly performed was that Mary didn't quite understand how to do it. Perhaps you have already shown her. But remember, her mind may have been engaged elsewhere and she only partially understood. You must exhibit the same degree of patience on such an occasion as you would want from your employer if you turned in a poor performance. Be sure that your child understands the nature of the task. Equally im-
important, be sure the child knows why the task must be performed. Although it may seem obvious to you, remember, your child knows a great deal less about reality than you do. He may not have understood why the floors have to be kept clean. Be sure the child learns as much about it as you know. Also, be careful not to insist on the performance of chores simply on the basis of your authority. "Mary, I told you to do the dishes."

"Why, Mommy?"

"Because I told you to."

This is no answer insofar as the child's curiosity is concerned. Her busy mind, in this case, may be considering the advisability of having each person clean up his own dishes. Or possibly the desirability of never cleaning any of them might occur. What harm would it be if everyone just got his own dirty dishes back again?

Don't laugh at the child, laugh at the task. This makes the burden lighter. Explain the consequences of not doing the dishes.

If the child seems willful, sometimes an example can be provided. Get all the dishes done except Mary's and let her have her own dirty dishes back again, at the next meal.

When Mary begins taking pride in her accomplishments and when she sees that they are important and make her a respected and valued member of the family team, you'll be well on your way toward instilling the value of work.

F. A. Harper

Intellectual and moral guidance, voluntarily accepted by the follower, is no violation of liberty; it is, in fact, a main purpose of liberty so that the blind are free to follow those who can see. The danger is that in the absence of liberty the blind may become authorized to lead those who can see—by a chain around their necks!

The terrific urge to prevent another person from making a "mistake" must be resisted if liberty is to be preserved. The "protective spirit" that leads a fond parent to prohibit his child from acquiring mature judgments, as he substitutes his own opinions for those of the child, leads the dictator to act as he does in "protecting" his political children. There is no possible way to allow a person to be right without also allowing him to be wrong. The only way to avoid responsibility for another's mistakes is to allow him the full glory and reward of being right, as well as the full dishonor and penalty of being wrong. Only in this way can one person isolate himself from the mistakes of another, whether it be a Stalin or a neighbor.
Input Slavery and Output Slavery

The production of goods comes about due to the processing of basic materials into forms more desirable to users. Basic inputs, such as labor and raw materials, undergo a creative interaction and a new product emerges that is hopefully more valuable than the combined values of the inputs.

Throughout history, the labor input often was obtained by means of enslaving the worker. The pyramids of Egypt were built with slaves, and much of the cotton of the Old South was picked with slaves. Today in the United States, absolute input slavery is abhorred. A vast majority of the citizenry would be opposed to forcing anyone into working against his will for no pay.

However, the majority opinion against slavery begins to shrink when workers are paid for a task, even if they must work against their wills. During a major coal strike in the recent past, a multitude of voices were raised asking the President to order the strikers back to work.

In the absence of a contract, it is a basic right of an employee to refuse to work, just as it is a basic right of an employer to fire any striking worker and replace him with an individual more willing to do the job. The employee "has a Property in his own Person. This no Body has any Right to but himself," as John Locke said in Two Treatises of Government. However, a job is not a physical property belonging to the employee, it is an abstraction which an employer creates (and therefore owns) to fulfill a need of an enterprise.

The presence of a contract changes the situation because a set of mutually binding obligations is

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Mr. Gottlieb is pursuing a Master of Business Administration degree with a major in finance at New York University.
brought into the picture. Each party depends upon the other for the carrying out of an agreed upon performance, and gives security in return. An employer is assured of a labor supply with which he could make production plans, and an employee is guaranteed the job itself. The breaking of a contract by either party, without a "justifying" cause, can be considered a form of theft because it robs one party of the assured security for which something was given in return. Therefore, the enforcement of a voluntary contract against either party should not be considered input slavery.

Ownership Rights

Output slavery involves the confiscation of the products of the production process from its rightful owner. A self-employed person is clearly entitled to the output because he provides the labor, capital, raw materials, creativity, and whatever else is necessary to produce the output.

There is no right to that which another produces. This is where a conflict comes in. Many people who are opposed to input slavery (forced labor) are not opposed to output slavery.

John Locke observed that "The Labour of his Body, and the Work of his Hands, we may say, are properly his. Whatsoever then he removes out of the State that Nature hath provided, and left it in, he hath mixed his Labour with, and joyned to it something that is his own, and thereby makes it his Property . . . that excludes the common right of other Men." Locke's statement does not justify a Marxian Labor Theory of Value. That labor is the unquestionable property of the worker cannot be denied, but employees implicitly agree to exchange their labor for a compensation other than the property they work upon. By agreeing to exchange their labor for a given compensation, they trade their claims to that part of the final product which their labor helped produce. The value of their labor is subjectively determined by competitive market forces. Beyond their wages, employees have no further claims to the goods produced.

The inputs used in the process other than labor are usually the property of some owner. It is not virgin property the employee works on, but something which has already been claimed. The salary paid an employee was formerly property which the employer had owned and obtained through creative efforts and labor. An employee cannot have claims to such property of others except as covered in the employment contract. In the case of losses, the employee still has a claim, although no value has been added, because he has upheld his part of the contract and is due compensation.
Based on these factors, the outputs of the production process belong exclusively to the producer once contractual claims have been settled. As input slavery represents the enslavement of employee efforts, output slavery represents the plunder of employer efforts and labor.

**Protecting the Employer**

As said earlier, input slavery often is and should continue to be opposed. However, those who would strenuously oppose input slavery of the employee usually fail to recognize output slavery imposed upon the employer. Examples of the latter include demands for the nationalization of various corporate properties, improper restrictions on rights of property usage which steals the essence of property, and claims that property does not exist for the owners, but rather for the workers and a nebulous "public."

In order to abolish slavery, employers who firmly favor property rights should be made aware of how compulsory labor laws violate the very concepts the employers support. By demanding that coal miners or railroad workers be ordered back to work under the Taft-Hartley Act, employers in effect would be agreeing that a person's property should not be privately controlled. Of course, striking workers may still be fired.

Perhaps more importantly, those who support freedom should make both employees and the general citizenry aware of the fact that, without private property rights, freedom itself is impossible. Freedom of property usage, like freedom of speech, can only be protected if the right to all property is accepted and respected. If exceptions are made to fit particular circumstances, no one would be able to feel secure in his property or person. Only with a mutual respect for both input and output factors, is freedom of either possible.

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**The Zeal for Equality**

The modern leveler rebels against the inequalities of merit, capacity, and virtue. Beginning with a just principle, he develops it into an unjust one. Inequality may be as true and as just as equality: it depends upon what you mean by it. But this is precisely what nobody cares to find out. All passions dread the light, and the modern zeal for equality is a disguised hatred which tries to pass itself off as love.

HENRI FREDERIC AMIEL
AUBERON HERBERT’S The Right and Wrong of Compulsion by the State, and Other Essays, edited and with an introduction by Eric Mack (Liberty Classics, 7440 North Shade­land, Indianapolis, Indiana 46250, 426 pages, $9.00 cloth, $3.50 per­back), is an astonishing book to come upon after all these years. What modern libertarians know as voluntarism, Herbert, who died in 1906, called voluntaryism (the "y" in the middle of the word gives it an odd ring to my ear). The creed of voluntaryism, as worked out by Herbert in a busy quarter-century of pamphleteering, speech writing and magazine editing, was thorough and logically convincing. A logical series of deductions from England’s own individualistic theory of natural rights, Herbert’s doctrine should have caused his countrymen to stand fast against the collectivist ideas seeping in from continental Europe. But the more that Herbert wrote, the less influence he seemed to have.

What is astonishing is that his beautifully written and rigorous essays have been quite forgotten. I confess that I had never heard of Herbert until Isaac Don Levine dug him out to present him in a series printed in Plain Talk Magazine of prophets who “saw it coming.” In all these years of Herbert’s eclipse, the fame of Bernard Shaw, H. G. Wells, Sidney and Beatrice Webb and the Fabian Society grew. The English Liberal party, badly infected with the Statism that Herbert decried, dwindled while the Labor Party waxed fat. There was the Beveridge plan for cradle-to-grave security, and the English Tories, Statists
themselves, went along with it. How it all could have happened—and, of all places, in the England of John Locke, Edmund Burke, Adam Smith, John Stuart Mill, Richard Cobden and John Bright—is one of the world's great mysteries. The debacle can't be blamed on John Maynard Keynes, who was a mere Bloomsbury dandy when the Fabians were riding high.

Not so many years ago George Dangerfield wrote a nostalgic book call *The Strange Death of Liberal England*. The very memory of Auberon Herbert was one of the casualties of the 1906-1912 period. He was drowned, fathoms deep.

**Ideas Live On**

Yet every one of his voluntary ideas retains its vitality. The reason is that common sense continues to flow in subterranean channels even in periods of extreme collectivist debacle. Herbert tangled with the British socialist J. A. Hobson, and it is Hobson's name that has been remembered. Hobson's theory that the fact of our social interdependence justifies compulsion in the organization of human life has been accepted by all our modern "liberals." But the Leonard Read who insists that we all have a vested interest in the uncompelled differences of human beings would recognize Herbert as a doughty champion of a truth that should be obvious. Herbert accused Hobson of tricking himself with words. Hobson's phrase, "the social entity," is, as Herbert said, a literary creation.

If an individual is molded and formed by "society," Herbert argued, it can only mean that he is molded and formed by other individuals who are the components of that society. Even supposing that a social entity can exist apart from individuals, the thoughts that the individual thinks act upon the social entity. So what is claimed for one must also be claimed for the other. You arrive at the truism that people influence people. The contrast between society and the individual is an unreal one, for society is individuals. You might as easily, so Herbert says, contrast "pence and pounds."

Hobson's strange syllogism consists of a non sequitur: "We all influence each other by words and our writings; *therefore* we are all to be yoked together under a system of intellectual compulsion, chosen for us by others." "Literature apart," says Herbert, "I think Mr. Hobson will admit that it is a bold transmutation of unlike things into each other—voluntary service and the free exchange of influence, passing into universal compulsion of each other, worked by the votes of a majority."

**The Limits of Majority Rule**

Herbert's criticism of the fetish of majority rule is devastating. Why,
he asks, should there be any more magic in numbers than in a king, a tyrant or an oligarchy? The accident that three people may prefer one thing while two people may prefer another hardly justifies the rule of the three over the two. If there is common ownership—say of a piece of property—a majority vote is a convenient way of settling differences. But when ownership is not involved, rule by majority vote can be just as tyrannical as rule by a dictator.

Auberon Herbert quit the British parliament because he had been convinced by Herbert Spencer that it was wrong for a majority to try to coerce minorities in the employment of their energies. He was never quite an anarchist, as the word had come to be understood. He believed in the limited state, with the government empowered to use force against individuals who invaded the rights of others. But beyond that, Herbert wanted all things determined by individual action or voluntary association.

He solved the knotty problem of taxes in his own individual way. Mildred McLearn, the modern proponent of voluntary taxation, would be interested in Herbert's statement that "the power to levy taxes compulsorily seems to me the inner keep, the citadel of the whole question of liberty . . . until that stronghold is leveled to the ground, I do not think that men will ever clearly realize that to compel any human being to act against his own convictions is essentially a violation of the moral order, a cause of human unrest, and a grievous misdirection of human effort." Herbert advocated letting people finance the government's few legitimate payrolls (for police, the courts, the sanitary services and the army) by voluntarily trading small sums for the right to exercise the franchise at the polls.

Compulsory Schooling Opposed to Workingman's Interest

Leonard Read has recently called for a movement to separate state and school as our founding fathers once separated state and church. Examining his "first principles" way back in 1880, Auberon Herbert told the British workingman that he would be "selling his birthright for the mess of pottage" if he accepted the "rate and tax" paid by others to maintain a system of compulsory public education. The compulsory tax-supported school, he said, would allow the rich to intrude themselves into the poor man's home affairs. The state would be telling the school child's parents that henceforward "you need have no strong convictions, and need make no efforts of your own, as you did when you organized your chapels, your benefit societies, your trade societies, or your cooperative institutions. We
are the brain that thinks; you are but the bone and muscles that are moved."

Eric Mack, in his introduction, tells us just enough about Auberon Herbert's life to make us want more. Evidently Herbert could have had a long career in parliament if he had not decided to chuck it to become an advocate of a consistent libertarianism. Such integrity is a rarity in any age. The irony of Herbert's eclipse is compounded when we contrast his eloquent prose to the jargon-ridden stuff put out by Beatrice and Sidney Webb who, strangely, carried the day with their "inevitability of gradualism"—going, as we must see it now, the wrong way.

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The war against the automobile and against private enterprise continues. This time, it appears in the guise of a quest for a reduced international payments imbalance and freedom from coercion by the Organization of Petroleum Exporting Countries. Propaganda almost as crude and just as untruthful as that used by the Allies in World War I is the major instrument in the current MEOW (Moral Equivalent of War) campaign for expansion of taxation and government power.

The campaign uses several myths in its attempt to sell Americans on ceding more of their freedom to the central government. Here is a list of the more blatant falsehoods accepted and propagated by the opinion manufacturing establishment.

1. The world will run out of oil in the 1980s.
2. The severe international payments imbalance is caused by the high usage and high price of imported oil.
3. An oil-rooted adverse payments balance is causing the dollar to depreciate, causing import prices in dollars to rise and, as a consequence, causing inflation.
4. We are vulnerable to an oil embargo by the Mid-East countries.
5. The gasoline shortages and long
lines at filling stations in late 1973-early 1974 were caused by the oil embargo in effect at that time.

6. We must reduce our vulnerability to an embargo by accumulating a one-billion-barrel stockpile of oil and by cutting energy usage.

7. The government must plough billions into government-directed energy research to save us from ourselves and from foreign powers.

One myth propagated up to the beginning of this year is no longer on the list because it has become so obviously false. It was argued that the shortage of natural gas could not be cured by price incentives and that price ceilings should be retained since the only effect of lifting the ceilings would be a "rip-off" of consumers. Nevertheless, price ceilings were raised by Congressional action (without a windfall profits tax on gas producers). The administration is now embarrassed by a surplus of natural gas. It is urging industry to use more natural gas.

Another discarded myth is that the coal and coal transportation industries would need special governmental assistance to meet our energy needs. This, too, has been rebutted by experience since coal price ceilings expired in 1974 (with no windfall profits tax on the coal industry). A coal surplus developed following the expiration of price ceilings. The coal industry is now crying for ploughing more tax revenues into research on liquification and gasification of coal.

**Myth Number One.** Let us take the myths still prevalent and examine each. Myth number one is that the world will run out of oil in the 1980s. Actually, it is unlikely that we will run out of oil by the 2080s. There is, in the free world today, a 36-year supply of proven reserves already staked out and producible at today's prices.

The number of years' supply of proven reserves is at the highest level in the history of the statistic. Traditionally, proven reserves have ranged from fifteen to thirty years at contemporaneous rates of oil use. Moreover, the statistic is only indirectly related to the actual amount of oil existing underground in the world, and even the direction of the relationship is unclear, because exhaustion of prospects produces a rise in price, and hence makes previously worthless reserves worth "proving."

How much more oil remains to be discovered that is producible at today's prices is unknown. Geologists' estimates range from a low of a twenty-year additional supply to a high of fifty years.

Taking the lowest estimate, to-
day's real prices need not change for the coming half century to induce a supply of petroleum sufficient to meet all demands. At prices 50 percent higher than today, producible reserves in sight more than double. It would become worthwhile to use the enormous shale oil deposits in Colorado, Utah, and Wyoming. Of the 1.87 trillion barrels of oil in shale, 600 billion are recoverable at the higher price. That is enough to supply us for another 100 years. There are also staggering reserves available in the Canadian Athabasca tar sands and the Missouri, Kansas and Oklahoma tar sands which would become economically workable at the higher price.

In addition, secondary and tertiary recovery of the oil left behind in oil pools already worked could more than double known and proved reserves. Generally only one-third of the oil in a pool is recovered. The other two-thirds is left in the ground because it is too costly to be worth recovering at today's prices. A rise in price would make a portion of the left-behind oil recoverable. At a higher price, we could produce as much oil in the future from the already known and abandoned fields as the total amount produced in the world's history to date.

Myths Number Two and Three. President Carter has urged the pas-
sage of a stand-by gasoline rationing program and Congress has passed mandatory automobile mileage performance standards on the ground that we must slow imports of oil to cure our adverse balance of payments and stop the decline of the dollar. If auto energy use standards do anything to the balance of payments, it will worsen it, not improve it.

If oil imports cause an adverse balance of payments or if the great increase in crude oil prices in 1974 were a cause of an adverse balance of payments, then Germany and Japan should be in much deeper trouble than we. They import all of their crude oil while we import less than half. They import all of their natural gas while we import only a small fraction. Yet their balance of payments is positive. While the dollar declined, the mark and the yen appreciated. The cause of the payments imbalance and the decline of the dollar is the string of unprecedented peacetime federal deficits since 1973.

The net result of the mandatory downsizing of the auto fleet to reduce oil imports will be more rather than less imports. An enormous capital outlay is required to do the downsizing job and to retool to produce the new models. Estimates of the cost, in addition to the usual model change costs, exceed $30 billion. That capital could save more
energy if it were left available to invest in dry process kilns for producing phosphates and cement and for other energy conserving uses. The free market would do a far more effective job of allocating capital among alternative energy saving uses, including an appropriate rate of downsizing automobiles, than the government can or will do.

Myths Number Four and Five. Why did we have those long lines at gasoline stations in 1974? Was it because of the Arab embargo?

The reason for those long lines was because the Federal Energy Office allocated gasoline and gave orders to refiners as to what products they could produce. *All during the period of the embargo, our stocks of gasoline, crude oil, and other petroleum products in storage kept increasing.* Crude oil was still being imported. Instead of coming from the Mid-East, it came from Canada, Indonesia, Venezuela, and Nigeria. Some came indirectly from Libya and other Mid-East countries via Curacao and the Bahamas.

The embargo made only a small difference in the volume of imports. The oil companies did a massive and heroic job redirecting world trade. Routing of oil was changed in some cases and sources in other cases. But the Federal Energy Office screwed up the works. It underallocated gasoline to metropolitan areas, such as Chicago, New York, and Washington, and it overallocated to rural areas. City residents wasted gasoline by driving far into rural areas to fill their tanks.

Are we subject to possible blackmail by embargo? The answer is a clear no! During the Arab embargo, we imported from other sources and indirectly from the Mid-East countries that were embargoing us. Libya knew its oil was coming to us, but as long as it was labeled as going elsewhere when it left Libyan ports, Libya was glad to get the revenues.

There are more alternative sources available today than there were in 1974. Mexico is now supplying us with growing amounts. Venezuela has 20 percent of its capacity shut down and available. Nigeria is a bigger producer now than it was in 1974. Dome Petroleum is starting full scale development and transportation out of the Canadian Arctic. China is now exporting oil.

Myth Number Six. We are now developing storage facilities and accumulating a one-billion barrel stockpile of oil, at a cost of $25,000,000,000, purportedly to make ourselves less vulnerable to any future embargo. The Arabs must be laughing themselves sick all the way to the bank as we turn over $15,000,000,000 to them for oil we are going to stick back in the ground
Is it really necessary to accumulate a stockpile to reduce our vulnerability to an embargo? The answer is no! Many countries are willing to supply us if the Arabs cut us off, including some Arab countries if we cover up the fact that they are supplying us. (From the events of early 1978, we might judge the supply of Arab oil to be more secure than the supply of UMW coal. Perhaps we should question the administration’s proposals to make ourselves even more dependent on coal than we are.)

There are less expensive ways of providing a ready reserve than building a stockpile. We could drill wells in our naval reserves, such as Elk Hills, and develop them to the point where they are ready to produce. The wells could be capped but ready to produce in case of need. There is no need to pump the oil above ground, develop underground storage, and stick it back into the ground. Let the oil remain in natural storage at no cost. Have the wells ready to go when the need arises. The cost would be far less.

Myth Number Seven. Finally, we come to the myth that the government must plough billions of dollars into energy research if the new technology is to be developed to provide the energy we need when oil runs out in the 1980s. First, let’s recognize that a shortage is a business opportunity. If anything in demand is likely to run short, its price will rise. Anyone developing a substitute or an additional supply will find plenty of eager customers.

With the increase in the price of home heating fuels, suppliers began offering automatic damper controls which cut the use of fuel by 20 percent. When fuels were cheap, it was not economic to install automatic damper controls; they could not pay for themselves. The capital it would have taken to produce them was more productive in producing gas than in saving gas. Production of the controls would have been a waste of metal, plastic, and workers’ time. These factors of production were conserved by the more efficient expenditure of capital on gas discovery and production.

As it became increasingly costly to produce gas, capital began to flow into damper controls where it could save more gas than it could produce. The investment now pays for itself.

The rise in the price of energy is inducing the production of energy saving equipment and of less energy intensive motors, engines, generators, cement kilns, furnaces, boilers, refrigerators, freezers, air conditioners, and water heaters. It is also attracting investment into private Research and Development (R&D) to develop alternative sources of energy, to develop
techniques for secondary and tertiary recovery of oil from spent fields, and to improve methods of extracting oil from shale and tar sands. In 1975, oil companies invested $51 million in coal R&D, $38 million in developing methods for converting coal into synthetic fuels, $30 million in oil shale R&D, $9 million in tar sands R&D, $7 million in geothermal R&D, and $2 million in solar R&D.

Currently, private expenditures on energy R&D are near the $2 billion level. This may seem a pale effort compared to the $4 billion that the federal government is laying out on nuclear and solar research. But examination of past private and governmental research efforts suggests that we will get 100 times the return per private dollar in R&D that we get from the government dollar. The federal government has laid out $4,200,000,000 on developing a liquid metal, fast breeder reactor. It achieved so little that it is giving up the effort.

The private market does a superior job in allocating resources to their most productive uses, including choosing among alternative R&D programs, than the government does. If the government wouldn’t try to do so much, we would get more accomplished, and energy would be more plentiful than it is now.

—FOOTNOTES—


Walter B. Wriston

REPRESSING ECONOMIC NEWS

Every business has its hazards. People in the news business complain that one of their own special hazards is taking the blame for all the bad news in the world. And since much of the bad news nowadays frequently has something to do with governments, governments especially are often angry at the press. In fact there are about 90 countries in the world today whose leaders object to bad news so much that they have abolished the free press. They operate on the theory that if bad news is not reported, it doesn’t exist.

Editors and publishers in countries where the press remains free recognize this attitude for the threat that it is. They combat it constantly by defending their right to publish the news as they see it, and also by reminding the public that the First Amendment is the very linchpin of our liberty.

To get blamed for acts you do not commit, or for the bad news created by somebody else, is a hazard that is not unique to the news business. It happens to bankers, businessmen, labor leaders and almost anyone else involved in handling money. And we in the business community are being treated to an especially strong dose of this misdirected anger right now.

The bad news that business has been reporting is inflation. The price of everything is going up, which is another way of saying that the value of our money is going down. Since only the government prints money, it does not like people being told that the value of its product is deteriorating. So we find government spokesmen traveling around the country telling people that the real villains in this inflation story are businessmen who are raising their prices or labor unions which are raising wages.

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This article is adapted from remarks by Mr. Wriston, Chairman of Citicorp, to the American Society of Newspaper Editors.
Suppressing the Bad News

But rising prices do not cause inflation, they report it. When a government—any government—starts trying to eliminate inflation by controlling wages and prices, what it is really doing is asking all of us to suppress the bad news that it has printed too much money. The way to stop the bad news about the deteriorating value of our money, according to government, is to conceal this from the people by freezing wages and prices.

Prices and wages represent an essential form of economic speech; money is just another form of information. When the freedom of this economic speech is restricted, we are all not only penalized, we are misled. In (Federal Reserve) Governor Wallich's words: "Inflation is like a country where nobody speaks the truth."

Prices enable consumers to communicate with producers and tell them what they want or don't want. If prices are censored, or frozen, they cannot tell producers what goods or services people want or don't want to purchase. Examples abound.

When the government artificially restrained prices for natural gas, the price told consumers that this form of energy was relatively cheap and in ample supply. Believing what they heard, people built homes heated with natural gas. The same controlled price told producers that people don't want much natural gas—it was not in demand—and therefore they had no incentive to increase production. Everybody was being deceived and we all know about the results in the winter of 1976-77. People are often deceived also about the nature of money.

As a piece of paper in your pocket, money has no intrinsic value, it is worthless. Its only value consists in what it represents, which is a claim on a share of the world's goods and services. If the government increases the pieces of paper faster than the private sector can produce goods and services, then every piece of paper is going to represent a smaller claim on whatever people have to sell. The only way to keep that from happening is either to increase the production of something salable, or else slow down production of the pieces of paper.

The plain fact is that the reason we have inflation in this country is that since 1967 the government has caused the money supply to grow nearly three times as fast as the goods and services that can be bought with it. That statement can be fiddled with and footnoted until everybody forgets what they're talking about. But the bad news will not go away. And no amount or kind of wage and price controls can make the government's paper money worth more of the world's goods than
the world is prepared to give for it.

Governments’ ability to devastate an economy and blame it on someone else can never be overestimated. They don’t even have to print their own paper. They have frequently managed to do it with gold or silver. Ancient Rome added cheap alloys to its gold coins and suffered inflation as a result. Spain had a monopoly on the riches of El Dorado—the precious metals flowing into Europe from Mexico and Peru formed the basis for an inflation that in the end destroyed the Spanish Empire.

Every time a new silver consignment arrived at Seville a ripple of price increases spread across Europe because there was suddenly more money with which to buy things. And because the effect was always felt first and strongest in Spain, that country continuously occupied top place in the inflationary table. Spanish costs became increasingly uncompetitive, and the Dutch got rich buying cheaper goods in the north and shipping them south.

The Spanish solution was to sink merchant ships and hang businessmen.

You can find the same story of unsuccessful repression of economic news being repeated all the way back to the Roman Emperor Diocletian, who may have coined the best name yet for government price controls: the argumentum baculinum, or the argument of the club.

What Diocletian could not accomplish with the Roman legions and Philip the Second could not do with the Spanish Armada, the Council of Wage and Price Stability now proposes to do with a staff of 233 civil servants. Once again we hear repeated the rephrasing of Diocletian’s edict which began with a notable assertion, “Uncontrolled economic activity is a religion of the godless.”

Whatever the government—any government—decides to call its price control methods doesn’t really matter. Whether it’s jawboning, incomes policy, voluntary guidelines, mandatory ceilings, or an economic police state, it all comes back to Diocletian’s argumentum baculinum. All it means is that the government threatens to hit you harder later on if you don’t behave after it hits you the first time. History demonstrates that once a government picks up the club, it finds it very hard to put it down again.

The American press would not tolerate for one moment an attempt by the government to suppress news of riots or political demonstrations on the grounds that it wants to “insure domestic tranquility.” The press knows a threat to the First Amendment when it sees one.

Yet on the grounds of “insuring price stability,” the government assumes the power to tell us what we can be paid for our labor and what
we can charge for our products, and the only question asked by most of the press is: Will it work? That is the wrong question. The right question is: How does it affect individual liberty? Is not one of the most basic human rights the right of a person to sell his or her labor at what the market will bring?

There are ten amendments in the Bill of Rights, although sometimes it seems that the press is so busy defending the first one that it is hard to get equal time for the other nine.

Let me recall one of them—the Ninth Amendment—which few people ever read any more, let alone defend. It says: "The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people." Is something being disparaged when the government’s chief inflation-fighter tells a group of businessmen, as he did recently in Chicago, that "We will, with a degree of enthusiasm that I suspect many of you may consider unseemly, identify the miscreants publicly"?

Qualifying as a Miscreant

A miscreant, according to my dictionary, is someone who is villainous, unscrupulous and devoid of conscience. And now all you have to do to qualify for that description, in the eyes of your government, is to insist on your right to decide what wage you’re willing to work for, or how much to charge for whatever you’re selling. I do not believe that was the kind of society the Founding Fathers had in mind, or one that many Americans will enjoy living in if it becomes a permanent condition—which it shows every sign of doing.

The government adopts monetary policies and fiscal policies which produce inflation in response to popular demand. Since there is no "Truth in Politics" law we must rely on the vigilance of the press to reveal the true costs of those policies. When we come to understand what is happening, I do not believe that Americans are ready to sell their birthright of individual freedom. But someone has to make it clear that the collision course between government price and wage controls and personal liberty is inevitable because, in the end, government allocation of economic resources requires force. Someone has to point out—and keep pointing out—that every time the tide recedes a little after one of these floods of "emergency" regulations, there is less sand left on the beach for free people to stand on.

If it finally gets down to a single grain, even though that grain is labeled "free speech and the First Amendment," you’ll find that it isn’t worth much.
In October, 1978, President Carter announced an elaborate program of wage-price guidelines to serve as the keystone of his administration’s anti-inflation policies. What makes the President’s advisers believe that the sword of guidelines can slay the dragon of inflation? Like other knights-errant, they are convinced that they understand the anatomy of the beast, that they know just where they must drive their lance in order to kill or at least disable it. Putting metaphors aside, I am saying that they have a theory about the nature and causes of inflation that suggests guidelines can be an effective anti-inflation policy. It is not a very coherent or well articulated theory, but its main elements can be discerned fairly readily in the statements emanating from the President himself, from the Council on Wage and Price Stability (COWPS), and from the Council of Economic Advisers (CEA).

The Official Line

The fundamental assumption of the government’s theory is that competitive market forces have little or nothing to do with the determination of prices and wages. “The pay and price standards,” the President’s advisers say, “are designed to be guides for decision-making agents who have discretionary power in wage and price determination.”¹ They believe, in other words, that firms can set whatever prices they want and, in conjunction with the unions, whatever wages they want.

Alfred Kahn, the chairman of

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COWPS, and his fellow enforcers obviously believe that this discretionary power resides especially within the largest corporations and labor unions, for those institutions have been the focus of their monitoring efforts from the very beginning. The notion that large firms and unions possess significant power to resist competitive market pressures is known to economists as the administered-price theory. The President's men clearly embrace this theory root and branch.

From the administered-price theory of price and wage determination, it is but a short step to the cost-push theory of inflation. The government economists have taken this step. In this year's Report of the Council of Economic Advisers, one finds repeated assertions that during the current expansion the economy, even in 1978, has not yet experienced excessive aggregate demand for its output. Idle plant and labor, it is said, have been ample to accommodate increases in the economy's rate of output.2 Rather than the pressure of excess demand driving up prices, the government economists see cost increases, particularly increased costs of labor, pushing prices up. "[T]he rise in unit labor costs," it is alleged, was "a major factor in the acceleration of inflation" in 1978.3

By combining the assumption of discretionary market power, the administered-price theory, and the cost-push theory of inflation, the government economists arrive at the concept of a wage-price spiral as a characterization of the causal structure of inflation. In this view, large firms and unions conspire to push up wages excessively; the firms then pass the increased labor costs along to final consumers and other purchasers in the form of higher product prices, thereby creating inflation. In response to this inflation, which reduces real wages, the unions subsequently return to the bargaining tables with even more outrageous demands. The economy is propelled through successive rounds of inflation kept in motion by the powerful but socially irresponsible actions of the large companies and unions. The rest of the economy, with its smaller firms and mostly nonunionized workers, falls passively into line with the patterns set by the large firms and unions.

The wage-price spiral is the government's accepted view of the basic inflationary process, but the President's men complement this basic conception with two auxiliary theories of inflation: the exogenous shock theory and the self-sustaining expectations theory.

The exogenous shock theory has been especially popular of late. In his economic report to the Congress this year, the President relied on it almost exclusively to explain the
recent increase in the rate of inflation. Mr. Carter identified several important shocks:

Cold winter weather affected food supplies and prices. Depreciation of the dollar in foreign exchange markets added to prices of imports and to prices of goods produced by U.S. firms that compete with imported products. Costs of land and building materials were driven up by exuberant demands for new homes, and the rise of mortgage interest rates added to the costs of buying a home. At the same time, the cumulative effects of government legislation and regulation over recent years gave further impetus to cost pressures. A large part of the worsening of inflation last year, however, stemmed from poor productivity.4

Of course, the most frequently cited exogenous shock of all is the effect on fuel and related prices when the OPEC cartel raises the price of oil. All of these exogenous shocks are thought to be external to the normal functioning of the American economy but additive to its allegedly inherent wage-price spiral. They are seen as unfortunate accidents—our luck seems always to be bad—that make inflation even worse than it would be as a result of the internal wage-price spiral.

Finally, the self-sustaining expectations theory completes the government's overall conception of the inflationary process by suggesting that, once inflation has gone on for a while, people expect it to continue; and these expectations, all by them­selves, can then continue to push prices up year after year. In the words of the CEA, "Once under way, a high rate of inflation generates responses and adaptations by individuals and institutions that perpetuate the wage-price spiral, even in periods of economic slack... The formal and informal adaptations to a longstanding inflation exert a powerful force tending to sustain inflation even after the originating causes have disappeared."5 Those who regard economics as the dismal science will certainly find ample confirmation in this theory.

Fallacies of the Official Line

Unfortunately, the entire edifice of the government's theories—the assumption of discretionary power, the administered-price theory, the wage-price spiral, the exogenous shocks, the self-sustaining expectations—all of it is the rankest nonsense as an explanation of inflation. There are a variety of pertinent reasons for rejecting the official line.

Consider for a moment the assumption of discretionary power. This unfortunate belief seems to have grown out of the common observation that many firms can increase their prices somewhat without losing all their sales. What the notion of discretionary power neglects, however, is that, unless the demand for its product has increased, a firm that raises its prices
will experience a reduction in unit sales volume. Even the true monopolist, the single seller with the market all to himself, must contend with the law of demand—and, of course, true monopolists are as rare as hen’s teeth. Clearly, even firms in highly concentrated industries must, and do, compete for the customer’s favor. Despite what Professor J. K. Galbraith and a host of lesser known polemicists have asserted, it simply is not true that large firms can raise their prices at will without suffering any consequent reductions in sales. Even if this ever had been the case, we can be confident that business managers would long since have taken advantage of such a marvelous opportunity for adding effortlessly to their profits. The idea that large firms possess bottomless reservoirs of discretionary pricing power is preposterous in its logic and without any basis in fact.

The closely related theory of administered pricing is similarly flawed. George Stigler and James Kindahl, in the most painstaking and carefully designed study of industrial prices ever conducted, found that industrial markets, including those with only a few large firms, are not "unresponsive in their pricing to changes in general business conditions"; that is, the price data refute the administered-price theory.

Economists have also tested the relationship between industrial concentration and the rate of price increase among industries. Both in the late 1960’s and in the decade terminating in 1977, they have found that the correlation between concentration and price increases is negative; that is, the industries with a few large firms have had smaller average increases in prices than the industries with many small firms.7

George Shultz, the former Secretary of the Treasury who occupied an important administrative position during the period of President Nixon’s price controls, has pointed out that between 1971 and 1974 prices rose most rapidly in sectors with many small firms (e.g., agriculture), in sectors dominated by the government (e.g., health services), and in sectors heavily involved in international trade (e.g., petroleum).8

One can draw similar conclusions for the past 11 years by examining the broad components of the consumer price index: since 1967 (index = 100), the greatest increases have occurred in the prices of home ownership (238.8) and medical care (227.0), both sectors that are dominated by a multitude of small suppliers. Even increased fuel and utilities prices (218.5), which have been so profoundly affected by the actions of the OPEC cartel, have barely equaled the increased prices
The administered-price theory, scientifically speaking, is a joke—though not a very funny one. Nevertheless, it is very popular among the general public, who are infected with a chronic distrust of big business’ motives and actions. And it is, if anything, even more cherished by politicians. As Shultz has said, "The politician . . . knows the political mileage to be gained by pushing around the big boys in the economy, whether or not it makes any economic sense."10

Without the assumption of discretionary power and the administered-price theory to support them, the cost-push theory of inflation and the notion of a wage-price spiral collapse of their own weight.

**Inflation versus Relative Price Changes**

In any event, the cost-push theory, along with the exogenous shock theory, fundamentally misconstrues the issue in question. Inflation is a persistent, ongoing increase in the average price of the economy’s total output; or, looking at it from its other side, inflation is a persistent, ongoing decline in the average purchasing power of money. Unfortunately, it has become commonplace for people to refer to any increase in the money price of a particular product, no matter how small or how transitory, as inflationary. This confuses the price of a particular good with the average price of all goods. It is extremely important to understand that in any real economy some increases in the prices of particular goods would necessarily occur even if the overall price level were perfectly stable. Obviously, such particular price increases would change only the relative prices of particular goods; declines in other individual prices would offset these increases, thereby keeping the aggregate price level constant.

The fallacies of the cost-push theory can be illustrated well by a simple, hypothetical example. Suppose a firm and a union enter into a conspiracy to raise the wage paid to the firm’s workers far above the competitive level; the firm then raises the price of its product enough to offset the increased labor costs; but the total volume of money expenditures in the overall economy remains the same. What will happen?

Under these circumstances, the firm will find that because the relative price of its product has increased, it will be unable to sell as much of its output as before; it will have to reduce production and lay off workers. These workers must go elsewhere to obtain employment.
The increased supply of workers elsewhere will tend to reduce the wage rate, lower production costs, and encourage enlarged production and therefore reduced product prices elsewhere. The ultimate outcome of these readjustments is that the conspiring firm to some extent prices itself out of the market; its labor force shrinks, and some of its initial workers find work elsewhere at lower wages. The price of the firm's product does increase, to be sure, but prices elsewhere decrease. Inflation, most emphatically, does not occur.

The truth is that as long as the aggregate volume of money expenditures is held fixed, cost increases in particular firms or sectors, no matter what their origin, can cause only relative price changes. Such cost increases alone cannot cause inflation, which is a persistent, ongoing increase in the average price of all goods and services.

Recall the alleged causes of increased inflation in 1978 as identified by President Carter. They include bad weather, dollar depreciation against foreign currencies, increased demand for housing, and higher mortgage interest rates. Each of these can cause a change in relative prices, but none of them can cause inflation. The cost-push theory of inflation, from an intellectual standpoint, is simply indefensible. It remains immensely useful for politicians, however, because it shifts the blame for inflation onto the private sector. But private citizens cannot cause inflation, because they cannot regulate the volume of aggregate money expenditure. Whoever controls that bears the blame for inflation and holds the only key to stopping it.

**What Really Causes Inflation?**

Inflation occurs, by definition, when the economy's aggregate volume of money expenditure grows faster than its aggregate real output. The excessive growth of money expenditures can have, again by definition, only two sources: either the velocity of monetary circulation grows excessively or the money stock itself grows excessively (or both). Our current inflation is attributable almost entirely to excessive growth of the money stock.

Because the excessive growth of the money stock and the inflation it causes do not happen simultaneously, some people always fail to perceive the relationship. Increases in the money stock take some time before their effect on the volume of expenditure becomes significant. But once the actual lag is recognized, the relationship is seen to be very close. By relating the rate of inflation in a given year to the average rate of growth of the broadly-defined money stock (M3) during the three previous years, one can chart a clear parallel relation-
ship. During the 1970's, the only breakdown of this relationship occurred in 1972; and, of course, that anomaly disappears when one adjusts the inflation data for the effects of the severe Phase II price controls in force in 1972.

In short, inflation is not caused by cost-pushes, wage-price spirals, depreciation of the dollar on foreign exchange markets, regulatory constraints, minimum wage laws, or lagging productivity growth. Inflation is a purely monetary phenomenon: when the purchasing power of the dollar falls steadily and persistently over many years, it is because dollars have steadily and persistently become more abundant in relation to the total quantity of real goods and services for which they exchange. Inflation, in sum, is caused by excessive growth of the money stock. Period.

The Government's Responsibility

As the Federal Reserve System authorities can control the rate of growth of the money stock, they clearly are to blame for its excessive expansion. Of course, the executive and legislative branches of the federal government have put heavy pressures on the monetary authorities to expand the money stock fast enough to "facilitate" the easy financing of the enormous, unprecedented peacetime deficits in the federal budget. In general, however, the Fed has been an easy touch, quite responsive to these pressures. William Miller, the current chairman of the Federal Reserve Board, has been variously described as "cooperative," a "team player," and "a tool of the [Carter] administration." One wishes the central bankers had had more backbone.

If they had, we would have found that mere deficits, in the absence of excessive monetary expansion, cannot cause inflation. Clearly, the deficits, working through the political process as it influences the Fed, encourage a loose monetary policy. But it is essential to recognize that it is the excessive growth of the money supply, whether to finance deficits or for some other reason, that causes inflation. Conversely, with a sufficiently slow growth of the money stock, there can be no inflation, no matter what is happening to the federal budget, labor costs, regulatory standards, minimum wages, and so forth. To repeat, inflation is a purely monetary phenomenon.

It hardly needs to be added that once excessive monetary expansion has been halted, inflation cannot be kept alive merely by expectations of inflation. People will find that, in the absence of continuing monetary stimulation of aggregate expenditures, the inflation they expected just doesn't happen. If they are obstinate and continue to act as if inflation is not abating, they will simply
price themselves out of their markets in the same manner as the conspiring firm in the example above. It is far more likely, however, that they will adjust their expectations as the rate of inflation falls. Expectations cannot sustain an inflationary process unless they are validated by the actual course of inflation; and that validation can occur only so long as the growth of the money stock remains excessive.

—FOOTNOTES—

¹Council of Economic Advisers, Annual Report, 1979, p. 84; emphasis added.
²Ibid., pp. 58-60.
³Ibid., p. 57.
⁵Council of Economic Advisers, Annual Report, 1979, p. 55; emphasis added.
⁹Council of Economic Advisers, Annual Report, 1979, p. 239; latest price index values given are for November 1978.
¹⁰Shultz and Dam, op. cit., p. 78.

Antony G. A. Fisher

The Economics of the Barricades

A few months ago at a dinner party in London, our hostess announced she was quite ready to shoot the hospital workers. She was absolutely sincere, referring to the striking members of a union which had effectively crippled hospitals throughout England, increasing the backlog of patients awaiting surgery by some 60,000. This meant untold suffering, and, in some cases, death for those who could not wait.

At other dinner tables one imagined similar housewives declaring
equal fury at the striking truck drivers whose refusal to haul food caused tons of produce to be dumped at sea, making that which dribbled into London shops exorbitantly priced.

It’s not a new story. Economic disorder always divides society, pitting one segment against another. Wat Tyler’s Rebellion of 1381 was described as “the malice of laborers” refusing to work at the low wages fixed by Parliament. In 1790 the washerwomen of Paris demanded death as punishment for the merchants whose prices of soap had soared, and Marat responded that the people should help themselves by hanging the shopkeepers and plundering their stores. The great German inflation following World War I was first blamed on the balance of payments, then on the speculators, and ultimately on the Jews. Even the Greeks had a word for this: “stasis” or creating hatred between members of society.

What is responsible for this disease of “stasis” from Diocletian down to our hostess last winter? In every instance it is indirectly due to government intervening in the normal course of the market. Wat Tyler’s rebels were against fixing of wages after the Black Death had so diminished the labor force the surviving workers could get triple their former pay. There were no unions to blame, no media or communications system (they couldn’t even read or write), yet an attempt to cut their pay caused a rebellion or “strike.”

In 1776, American inflation brought despotic controls and punishment to “speculators,” evoking this comment by Pelatiah Webster: “we have suffered more from this cause than from any other cause or calamity. It has killed more men, pervaded and corrupted the choicest interests of our country more, done more injustice even than . . . the enemies.” The reference, of course, was to the enemies of the Revolution.

Few realize the French Revolution came on the heels of France’s most appalling inflation and wage and price controls, enforced by the guillotine.

Even the United States and Britain first blamed “speculators” for the inflation of the mid-1970s, then imposed wage and price controls, “guidelines,” and “sanctions” intermittently to counteract the inevitable results of government’s own inflationary policies.

These controls attempt to hide the rising prices which are the major symptom of inflation. They will not work, any more than breaking the thermometer will cure the flu. In spite of their history of failure, such controls appeal to the politician because they transfer the blame for his own profligacy to scapegoats such as organized labor or capitalists. Yet,
how could the 5 per cent increase permitted by Britain's recent wage-restraint policy conceivably compensate the worker whose contract was up for renewal after two years of 10 per cent per annum inflation? Add progressive tax rates and the worker is justified in asking 12 to 14 per cent per annum increases, or 28 per cent, just to stand still!

Unquestionably, British labor unions have entirely too much power, and their members include Marxists intent upon destroying the system. But in the last 50 years British wages have fallen from almost double German or French wages to little more than half their wages. Were the general public to understand this, the current strikes might be considered a justifiable outrage against an unreasonable government, and our housewives might be less anxious to brandish their guns.

Understanding, in fact, is the only possible cure for what history indicates might become a bloody confrontation. It is necessary to understand that inflation is caused by government mismanagement, overspending, and the consequent printing of money, and that controls or sanctions will not mitigate, but will exacerbate the ultimate devastation of the economy. It is imperative for people and their political representatives to know that the consequence of such controls is not only a deprivation of human liberty, but a serious inhibition to human productivity which compounds the problem.

But foremost among the evils of inflation, and government's stopgap measures intended to alleviate it, is the human antagonism, the rancor within a society where each blames another for his plight. Labor versus industry, housewives versus merchants, farmers versus bureaucrats, rich versus poor, and so forth and so on, as society sickens with alienation. Yet the resulting chaos is built on error: each individual is reacting naturally to an injustice perpetrated, not by his imagined adversary, but by his government!

It behooves us to get this message across before the misunderstanding destroys us. This is a lesson Americans might learn from the British, if only they will listen.

Antony G. A. Fisher, author of Fisher's Concise History of Economic Bungling, is founder of the Institute of Economic Affairs in London, and instrumental in starting the Fraser Institute of Vancouver, Canada, the International Center for Economic Policy Studies in New York, the Fisher Institute of Texas, and the Center for Economic and Environmental Analysis of San Francisco, all of which publish research on public policy issues.
The redistribution of wealth as well as the creation of wealth is a natural development of the market process. Voluntary exchanges among individuals as producers and consumers constantly bring about the creation and redistribution of wealth.

The advancement in the material well-being of individuals that results from a developing social division of labor is one of the great blessings of a free market society. The specialization of individuals producing goods and services for trade in the marketplace has enhanced labor output far beyond anything that was attained by individuals who produced exclusively for their own direct consumption.

With the market price system as their guide, entrepreneurs respond to their assessment of consumer desires by bringing together capital and labor in the production of goods and services. The future behavior of the consumers in the marketplace ultimately rewards or penalizes these entrepreneurs for their decisions. If the entrepreneur's judgment in the productive employment of capital and labor is correct, as evidenced by subsequent consumer buying, profits result. A lack of consumer buying, however, reflects losses to the entrepreneur for his erroneous employment of these productive resources.

The natural market process is the motivating force for all productive effort, and countless daily activities of this type result in an orderly...
market price system. Such voluntary behavior by producers and consumers responding to market prices not only creates new wealth but results in the constant redistribution of wealth within a free society.

**Competitive Allocation**

There can be no reasonable objection to such redistribution of wealth when it results from voluntary exchange in a competitive marketplace; quite the contrary, such market processes are continually directing productive resources to their highest use and thus bringing about the greatest material progress.

The redistribution of wealth by labor unions, however, differs profoundly from the market process. Unlike the transfer of wealth in a voluntary exchange between a producer and consumer, the shift of wealth by labor unions is accomplished involuntarily, by force and intimidation. Furthermore, the magnitude of the wealth transferred by labor unions as well as the extent of the burden upon those deprived can never be calculated. These are unseen effects of the labor union's impact on the market.

An understanding of this distinction requires an awareness of labor's role in the marketplace. Contrary to the popular misconception that conflict prevails between labor and capital in productive employment, these independent factors of production actually complement one another. A joining together of capital and labor by the entrepreneur stems from the exercise of his foresight in the anticipation of future consumer behavior, and the two factors work together for the benefit of consumers.

**The Active Force**

It is competition among entrepreneurs for capital and labor, not competition between capital and labor, that is the active force in the free market. Within the context of a particular productive effort, capital and labor join together in producing the output of goods and services for the benefit of consumers. The ultimate valuation of these goods and services by consumers in turn establishes the value upon the specific productive factors employed.

It is true that capital frequently displaces labor in productive activity, as new and better machinery is invented. But far from a destructive, competitive force harming labor, such labor saving devices are the primary ingredient for material progress. Increases in both the quantity and quality of productive capital—tools and machinery—contribute to an increase in labor's productivity.

The value of labor is dependent upon "getting more goods out of the woods in a given period of time." When capital is employed in produc-
tion the output of labor is enhanced. While greater work effort can increase production, the history of man's material progress has primarily occurred through the use of capital—more efficient tools. It is an obvious truism that a man working with a machine can produce more than a man with his bare hands, and on a greater scale the observation that the great consuming nations are the great producing nations is directly related to their abundance of capital.

It is equally true that labor competes with labor. Just as entrepreneurs bid against one another for productive labor, so too does worker bid against worker for productive employment. This competition among entrepreneurs, and among workers in the labor market, is a continual force that directs productive resources to their highest and most efficient use.

Competition therefore, rather than being destructive, can thus be seen as a guiding force toward the attainment of efficiency in the employment of productive resources. The substitution of capital for labor, which increases the productivity of labor, makes the labor correspondingly more valuable to competing entrepreneurs. This combination of greater capital employment coupled with competing entrepreneurs seeking competing workers, results in ever-increasing benefits for labor.

The Exploitation Theory

The historical evolution of the union in the labor market had its intellectual roots in Marxian theories of exploitation. Arguing from the defunct labor theory of value as its premise, the exploitation theory held that an inherent conflict existed between labor and capital. The labor theory of value erroneously assumed that the source of economic value was labor input. The returns paid to capital and the entrepreneur, therefore, were necessarily assumed to come from an exploitation of the labor employed in production. Interest and profits were considered "unearned," and the increment paid to them created "surplus value," a capitalist accumulation of productive resources in fewer and fewer hands.

Modern marginal utility theory as well as actual experience in the labor market has totally demolished this fallacious labor theory of value and its erroneous conclusions. It is now well-recognized that the true source of value is subjective, that it is the individual tastes, preferences, likes and dislikes of consumers which give economic value to productive resources. The reason that productive resources have value is because of the contribution they make in satisfying the desires and demands of consumers.

Entrepreneurs try to anticipate what these future consumer values
will be and to direct market resources into productive activity to ultimately meet these values. The pursuit of profit is the motivating force for this risk-taking activity. This return of profits to the successful entrepreneur resulted from his bringing together independent factors of production into a complementary state, today. To this end, the factors land, labor, and capital were drawn together for the present benefit of consumers.

**Contributing Factors**

While labor is an important part of productive activity, it is certainly not the sole contributing factor to productive output. Compensation to the entrepreneur and to the owners of capital and land for their roles in bringing about desired goods and services for the consumer must also be paid. What this payment will be to each contributing factor of production is consumer-determined by the resources they willingly exchange for the end-product of the productive enterprise.

The rent for land, the interest for capital, the wages for labor, and the profits for entrepreneurs are determined by market forces. That is, the given supply of each factor of production relative to the demand for this factor determines its market price. And since it is the final judgment of the consumers on the worth of the productive output which gives value to these productive resources, the greater the quality and quantity of output that these productive resources can generate, the more valuable they are in terms of market prices.

It is for this reason that an increasing abundance of land, capital, and successful entrepreneurs improves the returns to labor. As the total supply of these other productive factors increases, relative to the supply of labor, the greater will be labor's share of the total returns. The higher and higher wages earned by labor, therefore, have evolved from the greater productive output made possible by a declining cost of interest, rent, and entrepreneurial expertise as the supply of each of these has increased.

While the concept of labor unions originated in a labor/capital conflict theory that has long since been refuted, and the advancement of living standards can be directly identified with the market process, the labor union continues to exist today as an imposing force.

The historical growth of unions to their present influence in the labor market has little, if anything, to do with their economic role. An understanding of labor union growth requires an understanding of how the power of legal, government-sanctioned monopolies can displace the market force of competition.

The role of law in a market society
is to protect life and property. This function is vital to the preservation of peace and harmony among the members of society. Such a role demands equality before the law if legal justice is to prevail. To violate this principle of universality guarantees injustice.

**Special Powers of Coercion Promote Growth of Unions**

It is an historical fact that the growth and presence of labor unions can be traced directly to violations of these legal concepts. Prior to 1930 fewer than four million members of the labor force were unionized in the United States. Beginning with the passage of the Norris-LaGuardia Act in 1933, and the National Labor Relations Act in 1935, unions acquired special-interest legal advantages denied to any other institutions or individuals. There is no question that a definite correlation can be found between the preferential legal treatment accorded unions at that time, and the twenty-one million union workers in today's United States labor force.

The growth of union membership during the past forty years would never have been possible without these special powers of coercion. Competitive free-market labor long ago would have displaced this inefficient structuring of unionized labor had not unions possessed their legal advantages. Modern unionism has been the offspring of a statist society of legal privileges.

It must be pointed out that modern unionism is not synonymous with a voluntary association of workers. It is frequently argued that unions are simply a cooperative arrangement of workers engaging in collective negotiation with their employer or employers. To believe that this is *all* that constitutes modern unionism would be exceedingly naive because it ignores reality.

Certainly there can be no moral objection to workers creating a voluntary, private association as their representative in employment negotiations with their employers. From an economic viewpoint, however, such a collective approach can never serve the individual worker's interests as effectively as he can serve himself. The collectivization of individual workers is not consistent with the competitive conditions that exist between workers for available jobs offered by employers. The establishment of a union of workers must subordinate the interests of the individual worker to the group.

It became obvious very early in the history of the labor union movement that the competing threat from workers in the free labor market would lead to the demise of unionism. The survival of labor unions in a competitive labor market would prove impossible as long as freedom of entry by new workers
was allowed in the union labor market. Furthermore, the more productive workers within the union itself would inevitably discover the price they were paying as members of the collective group.

**Violence and Privilege**

The survival of unions was dependent upon the use of both private violence and legislated favoritism. It is no accident that the entire history of union growth is marked with examples of violence. To survive and grow, unions systematically resorted to physical attacks on persons and property. Efforts at retaliation by employers led to mass conflict. Public opinion, swayed by a belief in labor/capital conflict theories, passively tolerated and sanctioned this union violence.

As long as the general belief was that outbreaks of violence were caused by employers fighting to preserve their power over exploited workers, the political climate was established for the creation of pro-union legislation. Union propaganda had successfully molded public opinion into believing that unions were the means by which working conditions were improved.

It is a simple truism that ideas determine actions. While truth will ultimately prevail in the intellectual battle of ideas, the belief in fallacious ideas meanwhile will chart our directions, and lead us to the disastrous consequences of these erroneous ideas. And so it has been with the labor theory of value and its concomitant conclusion of exploited labor under capitalism.

Arguing from these intellectual errors, the union was seen as a device to combat socialism and preserve capitalism from its inherent, self-generated defects. Believing that the individual worker was defenseless against the exploitation of the employer, the union has presented itself as a "progressive friend" of labor. By banding together, the workers would be a "countervailing power" within the labor/capital conflict environment that was believed to exist.

Such fallacious beliefs have, indeed, caused needless turmoil among men and destruction of property. Armed with the passive support of public opinion and enabling legislation, unions have inflicted massive violence upon persons and property in their attainment of monopoly power in the labor market.

It is imperative to recognize the true nature of modern unionism. The union today is a legal cartel. It is as reactionary an institution as the guild of medieval times, but more insidious in its violence. Its violence against competing workers (scabs), and its intimidation against employers (strike), are matters of historical fact. The ominous pres-
ence of union labor today is mute testimony to the triumph of monopoly violence over peaceful competition.

The economic impact of the union as a legal cartel is no different from that of any other monopoly. Its preservation of power is dependent upon government legal protection, and/or private violence. The power of the labor union is particularly significant because it relies on both of these sources—all the power the law allows plus what can be usurped through private violence.

Granted legal immunity from the judicial injunction, and exempted from jury trial in the United States, the legal power of the union against employers is awesome. By the execution of the strike and the illegal use of private violence to restrict replacement of striking workers, a union can effectively enforce its monopolistic wage demands against an employer.

A Progressive Force?

The redistribution of wealth by legal plunder or private violence is nothing new in the history of mankind. What is new, however, is to refer to unions as a "progressive" force as they engage in the destruction of the peace and harmony of the capitalist order.

The growth of union power in the private labor market was in direct proportion to its effective use of the law and private violence. The abdication by professional managers of responsibility to corporate owners of broadly-held stock companies made the task of unions even easier. Rather than resist and risk bad publicity by replacing striking workers with new workers, the professional managers of large corporate employers yielded to union demands for higher wages. The unions thus succeeded in acquiring for their workers a wage rate higher than would have been attainable under conditions of a free, competitive labor market.

This situation can be clearly seen wherever labor unions are present in a labor market. Union wage rates are significantly higher than the wages paid for similar labor that has not been unionized. The tragedy has been to ascribe this differential to the union’s ability to raise the general wage rates of all labor, rather than to the use of their monopoly power in raising the wages of just some of the union workers in the labor force.

The direct economic impact of a legal cartel is clearly visible. By forcefully preventing entry of any competitive supplier, the cartel is able to command a monopoly price for its services. The result is that the consumer of goods and services offered by a cartel is prevented from acquiring alternative goods and services from competitive sources.
This is precisely the case with employers acquiring union labor. The supply of workers bidding for the jobs offered by employers is restricted by the union. Furthermore, no individual is permitted to negotiate directly for himself with an employer of union labor. The employer is forced to negotiate exclusively with the union for his labor requirements. Irrespective of market labor supply factors that would contribute to the determination of a market wage rate, the employer is forced to negotiate fixed wage rates with the union.

**Above-Market Wage Rates**

The legal advantages and private violence of the union are exercised in acquiring wage rates higher than would be paid by the market. The employer, in the interests of short-run peace and a return to productive activity, is intimidated into accepting the wage demands of the union. Regardless of any changes in the market forces of supply and demand, the employers are bound to their fixed wages with the union.

While the union, in the exercise of its powers as a cartel, succeeds in acquiring the payment of wage rates above the prevailing market rate, it cannot insulate itself from the inexorable forces of economic law that must follow from such action. Other consequences, less visible and unseen by many, inevitably result from such forceful intervention in the market.

The most obvious market response is that the quantity of labor demanded, as with any economic good, will be less at a higher price than at a lower price. Many consumers will be unwilling to voluntarily exchange the greater resources required at the higher price. How many consumers will refuse to exchange is dependent upon the subjective valuations of the consumers for the particular economic good. While this knowledge can never be known with certainty, the magnitude of these marginal consumers is the determining factor in establishing what the economist calls elasticity or inelasticity of demand. Economic theory can only inform us, however, that all things being equal, fewer consumers will exchange at a higher price than at a lower price. The quantity of the change is dependent upon the price change and the values of the consumers.

**The Employer as Consumer**

In the labor market it is the employer who is the consumer. When the price of labor (wages) is increased, the quantity of labor demanded by employers will decline. The extent of the decline, as with any economic good, is determined by the amount of the increase in the price of labor and the number of
marginal employers (consumers) in the particular labor market. The higher that wages are forced above the market rate, the greater the decline in demand for the labor by these consuming employers. President Calvin Coolidge put it well, "as more and more workers lose their jobs, unemployment results!"

The surplus labor, unemployment, is an inevitable result when employers become unable to recover from consumers the higher cost of their productive output. The force of the unions can increase wage rates, but that same force cannot be imposed upon the buying decisions of the consumer. As employers raise their asking prices to cover the union-imposed labor costs, many consumers will cease to buy the goods and services offered. The resultant decline in consumer buying requires a curtailment of production from the level that had prevailed.

For some employers, this necessity for reducing production levels may prove fatal. At lowered levels of production the employer may be operating so far below his break-even point that he has no alternative but to cease production entirely. More typically, it will mean a reduction in unit efficiency for employers, as the more efficient employers are transformed into less efficient employers. The decline of their efficiency in production means that fewer workers are required.

At the higher wages acquired through union force, both the unemployed and those within the free labor market are attracted to the higher paying jobs in the union labor market. However, this additional supply of labor can have no competitive impact on the union labor market. The employers are bound to their fixed union wage scale and are forbidden to employ competing labor at lower wages.

**Unemployment**

The failure of the union-imposed wages to adjust to the competitive conditions of the market leads to both unemployment and a distortion of labor allocation. The magnitude of the unemployment and distortion is dependent upon the difference between union-imposed wages and the market wage. The unions are well aware of this consequence and their propaganda constantly seeks to conceal their role as its cause. Their public image as the "friend of labor" forces them to perpetuate the myths that unemployment and the misallocation of labor is caused by the capitalist business cycle and greedy, profit-seeking employers.

While the rhetoric of the union claims no limit to what it can accomplish for the worker in terms of higher wages, the economic limitations of massive unemployment from exorbitant wage demands is understood. The long-term survival
of the union depends upon a large membership, and the preservation of a large membership of workers requires the economic survival of the employers. It is a constant balancing act, therefore, as the union demands wages above the market, but not so high as to destroy the entire market for the union labor, and with it, the unions themselves.

A Free Market Sector

The capacity of the union to accomplish this feat, almost with impunity, lies in an institutional requirement that is essential to union success. The union must have a concurrent free labor market existing beside it. A competitive labor market that responds to changing forces of supply and demand is needed to absorb the unemployed that are driven out of the union labor market.

Less than one-quarter of the labor market is unionized in the United States today. Furthermore, not all union labor is earning above market wage rates. It is probably a safe assumption that fewer than twenty percent of those in the United States labor market are receiving wage rates above what could be acquired under free market conditions.

It is this small minority of union workers receiving above market wage rates that generates the insidious redistribution of wealth in the labor market. The Tanstaafl principle (There ain't no such thing as a free lunch) has no better demonstration than by this example—somebody pays.

There are two groups that pay directly—those who are employed in the free labor market, and those who consume union labor market goods and services. Ultimately, everyone pays indirectly in the form of a lowered standard of living resulting from the disruption of the productive system and reduction of the incentive to the accumulation of capital.

Workers who would be employed in the union labor market, if freedom of entry prevailed, have no choice but to compete in the free labor market where supply and demand forces still determine wages. Their bidding in competition with the existing supply of free market labor causes the wages of free market labor to fall. The result is that wages in the free labor market are lowered because of the entry of the unemployed workers forced out of the union labor market.

This shift of wealth, higher wages to union workers at a cost of lower wages to free market workers, is a subtle, but nevertheless very real, redistribution of wealth. It is, indeed, an exploitation of labor by labor, that is, a forced transfer of wealth from the free labor market to the union labor market in the form of differing wage payments.
Also harmed are the consumers of goods and services produced by union labor. The law of costs ultimately requires that the higher union wages must be borne by these consumers if production is to continue. Future production at the above market labor costs imposed by unions, exacts its toll in the form of consumer prices higher than would prevail in a competitive market. Once again, a forced redistribution of wealth occurs as the consumer must pay the higher costs of union labor, but of what magnitude can never be known. The competitive market price in the absence of the union labor is unknown.

While such redistribution of wealth by the force of union power represents exploitation and injustice, the capacity of unions to transfer wealth to themselves is limited by the ultimate consumer. If union wage demands become too excessive, employers are destroyed by the failure of consumer buying. In the so-called private sector labor market it is a continual balancing act that is pursued by the union.

There is, however, a new and far more effective labor market that unions can exploit. This is the so-called public sector labor market, the labor market composed of government employees.

Unlike the private labor market that survives by its capacity to produce goods and services that are voluntarily acquired by consumers in willing exchange, the public sector labor market is supported by the taxing power of government. The law of costs does not apply to government activities as it does to private employers in a competitive free market. As a matter of fact, cost has nothing to do with the price of government activities. More often than not, government-provided services are offered free of price to the consumer. The costs of these government services are generally imposed upon the taxpayer.

**Monopoly, Bureaucracy, and Union Power in Public Sector**

Union power in the public sector labor market is further enhanced by the monopoly structure of government-provided services, and the bureaucratic system of government management. Market competition in the form of freedom of entry in supplying alternative sources of goods and services to the consumer is generally prohibited by the force of law. Unlike the private labor market where higher union labor costs invite competition from free labor market employers, the public sector labor market is protected by legal monopoly. Competitive alternatives to the consumer are denied by the force of law. Whether it is policemen, firemen, teachers, sanitation workers or clerical government workers, the determination of
public sector wages is more a political or bureaucratic decision than a market-determined decision by consumers.

Resistance to union wage demands in the public sector stems more from political considerations than from productivity considerations. It is usually the vocal outcry of the constituency, not the bureaucratic manager, that objects to the excessive wage demands of the unions in the public sector. After all, the bureaucratic manager himself is a worker in the public sector labor market, and any union gains for his subordinates accrue to him as well. The bureaucratic manager has even less incentive to resist union demands than his counterpart in the private sector market—the professional manager of the large corporation.

The wage costs of public sector workers, like any and all costs of government, ultimately are borne by the taxpayers. Whereas the union redistributes wealth to its workers from expropriating the resources of consumers and free market labor in the private sector, the redistribution of wealth to the public sector worker comes primarily from increased taxation.

Not confronted with the problems of competitive workers or unwilling consumers, the public sector union can significantly increase the magnitude of its wealth redistribution. The only effective limitation to such union power is the same force that limits the whole of government—the private wealth of the citizenry that can be seized by government taxation.

Government labor unions have been quick to observe this massive increase in their power to redistribute wealth, and naturally have urged an expansion in public sector unionization. To this end, the growth of government in economic affairs has opened a new source of labor union power in the forced redistribution of wealth.

It is a sad commentary of our age that the combination of economic ignorance and man’s blind pursuit of power has brought us to this point. Any reversal in this state of affairs can occur only if we improve our economic understanding and structure our legal institutions to safeguard our lives and property from such private power abuses.

The hope of the future is in changing ideas. Unions exist today as a monument to intellectual error. They are the product of a statist society that permits the private abuse of power in the forcible redistribution of wealth. Any return to a free society demands the realization that competition and freedom, not legal privilege and violence, are the way to general prosperity for all.
Even though the deregulation of oil prices won't be complete until 1981, practically everybody is certain that the big oil companies—the so-called Seven Sisters—are going to make some exorbitant profits on a "windfall" situation.

But what if the profits fail to materialize? If ordinary economic law has anything to do with it, the increased competition for the expanded energy dollar must, at some point, lead to lower, not higher, retail prices. If this isn't the truth, then Henry Ford never lived, the American Way was a misnomer, and all the classical economists from Adam Smith to Alfred Marshall were a bunch of hams.

My colleague John Roche accurately notes that the big oil companies escalated prices the minute the energy tap in Iran was closed off, even though the fuel they were charging for at the gas pump had already cleared the Persian Gulf before the Shah had taken it on the lam. Of course! The market always anticipates the future. If something is going to become scarce, it makes no sense to get rid of old inventories as if nothing were going to happen.

Conversely, if there is a reasonable expectation of a more plentiful supply of fuel in the future, the inclination of buyers will be to lower their inventories, waiting for the day when prices will come down. So everything between now and 1981 will swing on what is done to lighten the burden of car drivers, manufacturers who use electricity, and home owners who have to heat and light their houses.
What are the prospects for new oil and gas wells? What sort of deal for fuel can be worked out with Mexico? How soon will that pipeline from Southern California, and the other one from Puget Sound to the Middle West, be finished? How quickly will gasohol, made in a thousand stills from vegetable matter, be available to motorists to mix with gasoline in their tanks? What differences will the new motors that get close to 30 miles a gallon make when Detroit begins to catch up with the Japanese in the competition for the small car market?

The other day this column wrote about the experiments of a Miami company in mixing hydrogen and chlorine, two components of sea water, with light in a closed-cycle engine to form an explosive mixture. Hydrogen unlike crude oil, is all around us. I can’t vouch for the chemistry and physics of a hydrogen engine, but Nation’s Business, in a long and patient article in the April 1979 issue, quotes from the endorsements of a number of disinterested authorities (Dr. Daniel Wells, a professor of physics at the University of Miami who has been an investigator for the U.S. Air Force and NASA projects, is an example).

For the life of me, I can’t figure out why the testing of the Solar Reactor Corporation’s hydrogen-chlorine-light motor at Aberdeen, Maryland, didn’t make a few of our front pages. But then, the Dayton, Ohio, papers missed a palpable scoop when the Wright brothers first flew their plane. Besides, all the energy experts were off to Harris-
burg to cover the Three Mile Island disaster. The Gresham’s Law of the media is that bad news always drives out good news.

The other day, on the sports page I read about a racing driver who had personally altered his engine to get 67 miles from a gallon of gas. Why wasn’t this front page stuff? And why was it left for the Jerusalem Post international edition to print the story of Israel’s new technique for extracting oil and gas from shale by the use of laser beams which, when directed at shale through a small diameter pipe for deflection by a mirror, kindles an underground flame that sends gas to the surface to be condensed into kerosene, a burnable fuel?

Israel has known reserves of two billion tons of shale. If this can be economically exploited, it means just so much less pressure on oil companies that are willing to sell to pariah nations. As for South Africa, one of the pariahs, it intends to get half of its gasoline from coal by the early 1980s.

I fully realize that nothing in economics comes easy. But when the market promises profits, and there is no bar to freedom of entry into the market by the inventors, the explorers and the wildcatters, no OPEC can sit on the lid forever. Windfalls there may be, but when the government removes its cotton picking regulatory hands from the market the price cutters will take over. They will either give us more efficient motors or cheaper fuel—or a combination of the two.

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Serving Others

When a person condemns wealth, he is merely using different words to condemn the profit motivation that causes the production of the maximum amount of goods and services for the greatest number of people.

Personally, I can see nothing wrong or evil about self-interest and serving others because you have to have them serve you in turn. Like anything else, the profit motive and the resulting accumulation of wealth can also be used for evil purposes by evil people. But by and large, the motivation of profit is primarily responsible for the vast amount of mutual service we find among us today. It is responsible for the constantly increasing standard of living in our country and the world in general. It is a moral method of encouraging all of us to serve each other better and effectively.
... (E)very individual ... endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labors to render the annual income of the society as great as he can.

It makes no difference that he neither intends to promote the public interest, nor knows how much he is promoting it. By ... directing that industry so as to produce the greatest value, he intends only his own gain.

In this, as in many other cases, he is led by an invisible hand to promote an end which was no part of his intention. (Emphasis added)

—Adam Smith
THE WEALTH OF NATIONS, 1776

The most famous doctrine of the moral philosopher Adam Smith was that of the "invisible hand." It usually comes in for ridicule from those who seek the planned society. To them, Smith's unobtrusive hand was either a myth or only a quaint idea that might have worked in the Eighteenth Century. But they say it is naive to believe, as Smith did, that private and social interests are brought into harmony by the self-interested actions of all.

But Smith has actually been misunderstood by friends as well as foes of the free market economy. Never for a moment would Adam Smith have believed that any individual's self-interest is always in harmony with the good of society. That would

Mr. Barger is a corporate public relations executive and writer in Toledo, Ohio.
be an absurdity that is easily disproved by human experience. Nor did Smith believe that any action by a businessman is always good. Smith knew as well as anybody that certain people will practice fraud and deception in the market place, and no "invisible hand" slaps them down before others are cheated. So how does the "invisible hand" really work and what are its limitations?

A new Adam Smith, looking at today's world, could still trace the benign effects of the "invisible hand"—something that Smith's critics begrudgingly acknowledged.

But the "hand" also works in sinister ways to destroy society, and it is doing so now. The key to understanding this is to look at the nature of the self-interested actions which might benefit society and to contrast them with other self-interested actions which destroy society. The actions described in Smith's famous example were both productive and peaceful, and they were aimed at producing goods and services which others would value as determined by the market. But what about self-interested actions that are destructive and violent, and might be aimed at goals which do not have sufficient value in a market?

Every sensible person knows that ordinary criminal actions harm not only individuals, but society as well. The robbery of a bank, for example, is considered a crime against the whole society and not just the bank owners and depositors. Most other crimes are in the same category, a tacit recognition of the fact that a good society depends on honest and orderly human actions. It would be ridiculous to suggest that a society of John Dillingers, however, self-interested their actions, could be anything but a nightmare world. Most people will admit that this is true, so they support the government in its efforts to hold the John Dillingers at bay.

But there are other wrongful actions that are not so easy to detect as the robbery of a bank. In these actions, the government itself is both a sponsor and a partner. These actions have a great deal of social approval and have been authorized by the political processes, so a person is almost shouting into the wind by questioning them. Yet, the right or wrong of something is not determined by its political support, but by observing its effects over the long term and at every level of society. Adam Smith saw favorable effects in certain productive, peaceful market actions. How would he view the following practices?

1) Payment of benefits to politically active groups and their clients;
2) Granting coercive power to certain favored groups;
3) Intervening in the market with price controls.
All of these practices are standard features of American government today and have actually become an integral part of the system. It is useless, in most cases, to consider dismantling any governmental program until it has been almost thoroughly discredited. It is also futile to expect to abolish governmental programs simply by proving that they are wrong and inefficient. The would-be reformer always finds himself on a collision course with powerful groups who have an interest in protecting certain programs, no matter how bad and even counter-productive these programs have become. Most people who support certain government programs and interventions will also admit that we are being crushed by excessive government spending and controls. Why, then, do they support something which is economically inefficient and results in loss of liberty? They have actually been moved, as if by an invisible hand, to give such support. Here's how it happened.

The Lure of Benefits

One of the most destructive and divisive practices of American government is the payment of benefits to politically active groups and their clients. At one time, such payments were only an insignificant part of the national budget. In the past 30 years, however, the Congress and Administrative branch have become centers for the massive distribution of funds to various localities and groups for numerous social and political purposes. This distribution of benefits goes under a variety of names and is justified by a number of sophisticated arguments and cliches. Some of the benefits programs have become so well-entrenched that they function as part of the economy and people have become totally dependent on them. The person who dares to question such programs runs the risk of being a villain who would leave people destitute and helpless. A good example of this is the Social Security program; one cannot even criticize it without appearing as cruel and heartless, and the same seems to be true of countless other social welfare ventures.

But there are increasing signs that Social Security is becoming a bankrupt program, while demands for other benefits are outrunning the government's ability to collect equivalent amounts in taxes. The competition for government funds has degenerated into a bitter and abrasive contest, with each favored group attacking the others' premises and claims. Meanwhile, taxpayers are balking at the demands placed on them and are beginning to react by supporting legislative proposals aimed at curtailing government spending or taxation. Far from
creating a good and harmonious society, the struggle for government funds has split society into clusters of special interest groups which snarl incessantly at each other when they aren't busy raiding the federal treasury. If self-interest was seen by Adam Smith as good, why has it led to such disastrous results?

Perhaps the answer lies in the basic nature of benefit-seeking through political action. It is essentially a destructive and violent action, however peaceful it may seem when channeled routinely through the American political processes. Benefits are obtained by using government police power to force certain people to give up goods and services which are then redistributed to others. Moreover, the persons who obtain the benefits have not produced anything of marketable value as a means of establishing their claims.

It is true that the advocates of this redistribution are always able to present their demands as a good cause that is "in the public interest." It is often the seeming righteousness of their cause, as much as political power, that helps disarm their opponents. Indeed, it is often impossible to oppose certain benefit programs without being smeared as a selfish reactionary who hates the poor or is indifferent to the plight of old and sick people.

No decent person should oppose reasonable welfare measures. But everybody should be suspicious of practices which are obviously bad if everybody adopts them. That is because self-interest is omnipresent in society, and is always alert to new opportunities for personal gain at the expense of others. Let one group establish its claim to government benefits, and this becomes the precedent for all groups to do the same. None of these groups want to destroy society or to drive the government into bankruptcy. But "in this, as in many other cases, they are led by an invisible hand to promote an end which was no part of their intention."

Promoting Coercion

The "invisible hand" is also active in private plans for the coercion of others. There are numerous examples of such coercion, but one of the most notable is compulsory union membership. Although unions are private organizations, the police power of government is decisive in giving them the authority to impose sanctions on dissidents. In this case, the controlling group also has power over a person's livelihood, which is no small thing. Unions' success in obtaining coercive power has also led others to seek similar authority in other ways.

The use of coercive power by unions began in the 1930s with the passage of the National Labor Rela-
tions Act (the Wagner Act). It was an astonishing breakthrough for union organizers who, until then, had faced resistance not only from employers but also from certain workers who refused to belong to their unions. But the Wagner Act changed all that and eventually had the effect of making union membership and the payment of union dues compulsory. It was argued that every worker benefited from union activity; therefore, every worker had a duty to pay dues and to support the union.

Whose self-interest was being promoted here? Undeniably, many workers believed that they benefited from their union membership, so they had an interest in making the organizing power of the union all-inclusive. Coercion was even more in the interests of union officials, who no longer needed to persuade dissidents to join the unions. The extraordinary argument was even made that workers did not really understand their own self-interest and had to be prodded into it by their more enlightened leaders. In this argument, the intellectuals who supported coercive union activity were showing their contempt for the individual worker. They simply could not believe that men who labored with their hands might also be thoughtful people with strong philosophical and personal reasons for not joining a union.

But the argument for coercion carried the day, and union membership burgeoned. This was to be expected, and it was a natural action of the invisible hand. Witnessing the success of one union, other self-interested organizers went to work forming organizations of their own. Of course they always insisted that they were working either in the workers' interest or in the public interest. But anybody who is familiar with union activities soon learns that self-interest is the controlling factor. Unions do not fight with unusual zeal, for example, to organize small, isolated firms having only a few workers. They are drawn as if led by an invisible hand to the organizations which have a large potential for union membership, dues, and power.

But unions fail to meet the test of the examples in Smith's famous doctrine. They are neither productive nor peaceful, and they produce no goods or services that others would value as determined by the market. The union is simply an intervening third party. All of the goods and services produced by unionized firms could be supplied even more efficiently without the union.

The success of unions in obtaining coercive power has encouraged other movements to adopt similar programs. In most cases, the activists of the 1960s and 1970s have sought the coercive power of government rather
than peaceful cooperation as a means of getting their way. For the most part, there has been little interest shown by these groups in using friendly persuasion; i.e., in promoting their cause by showing people a way that is superior and desirable. Instead, most of these cause groups prefer tactics of intimidation and threats which force compliance with their point of view.

The consumer movement that coalesced around Ralph Nader typifies this approach. Many consumer activists are sincere reformers who actually believe they are helping people. Yet it is almost impossible to find a single consumerist action that could really be considered productive and peaceful, or was aimed at producing something that others would value in the market. The main goal of consumerists has always been to exercise a life-and-death power over the production processes, without regard for the opinions and rights of participants. They apparently take the position that the righteousness of their cause gives them the right to make the consumer's decisions for him.

The success of these activists, like that of the unions, has spawned countless other movements aimed at changing society and bringing their own leaders into positions of prominence and power. It is sometimes disturbing to note how radical and arrogant these groups have become in their demands for power and authority. But the precedent of giving coercive power to favored groups was established long ago, and we should not be surprised that self-interest leads an increasing number of activist groups to seek similar advantages.

A Hand in the Marketplace

Still, while the "invisible hand" works in every type of human activity, it's probably the customary marketplace of direct transactions that gives us the best examples of its workings. Now that price controls are again being considered, we can easily predict how self-interest will cause them to fail. Of course, while the proponents of price controls usually agree that "greedy business interests" cause their program to fail, they should at least realize that everybody's self-interest will tend to thwart the aims of the price controllers.

Price controls are laws or administrative rules devised to prevent producers and sellers from raising their prices above certain levels which are deemed to be fair or in the public interest. The current purpose is to restrain inflation and protect the consumer's purchasing power. When price controls are being proposed, the producer or seller is often portrayed as a heartless wretch who has both the desire and the power to price-gouge the consumer.
Commercial Decisions
What would our friend Adam Smith have to say about that? He would have agreed, most heartily, that producers and sellers have a self-interest in earning as much as they can. But they never have the power to charge more than customers are willing to pay, nor is it always in their self-interest to raise prices. Sellers frequently improve their earnings or cut their losses by lowering prices. But it is as wrong to condemn a price increase as it is to praise a price cut, because both price adjustments should be viewed as commercial decisions which the seller made in his own self-interest. The supermarket produce manager who slashes the price of bananas on Saturday afternoon is not performing an act of charity; he is only trying to reduce his losses on supplies that would otherwise spoil. Nor is he a scoundrel when he raises banana prices on Monday. He is only responding in a proper businesslike manner to market conditions of supply and demand.

But price controllers either ignore the normal operations of prices in the market or declare that special conditions make price controls necessary, at least for the time being. When the controls are enacted, however, much mischief happens—and it’s all directed by the invisible hand of self-interest.

First, there’s the self-interest of buyers, who welcome the opportunity to purchase goods and services at below-market prices. Their demands will naturally exceed the supplies being offered at that price level. Producers and sellers, who were prevented from expressing their self-interest in pricing, now curtail their production or shift their resources into other product lines. When shortages develop, those producers who are willing to take the risk will sell above the controlled price in the so-called “black” market. Or both sellers and buyers may create ways of getting around the controlled prices without appearing to break the law. Both parties to the transaction may find it in their self-interest to ignore the controlled price. The buyer would appear to be the victim of price-gouging, but he prefers that to the bleak alternative of not being able to complete a purchase of needed goods. So he cooperates in circumventing a law that was supposedly designed to protect him.

Self-Interest Is Always Present
It would be possible to detect the workings of Adam Smith’s “invisible hand” in an infinite number of economic decisions. For example, what form of communications causes used car dealers to raise and lower car prices almost simultaneously? Some naive people would charge collusion, but price changes
occur automatically at businesses owned by car dealers who haven't spoken to one another in years! Or, what causes the prices of real estate to rise and fall, and why do sellers seem to know the "going" price of their houses even when they do not ordinarily deal in real estate? How do unlettered immigrants, though unable to speak the language of the country, quickly learn how to identify currency values and make ordinary transactions with the shrewdness of native citizens?

The answer is that we can always depend on self-interest to work in certain ways most of the time. People do not usually need to be instructed to take actions which they perceive to be in their self-interest. This is not to say that everybody has the same goals or always takes actions which are good for him in the long run. Human beings do seem to be remarkably perceptive, however, about things they are interested in and want to do. The dedicated farmer who expects to get a good price for his crops does not have to be ordered out into the field at gunpoint; the inventor who hopes to reap a fortune with his new gadget does not have to be locked into his workshop; the investor who expects a handsome return does not have to be coaxed to save and invest. People do all these productive and peaceful things voluntarily because they will be rewarded if their efforts have value in the market. Nobody has to worry about directing or organizing their efforts; indeed, all this activity is best coordinated when government planners stay out of it. The omnipresence of self-interest will see to it that each individual finds a place of service and ways of supplying his needs in peaceful ways. As Adam Smith showed, the total wealth of the nation will then grow by a seemingly mysterious process.

That same self-interest can become troublesome, however, when people are rewarded for destructive and violent actions. The effect of such rewards is to encourage others to use the same tactics, which encourages still others to do the same, ad infinitum. This can only result in a slowing down of productive efforts and an eventual breakdown in society and the economy. Nobody but a madman would desire such an end, and certainly nobody believes his own actions are taking society in that direction. But people can be led, "as if by an invisible hand," to promote a sad end which was not part of their original intentions. This is no more surprising than Adam Smith's observation that self-interested actions can promote good ends. He might have added that the ends are predetermined by the nature of the actions. Peaceful actions will lead to desirable ends, violent actions lead to chaos and disorder. We choose the ends when we choose the actions.
31. The Subjugation of the Individual

The subjugation of the individual proceeds along two parallel lines as the idea which has the world in its grip extends its sway. One line is to bring the individual under the domination of organizations, and ultimately of government. The other is to use numbers in such a way as to reduce the individual to a nullity and thus to instrument him to the purposes of those who hold power.

Collectivism is supposed to be a means of transcending the limits of the individual, of augmenting him by joining him with others. The device by which this is to be accomplished is the organization. The notion which makes this appear to be possible is that the organizational whole is greater than the sum of its human parts. But, as has been noted, the organizational whole is only greater than the sum of its parts in its coercive and destructive potential. It is less than the sum of its parts in its constructive potential. This is so because rather than augmenting the constructive powers of the individual by organization they tend to be narrowed, confined, and delimited the more firmly control is asserted.
The collectivist reliance on organization, then, results in increasing coercion, decreasing production, and individuals who are restrained and subdued. The illusion that the individual could be transcended by organization arose from the great increase in production made possible by the much more extensive use of capital in the last two centuries. Much has been made in this work of the religious character of the animus behind socialism. It might be more appropriate at this point, however, in discussing the devices of socialism, to emphasize the magical qualities attributed to them. The veneration of the organization, and especially the state, entailed in socialism, amounts to a belief that some sort of magic inheres in them. That man could be transformed by these instruments requires magical components within them. If they do have, it is black magic, for the use of force deforms rather than transforms man.

The Use of Numbers

But the reliance upon and use of numbers in our era provides a clearer demonstration of how deeply we are drawn into magical incantations and divinations by the idea that has us in its grip. The description of this will show, too, how the individual is being subdued and subjugated by the use of numbers.

The belief that there is magic in numbers, or at least in certain numbers, is not new to our era, of course; it is at least as old as the earliest records of man's doings. The number "three" has often been singled out as a potent number. "Seven" has long been a favorite number, and it is still highly honored in dice games. Understandably, perhaps, special properties may be attributed to "ten," for it is the normal number of our fingers, as also of our toes. "Thirteen" is widely reckoned to be an unlucky number. Many people believe that they have a lucky number, and contemporary numerology rises to its superstitious peak in the daily selection of a number by those who play the "numbers" racket.

A number system does have strange and often wondrous aspects to it, and it may be that the tendency to see something magical in numbers stems from these. In any case, the use of numbers in calculation, which is their primary legitimate use, has enabled man to formulate precisely much of his knowledge of the universe and to extend his utilization and control over things about him. We comprehend the universe we inhabit mainly by way of numbers: the speed of light, the speed of sound, the distance of the earth from the sun, the length of time it takes the earth to rotate on its axis or to make one revolution round the sun, the law of gravity, and a great variety of other interest-
ing and sometimes useful information. Size, magnitude, quantity, and ratio, all now expressible with great precision in numbers, are critical for present day production and distribution of goods.

Interchangeable parts—possibly the single most critical technique in the vast expansion of man's power by tools—are made possible by adherence to careful and precise calculations. Hundreds of thousands of nuts are made which will match the threads of a single bolt. Electricity, which cannot be seen, tasted, heard, nor smelled can be measured to the watt and sent surging through wires in force that will vary by only a very few volts. The size of engines—the measure of their potential output—is now commonly expressed in cubic inches or centimeters. The ratio of gears determines the potential speed of vehicles. And so on. In short, man's mastery of things in the world about him is made possible or greatly enhanced by the most precise sorts of calculations. Numbers are the touchstone of contemporary man's control over things for his purposes.

To Control People

The thrust of socialism is to divert the effort from the use of numbers to control and utilize things to their use for controlling people, divesting individuals of the control of their own affairs, and utilizing them for the power ends of government. The late Ludwig von Mises demonstrated that in a pure socialist system economic calculation would be impossible. The reason would be that there would be no market-determined prices whose fluctuation would provide the necessary data for calculation. His student, Murray Rothbard, carries this insight a step farther when he declares that government ownership of any undertaking "injects a point of chaos into the economy." This is so, he says, for "No government enterprise can ever determine prices or costs or allocate factors or funds in a rational ... manner."2

It follows, I take it, that any government intervention in the market will tend to produce a similar effect. The principle that emerges from this can be stated this way: The greater the extent of government intervention or ownership the less can numbers be used to control things and the more will the effect of their use be (when and if they are used) to control people. One of the hallmarks of socialism, as we shall see, is to use numbers to control people.

The most obvious use of numbers in gradualist countries is in the effort to control the economy of a nation. The numbers that are believed to be relevant to this undertaking are statistics. Ours is the only era and time in all of history in which na-
tional statistics have been extensively collected, compiled, and used. There is a reason for this. Statistics are just about the most inherently uninteresting thing imaginable. They are formed by reducing persons, places, or things, to numbers, which is the aspect of them that is positively the least interesting. Indeed, a statistic acquires interest ordinarily as it conveys unusual magnitude or proportions. Insofar as it deals with the average, which is what statistics usually do, it is to that extent uninteresting.

**Figuratively Speaking**

Poets and historians sometimes used numbers in other ages. An historian writing in the Middle Ages might refer to 10,000 archers standing upon a hill. It is most doubtful that he, or anyone else, had counted them. What he was saying was that a huge army of archers stood on the hill, and numbers struck him as the best way to convey that. Ancient literature contains many references to very precise numbers of people (usually rounded off to the hundreds or thousands), but they are not statistics, as we understand such things; they are poetic uses of numbers. It is not that people in other ages did not sometimes keep careful records and precise accounts; it is rather that to abstract them as statistics would not have seemed to them worth the effort.

Socialism vitalizes, animates, gives meaning and purpose to statistics. It does this by attributing a magical quality to them. They are to be the means by which economies are to be planned, controlled, and all efforts are to be concerted. It would probably be possible to calculate with some precision the extent of the spread of socialism in a country, especially of gradualist socialism, by the degree to which statistics are kept and used. In short, the widespread use of statistics is a phenomenon of socialism.

Statistics are an abstraction of some aspect of history. They tell us the barest minimum about something or other that happened in the past—yesterday, ten days ago, a year ago, a hundred years ago, and so on backward. (They are, it might be said, history reduced to the idiot level, with all the juices wrung out, with everything that made history vital left out.)

**Statistics and Prediction**

The magical quality which socialists—which is to say, most of those who use them, whether they are aware of it or not—attribute to them is that they are a prediction of the future. One encounters evidence for such a belief all the time. For example, the newspapers report that an electric power company has gone before a state public utilities commission with a request for
$289,000,926 annual increase in its annual revenues, say. Almost as if it were incidental, they also report that the request was for a rate hike. Now it is quite conceivable that the company might get the rate hike requested and actually experience a decline in revenues. Indeed, since the demand for electricity is elastic, it is predictable, other things being equal, that any substantial increase in rates will result in a decrease in consumption, either relatively or absolutely. In fact, statistics are not a prediction of the future; they are a desiccated record of some aspect of the past.

The only way to predict the future with any accuracy is to control it, to remove from people as individuals the means by which they can manage their own affairs and change the course of things. That is, of course, what socialists intend and attempt to do. Marx claimed to have discerned the course of the future with scientific accuracy. It was a bogus claim. Twentieth century socialists are trying to use the power of government to make his predictions come true.

**A Tool for Planners**

Statistics can be used in planning with some degree of success in a controlled situation. Barring some catastrophic occurrence, it is possible to predict how many classrooms will be needed in the United States for first graders next year if we know how many five-year olds there are at present. What makes this statistic a useful basis for prediction, however, is positive law and long established custom. Most states have compulsory attendance laws, and the usual, and, in many states, the required, school entering age is sometime during the sixth year of a child. It is possible to predict where the classrooms will be needed with reasonable accuracy if children are required to attend the school in their district and a recent survey has revealed how many children there are. The fewer the variables—if there are no private schools, if the population is immobile, if no parental discretion is permitted—the more accurate the outcome of the prediction based on statistics.

In theory, perfect planning would be possible if the population was under the complete control of a single power (and all acts of God would cease, which communists have tried to achieve by denying God and naturalists by denying that He performs any acts). The thrust of socialism is toward that complete control over men by depriving them of choices by which they might thwart the planners. The effort to use statistics as a means to control the future pushes us toward reducing individual man to a statistic. Specifically, it manifests itself as the tendency to reduce man to a number.
Calculation Impossible

Under pure socialism, Mises said, economic calculation would be impossible. But under pure socialism not only economic calculation but all calculation would be redundant, hence irrelevant and unnecessary. Calculation is useful only because things are independent of us and do not necessarily conform to our will. I count my sheep, or would if I had any, because one or more may have strayed or been stolen, or a new one might have been born during the night, or for whatever reason they are independent of my will.

Under pure socialism, statistics would be a command that would be perfectly fulfilled, not a sum arrived at after the fact. Soviet communists have half-way pretended they could do this for decades now. Their statistics are a compound of commands, wishful thinking, and the determination to deceive those who examine them. Expert Sovietologists have long found it necessary either to make their own calculations or to make drastic reductions in those reported by Soviet authorities. Clever workers in the Soviet Union can sometimes fill or surpass their quotas—statistical commands—by having more than one worker count the same product as his own.

Pending the arrival of pure socialism—an event which is at worst several eons away, by my reckoning—socialists do find it useful to engage in calculation. Indeed, gradualists compile statistics with greater passion than saints stored up virtue in ages past. They calculate gross national products, consumer price indices, wholesale price indices, the number who are unemployed, the number of empty hospital beds, the size of the public debt, the amount of private indebtedness, the number of people who suffer from the common cold and how many days work are lost as well, and may, for aught I know, compute the average daily discomfiture occasioned for victims of hangnails. With all these masses of statistics in hand, they sally forth to “fine tune” the economy and enact programs that their statistics tell them will assure that in the future just the right amount of whatever is needed will be available.

The verdict is not yet in as to whether those who consulted chicken entrails to divine the future had greater success than users of statistics, but it would not surprise me to learn that the Department of Health, Education and Welfare has commissioned a study on just that subject, a statistical study, no doubt.

Assaulting the Individual

Even though calculation is still going on, indeed more of it than there ever has been before, under the impetus of socialism numbers are increasingly being used for
another purpose. As noted earlier, the primary function of numbers is for use in calculation. That may well be their only legitimate use, since all other uses tend to perversions, as in gaming, magic, and superstitious practices. The use of numbers to identify things is innocent enough so long as the maker or owner of the object assigns the number. But even the assignment of numbers to things is suspect when anyone other than the owner assigns the number, for it is a usurpation of the prerogatives of ownership.

But the assignment of a number to an individual—which is the significant change being fostered by socialism—is more than suspect; it is a subtle and symbolic assault on the person. It has an unsavory past and portends ill for the future. It is a device for bringing people under control of the number assigners. The movement toward reducing individuals to numbers is grist for the mills of socialism. It arose in the wake of socialism, reduces the human to the level of a statistic, and instruments him for the kind of control entailed in command statistics.

Individuality is an obstacle to collectivism. Everything that distinguishes one individual from another, all differences in personality, any uniqueness, any peculiarity, any rough edges, all these hinder the meshing of the individual with the group, the organization, the class, the mass, the society, and finally the state. Theconcerting of all effort requires that individuality be sublimated, subordinated, or nullified. Numbers are the right instrument for this.

What's in a Name?

The sign and symbol of individuality is a person's name. It has been said that the most pleasing sound in the world to a person is that of his own name. There is good reason for this. It stands for his personality, his individuality, his uniqueness, all that he has done and become. He who loves and respects himself must in some fashion love his name, even when he does not like it as a name when considered objectively. Religious ceremonies sometimes give public sanction to the sacramental character of the name. In Christianity, this is often done by linking naming with baptism. An individual's status as a distinct being is conferred upon him socially by his name.

Naming of persons and animals is a prerogative of parents, possessors, or trustees. In the case of minor children and animals a change in trustee or owner may result in a change of name. In the United States, at least, when a child becomes an adult he may by initiating the appropriate action change his name. The assigning of numbers to objects is historically the preroga-
tive of the originator, maker, or owner. (Some objects are also given names sometimes, such as boats, homesteads, and, on occasion, automobiles. This is apt to be more playful than not, but it is an assertion of ownership in any case.)

Naming is a means of assigning distinctness and individuality. Numbering is a device for distinguishing objects that are very nearly alike from one another. He who names or numbers either explicitly or tacitly asserts his claim to that which is named or numbered. In short, individuality and ownership are deeply entangled in naming and numbering, spiritually, culturally, and legally.

It is within this context that we should view the increasing tendency to assign numbers to persons. There is yet another context within which it should be viewed, its grisly historical antecedents. (The end toward which an action tends is often implicit in its beginnings.) In earlier times, criminals were often branded. The brand was an identification and warning, a mark of degradation, and, in view of the custom of branding animals, an emblem of ownership by the state. The assigning of numbers to prisoners was a lineal descendant of branding, a change accompanying or following upon the shift from corporal punishment of criminals to imprisonment as a usual punishment.

**Numbers for Prisoners**

The numbering of prisoners was the first ostentatious use of numbers in connection with persons in the United States. The number was prominently displayed sometimes in public places on "wanted" posters. This assigning of a number may have had some slight residual use for identification, but that is not its significance. It is the stamp of the state on the prisoner, the modern equivalent of branding. It is the emblem that he is no longer his own man but belongs to the state. A prisoner is stripped at the outset of much which sets him apart as an individual: his possessions, his clothing, his standing in the community, and many of his legal rights. The number is the seal of his new status.

Aleksandr Solzhenitsyn, with his special insight and sensitivity, has suggested more of the import of assigning numbers to prisoners. He says that they did not get around to assigning numbers to political prisoners until late in the Stalinist era, long after it was generally done for all prisoners in some "civilized" countries. Here is an abbreviation of his account:

Then again, they quite blatantly borrowed from the Nazis a practice which had proved valuable to them—the substitution of a number for the prisoner's name, his "I," his human individuality, so that the difference between one man
and another was a digit more or less in an otherwise identical row of figures. . . .

Warders were ordered to address prisoners by their numbers only, and ignore and forget their names. It would have been pretty unpleasant if they could have kept it up—but they couldn’t. . . .

In work rolls, too, it was the rule to write numbers before names. Why before and not instead of names? They were afraid to give up names altogether! However you look at it, a name is a reliable handle, a man is pegged to his name forever, whereas a number is blown away at a puff. If only the numbers were branded or picked out on the man himself, that would be something! But they never got around to it. . . .

There came a time after the death of Stalin when the authorities no longer required the use of the numbers. Alexander Dolgun has described with what alacrity the prisoners ripped off their numbers and flung them into the air. “This seems like a small matter,” he said, “but for all the prisoners of Dzhezhazgan the number was the prime symbol of our slavery, of our demotion from human being to object. Its disappearance was like the beginning of a fresh new day.”

Those who have suffered greatly often see with remarkable clarity. According to legend, Dolgun was one of only a very few who have survived the duration and degree of torture he underwent. We might suppose that he would have found the wearing of a number of such insignificance as to be unworthy of mention. Not so, his conclusion goes to the very heart of the matter; the number was a symbol “of our demotion from human being to object,” of the demotion of individual man from a value in and of himself to an object of use by others. The number is the Sign of the Beast of the idea that has the world in its grip.

**Military Numbering**

A goodly number of Americans were assigned numbers for the first time as members of the armed forces. Whatever value these serial numbers may have had for identifying mangled bodies, they also served a highly important symbolic purpose. The modern armed forces have brought organization to its peak of efficiency in doing that for which it is best suited, namely exerting force and destroying. To accomplish these ends, the military attempts to blend the individual into the organization in such a way that he becomes at one with it. Close order drill, for example, has for its object making the individual act in concert with the group. “The unit,” in the argot of the armed forces, is the organization to which he belongs, not the individual. Uniformity, obedience and conformity are prime military values. The individuality connoted by names is an obstacle; whereas, a number connotes none of that. There is the matter, too, that one’s name is
assigned by parents, and the number signalizes a new authority and control over him.

The generality of Americans were assigned numbers for the first time in the 1930's when to have a Social Security number became a requirement for employment in many occupations. The significance of this numbering was partially concealed by the beneficent claims made for the undertaking, by the fact that it applied initially mainly to industrial workers, by the fact that it was called "insurance," and by the casualness with which numbers were issued. Too, the number was to identify one's "contribution" to the Social Security "fund." Who could object to that? After all, one's "contribution" certainly should be identified in some way.

It turned out, of course, that it was not a contribution at all; it is a tax, as the courts have decided. Nor is it insurance, in most ways that word is used. No policies have ever been issued. Monies paid into Social Security no longer belong to the individual. He no longer has any claim on them; they are forfeit to the government. The only claim he has is to such benefits as Congress may decide from time to time are to go to those who fall in the category to which his payments and financial condition entitle him. The only management, control, and possession he will ever have over any of this, as matters stand, is over such benefit payments as he may receive. Even the Social Security "fund" is a paper obligation resting on the credit of the United States.

The Number Is Essential

It may be objected at this point that I am making too much of numbers, that what is important is what is being done, not some incidental device by which it is done. On the contrary, I maintain that the opposite is the case. The number is essential; the particular thing that is done with it is only incidental. First of all, consider this fact, all that is left of all the money I have paid into Social Security is my number. If the money were essential and the number incidental, I should have the money and the number should have disappeared.

But one should not rest a case on what may only be a clever twisting of words. Even so, I would like to go one step farther along this line. Suppose that instead of having a Social Security number that my name only were used to identify my "contribution" to the "fund." What could I say then? All that I have left of all that I have paid is my name? Assuredly not, for I would have my name whether or not I had paid my Social Security tax (plus a prisoner's number if I had not paid it, no doubt). That reveals the use of the number—a device for asserting a
distinct claim—, but not its ultimate purpose.

The purpose of the number is gradually becoming clearer with the passage of time, and new legislation. Not only is the percentage of the Social Security tax being increased, not very gradually of late, either, and the coverage extended over the years, but also the number is being used in new ways. The Social Security number has now become a Taxpayer Identification number. By this extension, the government has begun to use a number to assert its control and potential ownership of all our income and resources.

A Case in Sweden

The Internal Revenue Service considers only so much of an individual's income as his as he can show does not belong to the government. True, the government does not ordinarily take it all, but that is simply an incident of the legal establishment of class rate categories and exemptions. What can happen was lately demonstrated in Sweden. Ingmar Bergman, the famous film maker, left the country after the government insisted that he pay taxes which he claimed amounted to 139 per cent of his income. His decision was reached after the following had occurred. He was called out of a rehearsal by government investigators who hauled him away for questioning, confiscated his passport and accused him of evading $120,000 in income taxes. Bergman protested his innocence, but even after the criminal charges were dropped, Swedish officials continued to dun him for the back taxes they insisted he owed. Bergman went to pieces; he stopped work, suffered a nervous breakdown and contemplated suicide. Then . . ., having snapped out of the depression, the 58-year old director announced he was leaving his homeland for good.

Not before declaring, however, "I am leaving my fortune in Sweden at the disposal of the National Tax Board."5

The idea that has the world in its grip presses governments toward taking away the independence of the individuals, toward taking away the means by which they might manage their own affairs, toward concerting their efforts by fitting them into organizations. It is the assigning of a number that is essential, not Social Security. Social Security is incidental; it is only one of the possible means by which government takes from the individual the control over his affairs. There are many other ways it can be and is done. The number, however, is essential; it is that to which the individual must be reduced in order to be instrumented by government. His name belongs to the individual; but the number signals the government's claim on him.

The animus of collectivism is to
reduce individual man to a number, then. It is to reduce him to the lowest common denominator, to a one which he shares with all other living human bodies. Only thus can he be melded with the masses of other men. This process of enmassment is the opposite of what occurs in the refinement of metals. In this latter process purification takes place; the best that is in the metals is separated from the dross and preserved.

**Enmassment**

The enmassing of man that occurs with collectivism may be likened to "enslagment," or the formation of clinkers in a furnace when certain kinds of coal are burned. Clinkers result from a melding together of the impurities in the fuel. The best that is in man is his potentiality for originating, for reason, for spirituality, for building, for love and concern. The enmassment of collectivism suppresses these by giving the weight of numbers to the lowest and worst that is in man: his irrational urges, his desire to dominate, his envy, his will to put down that which he cannot appreciate or understand, his opposition to what is different, and his bent to destruction. The clinkers produced by collectivism smother the flame, just as clinkers in a furnace will a fire.

The weight of numbers is a fearful thing for individual man. Only very strong and sturdy men can stand for long against them in whatever way they are arrayed against him. Numbers have imperiled the individual in all ages. It has remained for our age to sanctify them. (Greece and Rome empowered the masses in the period of decline but fell short of sanctifying them, I believe.) We sanctify this weight of numbers by calling it democracy and claiming that it would be desirable to infuse all of life with its methods. Labor unions are empowered by government to use the weight of their numbers against individuals who desire to work. But the weight of numbers intrudes into every realm today: suppressing, restraining, and limiting man.

**Counting the Votes**

The actual political process becomes a means of subjugating the individual under the impetus of collectivism. Democratic socialism turns voting into a kind of self-immolation by which the individual yields up his independence and control over his own affairs by casting a ballot. He reduces himself to an anonymous number and becomes a statistic. Man's potential weight in his own and in public affairs is largely reduced to a scratch on a ballot or, more appropriately, the turn of a wheel in a machine.

In the framework of the idea that has the world in its grip the only issue that is supposed to arise is over
what means shall be used to concert all efforts to promote the general well-being. Not only does the individual reduce himself to a number by voting but also to a statistic in favor of one method of being concerted as opposed to another, if any issue at all can be discerned. The man who wishes to manage his own affairs is unlikely to find that among the available options.

Actually, voting for candidates may be a reasonably satisfactory means of determining who shall govern, so long as the demonstrably corrupt and unlettered are excluded. It is hardly the way to decide what government shall do, however, and that is the question which gradualism continually intrudes into the process. That is a constitutional question requiring for its answer not man reduced to a number but man in the full weight of his being as an individual.

Moreover, socialism turns voting into the quest for the holy grail. It turns the mundane business of selecting who shall govern into the choosing of religious leaders who are assumed to be competent to manage the transformation of man and society. So long as a choice of candidates remains, voting is important, of course. It does restrain politicians to know that they will have to stand for election, nor can power ever be absolute so long as its exercise can be modified by decisions of the electorate. But for those who do not accept the religious vision of socialism, voting is a game of chance, with the odds arranged heavily against them.

**Rendered Meaningless**

The ultimate reduction of man is not to a number. Even when that number is only one, it still has a fixed quality about it which resists manipulation and control. The ultimate reduction of man is to a meaningless number. Communists have discovered a way to do this in their "democratic process."

Elections in the Soviet Union, for example, are meaningless affairs, so far as the participants are concerned. A Party slate has been nominated by the leaders, and it will be elected. It does not matter whether one hundred, one thousand, or one million vote: the result will be the same. Even so, a great effort is made to get out the vote. Pressure is brought to bear on selected individuals to go from door to door urging others to vote. Why? For one thing, as earlier noted, there is the facade of democracy which has propaganda uses. But it serves a highly important interior purpose as well. The individual is not only reduced to a number which can be rendered as a statistic but also to a meaningless number and statistic. The absolute and arbitrary power of the rulers over the populace is demonstrated.
By coming forth to vote they apparently acquiesce both in their own meaninglessness and the power of the rulers. The more who vote, the more complete the demonstration of power.

The subjugation of the individual descends to degradation under communism.


—FOOTNOTES—


What Price Socialism?

A society is socialized by extending, centralizing and accelerating the exercise of political power. Socialists may speak of controlled production as their method of operation, but production cannot be controlled except by controlling people. If men as producers are to be controlled, it means that they will be told what jobs they are to work at, where they will work, and how long they will work. This sort of political tyranny is inherent in a socialized society. It is a denial of man's inherent right to be free.

No human society has been completely free; some men have always sought, and occasionally have obtained, a politically privileged position for themselves at the expense of other people. But until recently, all well disposed men sought to remedy social ills by working for a society in which every man has the right to plan his own life in any peaceful way his conscience allows. This human aspiration has been reversed in the thinking of socialists who talk in terms of a planned economy. In an economy planned politically there is no room for individuals to make their own plans; their lives are planned for them, which means that they are not free to run their own affairs.

ADMIRAL BEN MOREELL
Russell Kirk is dedicated to a proposition that doesn't sit well in a democracy, that not everybody is "college material." He has been our most trenchant critic of the big "multiversity" that he satirizes as Behemoth U., where they give academic credits for fly-fishing, home economics, pop culture and other "gut" courses and frivolities, and he has not spared the smaller establishment that he calls Brumagem U. or Dismal Swamp A. and M. He thinks we have been pouring billions into a system that encourages four years of relative idleness for a majority, while the few serious students do the best they can to read an occasional book while the rock music pours forth its incessant cacophony.

There are ironies here, for I have heard Russell Kirk lecture at a big southern state university (Troy, in Alabama) and at a small college (Hillsdale), and the rapt attention he has received in both places is a tribute to hungry sheep who insist, on occasion, on being fed. Not all is lost when colleges compete to give Kirk a platform. But Mr. Kirk is dealing in trends, and his Decadence and Renewal in the Higher Learning: an Episodic History of American University and College Since 1953 (South Bend: Gateway Editions, 354 pp., $15.00) paints a lugubrious picture that has its undeniable broadscale truth.

Mr. Kirk takes 1953 as our watershed year in education. Before that the cost of an education to individual families imposed a limiting factor on the growth of Behemoth U. But with the G.I. Bill of Rights encouraging thousands of military veterans to enroll in our colleges and universities, the idea was
spread abroad that the higher education was everybody's birthright. With easy loans available to almost anybody, and with tax money sluiced from Washington, D.C., to scores of institutions that were willing to risk federal supervision of the curriculum, gigantism became the order of the day. To accommodate students who had no real inclination to work, the elective system introduced by Charles Eliot at Harvard was expanded to include all manner of fads and foibles. It was "cafeteria style." All sense of integration and order of knowledge was abandoned; the colleges became purposeless centers of mere socialization and sociability. And the student at Behemoth U. became an IBM number.

Mitigating Factors

To give the colleges their due, they were not entirely to blame for the mess they made of trying to accommodate the millions. Our grade school and high school education had already been enfeebled by "look-say" methods of teaching reading, which meant that the typical freshman entered college without the literacy needed to handle abstractions. Perforce, the colleges had to do the work the high schools had neglected. With "remedial" courses eating up the undergraduate's time, the chances for studying at a college level were obviously diminished.

The purposelessness of a system that had forgotten that wisdom and virtue had once been the ends of education happened to coincide with the decay of religion and the loss of belief in family authority. Returning in 1959 to Michigan State University, where he had once taught, Mr. Kirk was appalled by the random utilitarianism of his university president. The university catalogue contained forty-four courses in hotel and restaurant management. There were 163 courses in home economics, and 106 in sociology and social work. Among the offerings in the College of Education were "Personnel Work in Residence Halls" and "Square Dance and Square Dancing." There was one small department: Religion, with a mere twenty-four courses.

Massive subsidies of the universities and colleges came with the Lyndon Johnson era. The subsidies reinforced the inhumane scale of Behemoth U. Rioting and cheating, says Mr. Kirk, were "the ineluctable consequences" of a depersonalized campus. And then came the impact of a purposeless war. With affluent students uneasy in their consciences about being exempted from the draft, the ideologues found it easy to convert the Lonely Crowd on the campus into a mob.

Mr. Kirk confesses to a sneaking sympathy for the rebels who revolted at what was being inflicted on
them in the name of education. Their classes were boring. "Why," asks Mr. Kirk, "shouldn't students have their action at Behemoth State U. . . . It would get them out of those boring classes for a week." The student demand for "relevance" in their courses was not, according to Mr. Kirk, entirely misplaced. What was misplaced was the theory, uncritically accepted on the campus, that history was an irrelevant subject.

**Signs of Improvement**

Since the early Seventies there has been some improvement on the campus. The craze for drugs has abated. The abolition of the military draft removed the guilt feelings about using a college sanctuary to remain aloof from the national crisis. With college enrollments diminishing, there is less pressure on booster presidents to cry for more brick-and-mortar expansion. And with less assurance that jobs will be waiting for them when they finish college, students have become more serious. But Behemoth U. is still with us—and Mr. Kirk insists that it is "beyond reformation."

In a few chapters on "conceivable renewal," Mr. Kirk addresses himself to the problem of by-passing the partisans of the "multiversity." The small liberal arts college is capable of being saved. The big controlled multiversities may be beyond easy redemption, but an experiment started at the University of California at Santa Cruz in 1965 is promising. Santa Cruz consists of several small colleges that receive from two hundred and fifty to one thousand students each. Every college has its own brand of study—humane letters, the arts, natural science. Most students reside in their own colleges, along with some of the professors. The scale is humane, the opportunity for a fruitful leisure is there.

Mr. Kirk also finds much to commend in the group of small colleges that has grown up in Claremont, California. The five autonomous institutions in the "Claremont group" are Pomona, Scripps, Claremont Men's, Harvey Mudd and Pitzer. Each keeps its own identity—one is a co-educational liberal arts college, another emphasizes social studies, and another specializes in preparation for leadership in government and business. Yet they share a common library.

Mr. Kirk hopes to see more of the Claremont and Santa Cruz type of decentralization. He is also hopeful that the curriculum in the liberal arts colleges can be simplified. We need fewer subjects, he says, and these should be taught thoroughly and well. Three courses a term are enough. The college year might profitably be limited to six months, after the Scottish fashion, with time for independent reading and travel.
Even Behemoth U. might be saved to some extent if the honors course idea, limited to top grade students, were to be accepted. As for the Great Books concept, Mr. Kirk endorses it in principle, though he differs with the particular list of great books that Robert Hutchins and Mortimer Adler picked as the core of the curriculum for St. John's College. Mr. Kirk likes in particular what Thomas Aquinas College in California does with the St. John's idea.

BEFORE THE SABBATH

by Eric Hoffer
(Harper & Row Publishers, 10 E. 53rd Street, New York, N.Y. 10022)
144 pages • $7.95 cloth

Reviewed by Allan C. Brownfeld

Eric Hoffer has long been an eloquent defender of freedom and of the free market.

Now retired from his work as a San Francisco longshoreman he has some striking things to say about communism and capitalism, about America, and against "intellectuals."

Hoffer notes that, "Lenin and Stalin between them liquidated at least sixty million Russians in order to build factories and dams. America welcomed thirty million immigrants to help build factories and dams. Capitalism is fueled by the individual's appetites, ambitions, fears, hopes and illusions. Communism forces people to hate what they love and love what they hate. Imagine a country of land-hungry peasants forced to renounce ownership of land. Imagine a system that frowns on friendship, free association and individual enterprise. It is no wonder that after sixty years the Russian Communist party must still coerce, suspect and minutely regulate the Russian people."

The intellectuals' dislike of capitalism, Hoffer points out, is based upon the fact that in capitalist societies, they are not in charge: the people set the agenda. "Communism was invented by highbrows," he writes, "while capitalism was initiated by lowbrows."

Hoffer refuses to apologize for the extraordinary affluence our free market has produced and shared with the world. "It is an outrage," he declares, "that with so much arable land Latin America and Russia should have to import grain. No one dares shame the representatives of these countries for their criminal interference with the productive capacity of their people. It is getting more and more difficult to see why this country should have any obligation toward the economically mismanaged parts of the world. It would be fitting if the American represen-
tatives at the United Nations held up to public scorn the creators of hunger.”

The lament by Third World countries over a supposed “maldistribution” of wealth is rebuffed by Hoffer, who charges that such an opinion ignores the fact that wealth is produced only through great effort. “Not a word is said about how wealth comes into being; the toil, sweat and self-denial which make an accumulation of wealth possible. This is how a once poor and backward Japan became an affluent country. It is curious how in both domestic and international affairs there is a stubborn refusal to see a connection between effort and income. It is widely assumed that individuals or countries are poor because they are exploited or discriminated against.”

The root of many of the world’s evils, Hoffer believes, is the ideologue’s view that heaven can, in fact, be created on earth. Partisans of this view, “did not know what happens when dedicated idealists come to power; did not know the intimate linkage between idealists and policemen, between being your brother’s keeper and being his jailkeeper. It is disconcerting that present-day young who did not know Stalin and Hitler are displaying the old naivete. After all that has happened they still do not know that you cannot build utopia without terror, and that before long terror is all that’s left.”

For himself, Hoffer writes, “I cannot see myself living in a socialist society. My passion is to be left alone and only a capitalist society does so. Capitalism is ideally equipped for mastering things but awkward in mastering men. It hews the assumption that people will perform tolerably well when left to themselves. The curious thing is that the reluctance or inability to manage men makes capitalist society uniquely modern. Managing men is a primitive thing. It partakes of magic and is the domain of medicine men and tribal chieftains. Socialist and Communist societies are a throwback to the primitive in their passion for managing men.”

Hoffer, now in his seventies, is the son of immigrants. He has had a life-long love affair with America. “America,” he states, “is the worst place for alibis. Sooner or later the most solid alibi begins to sound hollow. . . . To come to America is to be reborn, to start with a clear slate. Here you are your own creator and your own ancestor.” Only those who hate freedom, he declares, hate America.
The Ethics of Profit Making  
Brian Summers  
Why punish those who profitably serve willing consumers?

A Symbol of Chaos: The Gas Pump  
Hans F. Sennholz  
Regulation and control of production and pricing create intolerable shortages and disaster.

“Sorry, No Further Bids!”  
Gary North  
Government changes the outcome when it regulates the auction.

Profits and Payrolls  
Henry Hazlitt  
How the employees of corporations compare with stockholders in the distribution of income.

Agriculture and the Survival of Private Enterprise  
Ed Grady  
The most positive program for agriculture or any business, for human freedom in general, is to avoid political management.

World in the Grip of an Idea  
32. The Restoration of the Individual  
Clarence B. Carson  
The Good News that individual man is valuable beyond compare.

Nock: An Appreciation  
Ronald F. Cooney  
Albert Jay Nock did the most one can to improve society: present the example of one improved unit.

The Writings of F. A. Harper  
Paul L. Poirot  
In testament to the collected works of a brilliant exemplar of freedom in all its aspects.

Book Reviews:  
“For the Record” by Felix Morley  
“What Makes You Think We Read the Bills?” by Senator H. L. Richardson

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The Ethics of Profit Making

Defenders of profit making almost invariably use one or more standard arguments. Let us examine the strengths and weaknesses of these arguments—and then consider a new approach which throws additional light on the ethics of profit making.

A businessman's profits (or losses) are his net revenues minus the market value of whatever labor he put into the business and minus whatever interest he passed up by investing his own capital in the business. Thus, if a businessman could have earned $20,000 a year doing the same work for someone else, and if he had $50,000 invested in the business when the market rate of interest was 10 per cent, he made a pure (entrepreneurial) profit only if his net revenues for the year exceeded $25,000.

If a businessman does make a profit, he may try to justify it by pointing out that he has invested his own capital in the business and patiently waited for his return. But implicit interest (in our example $5,000) is excluded, by definition, from profits. Profits are not a reward for waiting; interest is a reward for waiting.

Or the successful businessman may declare that he has worked hard—that his profits are the "fruit of his own labor." But, by definition, implicit wages ($20,000 in our example) are excluded from profits. Profits are not a reward for pure labor; wages are a reward for labor. Businessmen who suffer losses despite great personal efforts, and businessmen who reap profits with no more "labor" than a few tele-

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Mr. Summers is a member of the staff of The Foundation for Economic Education.
phone calls, illustrate the difference between profits and wages.

Risks

A similar argument asserts that profits are a reward for bearing risks. But businessmen who suffer losses also take risks. So do gamblers and mountain climbers. Should these people be rewarded just for bearing risks?

The risk argument is especially weak in the case of profits that are completely unexpected—windfall profits. A storm may pollute a town's water supply, enabling the owner of a natural spring to reap windfall profits. The owner may have paid almost nothing for the spring, thus risking very little capital. It is difficult to justify his profits solely on the basis of his taking a risk.

In fact, the less capital a businessman invests in his business, the less implicit interest he loses and, other things being equal, the greater his profits. That is, other things being equal, the less capital risked, the greater the profits. Similarly with the businessman's labor. The less effort he risks on a business, the less his implicit wages and, other things being equal, the greater his profits. In this sense, profits can result from not risking too much capital or labor.

If profits are not a "reward" for waiting, laboring, or bearing risks, the defender of profits must seek other arguments. He often turns to the free market economist, who usually provides a utilitarian argument.

Utilitarian Argument

The economist points out that competition leaves businessmen little choice but to charge whatever price the market is paying. Thus, the prime way to earn profits in a market economy is to cut costs through the prudent use of scarce factors of production. The businessman who conserves the most resources, while giving consumers the most for their money, earns the greatest profits. Profits and losses promote efficient production; free market prices eliminate shortages and surpluses; profits provide the incentive and means to invest in productive capital goods. The utilitarian argument can be very compelling.1

Furthermore, the utilitarian argument offers a defense for windfall profits and speculative profits. In the case of windfall profits, suppose a disaster destroys much of a city's housing. In a free market, rents will rise—encouraging people to take in boarders, share apartments, bring in portable shelters, repair damaged housing, and build new dwellings. Thus, profits will encourage people to alleviate the housing shortage, so that rents will soon fall back to
"reasonable" levels. Of course, if rent controls prohibit windfall profits, this natural recovery will be stifled. The utilitarian argument also offers a defense for the profits of commodity speculators and land speculators. Commodity speculators buy when they expect a shortage—encouraging increased production and conservation. They sell when they expect a surplus—discouraging further production and encouraging increased use of the commodity. Thus, commodity speculators tend to smooth out shortages and surpluses. In addition, they quote future prices which tend to reduce the uncertainty facing businessmen, farmers, and consumers.

Land speculators earn profits by buying property for which no one else sees much use, and later selling it to someone who recognizes the property's high yield potential. Thus, land speculators keep property out of low productive uses and store it up for high productive uses.

Paul A. Samuelson challenges this utilitarian approach by pointing out that a speculator may, for instance, learn of a crop failure only a few seconds before his competitors and thereby reap huge profits. He finds it difficult to justify these profits solely on the basis of the few seconds the market gains in adjusting to the crop failure.

But Samuelson ignores the role of incentives. It is true that if the first speculator didn't learn of the crop failure, others might have learned a few seconds later. But it is not necessarily true that these other speculators would have acted as quickly (or acted at all) without the profits that awaited the "winning" speculator.

The utilitarian argument offers a formidable defense for profits earned in a free market system—based on the economic efficiency of the system itself. Yet many people are not satisfied by this argument. They may be willing to trade some economic efficiency for other goals, such as a proposed "fairer" distribution of wealth.

Some businessmen try to counter these proposals by asserting that their profits are too small to warrant much reduction. This may be true, but the utilitarian argument shows that the small profits of some are no reason for taxing the large ("excess") profits of others. In fact, other things being equal, the maker of small profits has used up more scarce resources than the maker of large profits. On utilitarian grounds, large profits are more commendable than small profits.

**Voluntary Transaction Argument**

To effectively counter objections to the utilitarian argument, defenders of profit making may turn to
more philosophical arguments. They may, for instance, point out that in a free market all profits and losses are the results of voluntary transactions. In a free society, no one is coerced into dealing with a particular businessman. Each person enters into a transaction expecting to improve his own condition—otherwise he wouldn't trade.

To the libertarian, this argument carries much weight. Who can condemn a voluntary trade? Yet many people do. They point out that prostitutes, pornographers, and drug dealers often engage in voluntary transactions; yet these transactions, for other reasons, are to be condemned. Until people place a higher value on freedom, the voluntary transaction argument will fail to satisfy many critics of profit making.

**Property Rights Argument**

Another philosophical argument is based on property rights. The businessman either owns a good or has hired the factors of production used to produce it. Therefore, once his employees, suppliers, creditors, and landlord have been paid, any implicit wage, implicit interest, or profit remaining from the sale of his good rightly belongs to him.

This argument can be used to justify any profit made in a free market. It is, however, based on the sanctity of private property. Those who use this argument must be prepared to defend the right to private ownership.  

Even for those who believe in private ownership, the property rights argument creates the impression that the businessman purchases factors of production and then just sits back to (hopefully) collect his profits. Many people are dissatisfied with this approach because they feel that a person should actively do something to deserve a profit. The fact that the businessman may have labored does not overcome this objection because, as we have seen, implicit wages are excluded from pure profits. Something seems to be missing from the property rights argument.

**Creator-Finder-Keeper Argument**

What is missing is a recognition that the entrepreneur creates the opportunity to discover his profits. This new approach to the ethics of profit making, based on the seminal writings of Israel M. Kirzner, does not, of course, claim that the entrepreneur physically creates his products. Products are physically "created" (transformed from one form into another) by workers using the capital goods investors provide them. But workers and investors don't decide what product to make and which factors of production to use. The entrepreneur makes these decisions. His decisions determine
which product will be offered to consumers and what the costs of production will be (calculated from the market prices of the factors of production he chooses). *The entrepreneur's decisions make the difference between profit and loss.*

Thus, although a businessman may not physically create his products (although by the property rights argument he owns them), he does create the opportunity to discover if consumers will pay a price which exceeds his costs. An illustrative example is the speculator who buys a good and then sells the physically unchanged good at a profit. By purchasing goods and offering them for sale, speculators create their own opportunities to discover profits.

This approach casts additional light on Samuelson's speculator who learns of a crop failure a few seconds before his competitors. Previously we saw how his profits can be justified on utilitarian grounds. They are also justified by the voluntary transaction argument and the property rights argument. But now we see a new justification for his profits. By placing purchase orders a few seconds before his competitors, he creates his opportunity to discover profits. He alone creates his opportunity, so any profit or loss is his.

Note that this is not simply a "finder-keeper" argument. The entrepreneur doesn't merely discover his profit, like a child stumbling across a bright pebble. Even the reaper of windfall profits must first acquire title to property before he can sell it at a profit. By acquiring property, the entrepreneur creates his opportunity to discover if he can sell it at a profit.

Nor is this a "creator-keeper" argument. In a competitive market, with no governmentally imposed barriers to entry, a businessman cannot set his price by arbitrarily adding a "profit" to his costs (as government-created monopolies and cartels can do). In a competitive market businessmen must discover what prices consumers will pay. Thus, this approach to the ethics of profit making is perhaps best labeled a "creator-finder-keeper" argument.

So far we have considered the profits and losses of a businessman operating in a free market. But the real world contains partnerships and corporations in addition to sole proprietorships. Also, the real world is by no means a free market—it is a market increasingly hampered by government interventions. How do the various arguments used to justify profits apply to the real world?

**Partnerships and Corporations**

Partnerships and corporations, historian Robert Hessen has shown, are networks of contractual relationships. Thus, the voluntary transaction argument can be di-
rectly applied to justify the profits of these forms of business. The utilitarian argument is directly applicable by simply changing the word "businessman" to "partnership" or "corporation." For the property rights argument we change "businessman" to "partners" or "stockholders."

The creator-finder-keeper argument can also be applied to partnerships and corporations. Somewhere in the business organization decisions are made as to what to produce and how to produce it. For the creator-finder-keeper argument it doesn't matter where in the organization these decisions are made. It suffices that profit opportunities are created by the business. Thus, when it is discovered that consumers will pay a profit-yielding price, the profits belong to the partnership or corporation and are apportioned among the members according to contractual agreements.

**Government Intervention**

But what about profits earned in a market hampered by government intervention? The arguments we have considered justify a businessman's profits only to the extent that his profits do not derive from interventions. The more the government intervenes in the economy, the less likely it is that these arguments will apply.

This is clearly the case with the voluntary transaction argument. The more the government intervenes, the more do transactions become involuntary. For instance, the beneficiary of an import quota may claim that customers "voluntarily" patronize him. But they may patronize him only because the quota prevents them from dealing with foreign businesses.

The utilitarian argument also becomes less applicable the more the government intervenes. In a free market, businessmen earn profits through the efficient use of scarce resources. Their profits are the result of using as little as possible to provide consumers with as much as possible. The more the government intervenes, however, the less profits reflect efficiency, and the more they reflect politically determined prices. For example, a land speculator may reap profits, not by finding a buyer who recognizes the productive potential of his land, but through a zoning change.

The property rights argument is also vitiated by government intervention. The more the government is used as an instrument for violating private property rights, the less appropriate this argument becomes. For instance, the recipient of a government subsidy can hardly justify his profits by appealing to private property rights when those around him are paying taxes on their property to finance his subsidy.

The same holds for the creator-
finder-keeper argument. The creator of a profit-yielding opportunity cannot use this argument to justify his profits when the opportunity has been politically created. Businessmen who successfully lobby for subsidies, tariffs, restrictions on competitors, and other government favors create profit opportunities for themselves by restricting the opportunities of their fellow men.

This brief essay has not, of course, completely spelled out any of the arguments used to justify profits. Nor has it considered all the arguments. Left untouched, for instance, are Biblical justifications, profits from immoral and/or illegal activities, and the basic question of the morality of the private property system.

Nevertheless, we have seen that strong arguments can be brought forth in defense of profit making in a free market. The strengths of these arguments, in fact, suggest that businessmen spend less time apologizing for their profits and spend more time challenging their tormentors to justify the ethics of price controls, "excess" profits taxes, union coercion, and other interferences with the peaceful conduct of business.

---FOOTNOTES---


2See "Why Speculators?" by Percy L. Greaves, Jr. (The Freeman, November 1964) and "Those Fellows with Black Hats—the Speculators" by John A. Sparks (The Freeman, August 1974).


4This can be done on several grounds, but is beyond the scope of this essay. See, for instance, Samuel L. Blumenfeld, editor, Property in a Humane Economy (Open Court, LaSalle, Illinois, 1974) and Gottfried Dietze, In Defense of Property (The Johns Hopkins Press, Baltimore, 1971).

5See his Competition and Entrepreneurship (University of Chicago Press, 1973) and Perception, Opportunity, and Profit (University of Chicago Press, 1979, forthcoming) especially chapters 11 and 12 of the latter. There are, however, several points of difference in our analyses; any errors in this paper are entirely my responsibility.


Ludwig von Mises

There is in the market economy no other means of acquiring and preserving wealth than by supplying the masses in the best and cheapest way with all the goods they ask for.
Until just a few years ago most people were indifferent to all questions of energy. They were as heedless of the very industry that produces heat and power as of many other industries meeting their daily needs. Surely they were aware of basic materials such as wood, coal, gas or oil burned to produce heat and kinetic energy. But the term “energy industry” was yet unknown. Even the dictionaries of economics designed to include the terms commonly used in college courses listed neither energy nor the energy industry. It was left to the 1970s to call attention to the industry and bring us the energy crises.

In retrospect there were earlier indications of things to come. By 1970 there was a United States Department of Transportation, a Federal Power Commission, and an Atomic Energy Commission. In 1973 Congress added the Federal Energy Administration to centralize all regulatory functions relating to oil. The Energy Research and Development Administration came into existence in 1974. In October 1977, the Department of Energy brought all these governmental functions together into a single organization under the direction of a Secretary of Energy.

This observation of demonstrable facts raises a fundamental question: was the growth of government intervention in all matters of energy the cause or effect of the painful crises that developed during the
1970s? If it can be proven that government intervention brought about the dilemma in which we find ourselves today, the solution can be no other than early reduction and ultimate abolition of this harmful intervention. But if the causes are found to be elsewhere, and the growth of government was merely a reaction to a new situation, we need to search for other solutions.

**Surpluses and Shortages**

Our search for an objective answer calls to mind a basic principle of political economy that may be applicable also to energy problems: whenever unhampered enterprise provides products and services, it tends to create surpluses that clear the market only through major sales campaigns. Its advertising message to the consuming public is to buy ever more and better products. Wherever government provides products and services, it invariably creates shortages that inconvenience the public and sometimes bring economic crises. Wherever government is in charge, its advertising message is always the same: consume less, eat less, drive less, let there be austerity! This has not changed from the wheat and bread shortages of 1918 to the gasoline shortages of 1979.

Where government is in charge and shortages inconvenience the public, we can observe yet another regularity. Through intensive publicity campaigns government officials and politicians point the finger of blame at one or several culprits who are bitterly denounced for selfishly causing the shortages. In televised press conferences the President of the United States himself may make ugly charges against oil producers, or any other producers whose regulated services are in short supply. Or he may point at some foreigners, e.g., the Arabs, as the culprits who sinisterly inflicted the evil on us.

When unhampered individual enterprise generates surpluses, there are no press conferences, no headlines and no charges. The public looks at them with indifference in a mood of affluence that comes from choice and selection. The press ignores them although it prospers from the paid advertisements that seek to market the products. Radio and television thrive on advertisement campaigns that pay for the amusement and entertainment of the public.

But all such reflections may reveal mere coincidences that have no bearing on the energy crisis. Perhaps the politicians are correct in pointing at the OPEC countries for charging too much, at the oil companies for seeking ever higher profits, and at the public for consuming too much.

In that direction of deliberation
lies a wide open sea of arbitrary judgments. What is "too much"? Millions of people are giving different answers to this very question throughout their busy days. They are making their choices as they are consuming oil and gas for heat, refrigeration and air conditioning, turning on electric lights, operating power tools, or driving up to the service station to tank up on gasoline. They are giving vivid answers to the question in long lines waiting to buy more fuel. We must not blithely ignore or reject their answers, nor those given by the oil companies or OPEC spokesmen.

If millions of people are said to be wrong wanting too much, is it not likely that the critic who is censoring them is judging too much? Is he proposing to change human nature by his criticism? Or, is he a would-be tyrant who is longing to impose his judgment and will on others? To explain the energy crisis in terms of value judgments or culprit condemnations is to open the gates for arbitrary judgment and political power.

Is OPEC Causing the Fuel Crunch?

Such an explanation also leads to puzzling conclusions that seem to contradict human nature. If the Arab oil producers are causing our dilemma, why are they not accomplishing identical, or at least similar, effects on other nations? It is an established fact that they are treating their customers equally, charging identical prices and surcharges. But we know of no energy crisis other than ours. There are no reports of empty gasoline pumps in Europe, Africa, Asia, or Latin America, no empty oil tanks anywhere, except in these United States of America.

This observation is all the more startling as most of the oil we consume comes from wells within our national borders, while most foreign countries, such as Germany and Japan, lack any domestic production. And yet, they are prospering although the price of Arab oil has soared in those countries too. Surely, they too feel the pinch of rising energy costs, which reduces their productivity and income by corresponding amounts. Rising oil costs necessitate many changes in goods prices and readjustments of production patterns. But they do not breed an energy crisis that threatens to disrupt economic production and reduces standards of living severely.

Our energy crisis is all the more mysterious inasmuch as OPEC is accepting the United States dollar as its primary medium of exchange. Other buyers of Arab oil must scramble to earn dollars first before they can place oil purchase orders. But Americans can use their own currency for any quantity of Arab oil
they may wish to acquire. Our monetary authorities may create any amount without cost, and thus facilitate the payment of Arabs with newly created money. That is, they can avail themselves of inflation as a tool of international finance, which partially shifts the burden of rising oil costs from the energy users to inflation victims. Thus the United States can victimize the Arabs themselves, who own large dollar balances, by exporting inflation in exchange for Arab oil.

It is obvious that such objectionable devices of international finance do not make for international peace and harmony. Since the United States was exporting inflation long before the oil producers combined to form an international oil cartel, we may understand the Arab reaction that led to OPEC. To them, joint action afforded the only way to adjust the price of oil to the ever-rising demand for oil payable in depreciating dollars. After all, there was no free and open Arab oil market on which the daily demand and supply determined the price.

**Under Government Management and Control**

The OPEC oil industry is a nationalized industry owned and managed by the member governments. They legislate every aspect of the industry from the allowable quota of production to the price of the product, and determine who may buy under what conditions, and so forth. Theirs is a political process that is very slow to adjust. When compared with the market process that facilitates adjustments from day to day, yea, minute to minute, the political process of managing an industry and marketing its products may appear irrational although its political planners are deliberate in devising their plans and adopting their policies.

In such a world of politics that seeks to manage nationalized industries, there is confusion and chaos—unless the governments as owners agree on a common plan and act jointly to restore some semblance of order. The international cartel arrangement is a natural manifestation of a world economy in which export industries are government owned and operated. It also points up the growing danger of international conflict through world-wide socialism.

It is idle speculation to deliberate on the world market of oil if market forces were unhampered and free to determine prices. If there were no OPEC, no nationalized oil industry, and no Department of Energy regulating and fixing United States production—just unhampered markets and unrestrained competition—the energy world would be quite different. Surely, the price of oil would be much lower without the stagger-
ing costs of politics. And there would be no energy crisis.

**Are the Oil Companies Gouging the Public?**

To many critics, Arab behavior alone does not explain the energy crisis. They are pointing at the oil companies whose profits have been rising in recent years. Most politicians and even the President of the United States are openly denouncing the “disgraceful” and “exorbitant” profits and are demanding a tough “windfall profits” tax. Some politicians even are clamoring for a speedy expropriation and nationalization of the companies.

It is difficult to ignore this crescendo of cheap demagoguery, which, when left unanswered, may lead to most harmful and regrettable legislation. Every effort must be made to refute and explode the political propaganda and repel the politicians who are anxious to extend their influence and power. Their attacks on the profits of one industry actually are attacks on the profits of all industries and on the profit system itself. Just listen to their charges against the energy industry. You will search in vain for a difference between those charges and those leveled against the private property order by the professional socialists and communists around the world.

It is rather inconsistent and therefore most puzzling that American politicians should be the most vocal critics of an industry that has been under their careful supervision and control. After all, the Nixon price control edict of August 15, 1971, was never lifted from the energy industry. Even today the ceiling prices as set by the Department of Energy are posted on every gasoline pump in the country.

The political attacks on the very industry that, under a heavy barrage of regulations and denunciations, continues to provide us with energy remind us of some gruesome tales of human behavior during the Dark Ages. When the black death was stalking Europe, public sentiment was often aroused against those people who bravely sought to alleviate the suffering, comforting the dying and healing the sick. Thousands of aging women who survived the disaster were accused of precipitating the disease through witchcraft and were put to a cruel death. Similar forces of darkness now accuse the American oil industry, which provided the people with an abundance of cheap energy for most of this century, of creating the shortage in order to reap ever higher profits in a moment of national crisis. Surely, no person will be put to death, merely our economic order.

At the trial of the private property order the defense is pointing out that the Government of the United States is enforcing energy prices
that are arbitrary and confiscatory. They are fixed below those prices free people would choose to pay if there were no mandated ceilings. That is to say, the Government is forcing energy producers to sell their products and services below their objective exchange values and thereby causes the producers to be gouged on a massive scale. If a company tires of this legislated plunder and for a moment should ignore the price edict, it is hauled into court and charged with consumer gouging. That is, the political gougers are taking the victims to court and accusing them of the very crime that is perpetrated against them. If there were justice in the court of public opinion, the charges would be promptly dismissed and the persecutors would be arrested for expropriating private property without due process.

Groundless Charges

The charges against the energy companies are based on the crude assumption that their profits are the evil fruits of worker exploitation and consumer gouging. Profits are the scourge of greed and egotism, which is the charge all socialists and communists are making against the private property order. A mere glance at the living and working conditions of the people in capitalistic countries vividly disproves the charges. When compared with the conditions in the socialistic countries, the American people are living in a land of milk and honey, enjoying far greater material comforts and cultural opportunities. The steady stream of refugees and immigrants to American shores is illustrating the point.

Blinded by socialistic propaganda, the critics of the profit system fail to see its inherent benefits and justice. What is a profit, after all? It is the remainder of proceeds after all factors of production have been fully compensated. Businessmen may earn it through efficient management of their resources in the service of their customers. The most efficient producer earns the highest profits, which give him the means to expand his production and render even more services. Surely, the profits thus earned benefit the people through more and better production. Similarly, the workers employed by profitable enterprises enjoy higher wages and more benefits than others less fortunate who happen to work for employers suffering losses.

Exceptionally high profits can only be reaped through the correct anticipation of changes. When a change in market conditions, e.g., in demand, supply, technology, institutional restrictions, international situations, and the like, necessitates quick readjustments in production, the most alert producer who correctly anticipates the changes and
makes prompt preparations, may reap high entrepreneurial profits. His alertness and prompt action redound to the benefit of the public. In short, he who addresses himself to the most urgent needs of the public tends to earn the greatest rewards, which, as an economic principle of the market order, meets our criterion of justice. In an energy crisis, we expect the most efficient energy producer to earn the highest profits, as we would expect physicians and nurses to earn highest incomes in a public health crisis. To burn them at the stake of political demagoguery is preposterous.

It is so Easy to Create a Shortage

The public hostility against business profits has brought chaos to the fuel pump. It has given rise to ever more government regulation, which is the root cause of the energy crisis. Politics has become hopelessly entangled in the production and distribution of energy.

In 1954 the Supreme Court set the tone by giving the Federal Power Commission control over natural gas prices in interstate commerce. These controls at first did not hamper production because they did not deviate by much from prices established by the demand and supply forces of the market. But during the 1960s, the United States Government legislated significant increases in demand and boosts in production costs. Environmental restrictions and pollution regulations that discourage the burning of coal, favoring the use of gas and low-sulfur fuel oil, mandated increases in consumption and made production much more expensive. In addition, the inflationary policies of the Government eroded the purchasing power of the dollars received by energy producers.

In 1971, President Nixon placed domestic crude oil under price control as part of his overall price-stop edict. While many other harmful controls were subsequently lifted, the price fixing of domestic oil and gas was continued. His successors continued to fix with vigor and force.

It is always much easier to prevent production and create shortages than to engage in productive activity. Every freshman economist knows how to create an energy shortage: impose rigid price ceilings, reduce the real price through monetary depreciation, legislate an increase in demand and raise the costs of supply. To make matters worse, he would impose substantially higher taxes on crude oil production, on the use of natural gas by industry and utilities, and boost the Federal gasoline tax. To intensify the pain of shortage and compound the confusion, he would entrust government officials with administering a ration coupon system that would allocate the scarce supply according to their
rules of "fairness." And finally, to prolong the chaos he would create an economic incentive for hoarding the given supplies. For instance, on every first day of the month he would permit gasoline producers to raise their prices by less than they anticipate earning through storing their supplies until the controls are lifted. He would openly announce his program and pursue it for 28 months in order to assure maximum hoarding for 28 months. If it were not for the limitations of storage facilities he would cause all production to be withheld from the market.

Unfortunately, this is not just a theoretical exercise for freshman economists. This is the official policy of the United States Government, or at least the loudly touted program of the present administration. It touches 200 million Americans and threatens their way of life. It is an efficient policy in creating shortages, as our experience at the gasoline pumps so clearly demonstrates. As a policy designed to improve economic conditions it is counterproductive. The resultant chaos and damage is just as real, whether the policy is the poisonous fruit of socialistic thinking, or just a relic of the Dark Ages.

The History of Price Fixing

One of the most frequent methods of control used has been the limitation of prices by legal enactment. The results have been astonishingly uniform considering the variety of conditions and circumstances under which the experiments have taken place.

The history of government limitation of price seems to teach one clear lesson: That in attempting to ease the burdens of the people in a time of high prices by artificially setting a limit to them, the people are not relieved but only exchange one set of ills for another which is greater. Among these ills are: (1) the withholding of goods from the market, because consumers being in the majority, price fixing is usually in their interest; (2) the dividing of the community into two hostile camps, one only of which considers that the government acts in its interest; (3) the practical difficulties of enforcing such limitation in prices which in the very nature of the case requires the cooperation of both producer and consumer to make it effective.

MARY G. LACY, Food Control During Forty-Six Centuries
Auction prices are still front-page news in my city, Durham, North Carolina. Anyway, tobacco auction prices are. You can still go down to the tobacco warehouses and listen to the incredible sound of the staccato-voiced auctioneers, just like the fellow on the old Lucky Strike radio commercials. It’s a heck of a lot more interesting than reading computerized signals on some cathode ray tube.

The auction process seems to me to be the quintessence of market exchange. An economy really is a giant auction, with buyers and sellers assembled together in order to see who is willing to pay the highest price (or offer the most goods) to get what he wants. The fact we always tend to forget in a supermarket is driven home to us on the floor of an auction: buyers compete against buyers, not against the sellers. And since people can always go to another auction, sellers compete against sellers. Only insofar as the auctioneer succeeds in getting the highest bid from a buyer can he be said to be a competitor to a buyer—and then only to the next-to-the-last buyer. The seller is the spinner of dreams, the master in presenting the vision of previously ignored opportunities, and the buyers always have the option of foregoing yet another dream or potential opportunity.

As you may infer, I like auctions. They fascinate me.

I suppose this fascination with auc-
tions led me to the following fantasy. Imagine the floor of some country auction. Fifteen enthusiastic bidders are standing in front of the auctioneer’s booth, and he has just brought forth some splendid example of a previously ignored opportunity. The bidders begin to drool. Each one knows that he just has to have it. Today.

Imagine also that the rules of the auction are simple. Each bidder has a can full of money behind him, and in order to make his bid, he has to reach into the can, pull out a quantity of paper bills equal to his bid, raise them into the air, and call out his bid. No cash—no bid.

The bidding begins. Everyone meets the opening price of $95 suggested by the auctioneer. He knows now that he has a hot one on his hands. Upward climb the bids, with all 15 participants staying in the competition.

Enter the Money Man

Then a most peculiar thing takes place. A man with a uniform begins to dart behind one or another of the shouting bidders, almost at random (yet not quite), depositing newly printed currency in their money cans. Each participant smiles when his refill comes. The bids continue upward. No one leaves the floor.

After the price has climbed steadily to $250, the participants begin to worry. The highest bid ever offered for one of these was $198, back in 1974. Yet the bidding is only warming up. The uniformed man scurries faster, shelling out the cash. Up and down the bidders go, like drunken marionettes, leaning over to grab more cash, standing up again to wave ever-fatter fistsful of money at the auctioneer.

At $275, some of the bidders start dropping out, grumbling about the insanity shown by the others. They start calling for some sort of government regulation of bidding. This panic has to be stopped before it gets out of hand, they say. Yet the uniformed man keeps scurrying, and the others continue on, undaunted: $300, $350, $475. It’s pandemonium on the floor.

Even those still bidding start grumbling. Maybe the government really ought to do something dramatic, to bring people (other bidders) to their senses. But not one of them thinks to tell the frantically scrambling man with the money to stop putting new cash in his bucket. After all, that fellow represents the government, or a properly chartered agency of the government. He’s supposed to know what he’s doing. Besides, each person thinks to himself, “maybe—just maybe—that guy will stop right after he makes his final deposit in my bucket.” But he doesn’t stop.

Finally, only eight people are left on the floor. With one breath they
cry out a bid, and with the other they call for some sort of Federal intervention, such as controls on panic-induced prices. It's up to $750. How long can this go on, anyway? (The answer is fairly simple: about as long as the fellow in the uniform keeps on passing out the paper money, plus a few more bids. When the cans are empty, this auction is over.)

By Order of the Government
Market Closed

Finally, in response to tremendous political pressure from the bidders, a second government official steps onto the floor. This one is wearing a badge. Under his coat there is a bulge, and it doesn't appear to be a wallet. "That's it, ladies and gentlemen," he announces. "No further bids."

At last, the government has acted decisively. The participants are relieved. The insanity—their insanity—has been officially called to a halt. "The auction has been saved," announces a high-level government official, "from itself."

There is a problem still remaining, however. Eight people are still waiting on the floor, and each one is as convinced as before that the item in question ought to be his. Each one knows in his heart that his next bid would have been the final one, the one which would have driven his competitors from the floor. Now the bids are legally frozen. Each one feels cheated out of what was almost rightfully his.

Question: Who gets to take it home? Another question: What criteria should be used, not to mention will be used, to determine who takes it home?

There are several possibilities. There is "first come, first served." Who made that first high bid in the round immediately preceding the freeze? Who was quickest? (Had he guessed that a freeze was imminent? Had he been tipped off?)

Another possibility: Who has been coming to this auctioneer's auctions the longest, spending the most money over the years? Who deserves a favor? "Buddy, you've got it!"

Then, again, there's good old Phil Turner. Sheriff Phil Turner. "Well, it looks like you've bought it, Phil," says the auctioneer. "I sure hope you like it. Don't forget where you got it."

Of course, there's the old "39-24-36" method. "You, my dear, just bought the prize. Pick it up in my office, right after the auction." A time-honored method, to be sure.

Yet it's altogether possible that the auctioneer doesn't regard any of these approaches as the best. Maybe he decides that this little gem ought to be saved to be auctioned off some other day. Why not take it home? Why sell it at a rigged price?

Is this fair? Is any one of these
methods fair? After all, the auctioneer is a profit-seeking seller. Why should he be allowed to make these decisions? The official with the badge may call over the official with the cash, peel off a few bills, hand them to the auctioneer, and announce: "The people need this. The people shall get it." Then he takes it back to the office. Or perhaps to the local office of the GSA.

Black Markets

I'll tell you this much. There will be other auctions. The auctioneer will be back. But future auctions will not be advertised openly. "Midnight auctions" will take the place of open ones. Officials will not hear about many of them in advance. Not the guys wearing badges, anyway.

The money-providing officials will be approached by all participants beforehand, each one pleading for his refills before the next auction. Some people will get their money, too, since there's plenty more where that came from these days. The bids at the midnight auctions won't be getting any lower. Count on it.

So if you decide to show up, if only because these will be the auctions where the serious bidders and auctioneers will gather to auction off the only goods worth paying for, then make your plans early. Get a very large can, and find you one of those money-producing officials. Get your pitch ready now; you'll need a good one.

And for those of you who plan on sticking with the open, buyer-protected auctions approved and licensed by the government, come early, and bring along a couple of gifts for the auctioneer. In any case, you're only going to get those items left behind by the guys with the badges.

The Failure of Controls

For those who find the proof of the pudding only in the eating, history affords continuous and ample evidence, since the first known price control laws were enacted in Babylonia 3,800 years ago. They failed of their purpose, as has every similar attempt in recorded history since that time.

It is ever the same. When a government inflates the money or some other cause pushes prices upward, attempts are made to conceal the symptoms, rather than to attack inflation at its source or otherwise get at the root-cause. The attempt is made to adjust the scale on the thermometer by edict, rather than to cure the fever that causes the mercury to rise—so to speak. The treatment applied to the fever victim is to throw him into a deep-freeze.

F. A. HARPER, "Stand-by Controls"
The most persistent and widespread economic myth for nearly the last two centuries is that the mass of the workers are inexcusably underpaid. This contention was put forth in its most extreme and vehement form by Karl Marx and Friedrich Engels in *The Communist Manifesto* in 1848. The workers, they tell us, are mere "slaves" of the bourgeois class; they are systematically "oppressed"; they are subjected to "naked, shameless, direct, brutal, exploitation."

Insofar as Marx and Engels offered any argument for this accusation, it was based on David Ricardo's worst mistake, the Subsistence Theory of Wages, in turn derived from the Malthusian doctrine that population persistently tends to outgrow the means of subsistence, and therefore wages tend to fall to or stay at the minimum level at which workers can maintain life.

Marx and Engels combined this with another false but apparently indestructible Ricardian error—that prices are determined by costs of production. But they gave the doctrine a sinister twist of their own: The cost of production of a worker is merely the cost of barely keeping him alive. So: "The average price of wage-labor is the minimum wage, i.e., that quantum of the means of
subsistence which is absolutely re-
quise to keep the laborer in bare
existence as a laborer. What, there-
fore, the wage-laborer appropriates
by means of his labor merely suffices
to prolong and reproduce a bare
existence.”

This grotesque logic sufficed for
Marx and Engels. They never con-
descended to consult the facts. They
made no distinction between the pay
of unskilled and the most skilled
labor. And for some reason which
they did not explain, the whole sub-
sistence theory would cease to apply
once socialism were adopted.

They admitted that in the preced-
ing hundred years, capitalism
(which they then called “the bourgeoisie”) had “created more
massive and more colossal produc-
tive forces than have all preceding
generations together.” But appar-
etly none of this went to the work-
ers; none of it raised wages. They
even argued that increased machin-
ery “nearly everywhere reduces
wages to the same low level,” and
that the chief effect of “the unceas-
ing improvement of machinery” is to
make the livelihood of the workers
“more and more precarious.”

In The Communist Manifesto the
explanation of why the wages of
labor can never rise above a mere
subsistence level is given barely
half-a-dozen lines. When, years la-
ter, Marx attempted to elaborate
this explanation in his three-
volumed Das Kapital (Volume I in
1867, and Volumes II and III com-
pleted by Engels in 1885 and 1894
respectively after Marx’s death in
1883), Marx fell into so many con-
tradictions and so much obfuscation
that the book is all but unreadable.
In an analysis published in 1896,
the Austrian economist Eugen von
Boehm-Bawerk made mincemeat of
the whole argument. Yet in spite of
their flagrant absurdities, Marx’s
theories, giving unmatched expres-
sion to class hatred, continue to
wreak increasing devastation in the
world after more than a century.

The most persistent and wide-
spread economic myth for
nearly the last two centuries is
that the mass of the workers
are inexcusably underpaid.

Marx never attempted to state
exactly what percentage labor was
paid of the value of the product it
helped to create. But in 1905 a
prominent socialist, Daniel De Leon,
misinterpreting some figures in the
United States Census of Manufac-
tures, declared that the American
worker got only $20 for every $100
worth of goods that he produced, and
that “somebody else” got the other
$80. This misstatement was end-
lessly repeated—and accepted—by
many politicians and others who
should have known better.
In spite of their flagrant absurdities, Marx's theories, giving unmatched expression to class hatred, continue to wreak increasing devastation in the world.

Substantially the same belief persists today. Public opinion polling by the respected Opinion Research Corporation has found that the consensus of most Americans is that in the two-way division between aggregate corporate employee compensation and the net profit after taxes left for the stockholders, the latter get about 75 per cent and only 25 per cent goes to the employees.

The truth is the exact contrary—and even more than that. Preliminary figures for the calendar year 1978 show that the employees of all the corporations of the country received 89 per cent of the two-way split and the stockholders were credited with net profits after taxes of only 11 per cent. For the last year for which final figures are available, 1977, the employees got 89.4 per cent of the division and the owners were credited with net profits after taxes of only 10.7 per cent. They did not actually receive that much, but dividends amounting to only 4.5 per cent of the combined total.

In the whole thirty-year period from 1949 through 1978 inclusive, the employees received an average of 88.1 per cent of the two-way division, the stockholders were credited with an average of 11.9 per cent, and the actual dividends they received came to only 5.3 per cent.

These are official figures. In Table 1 at the end of this article, I present the dollar figures for each of the last thirty calendar years—of total employee compensation for all of the country's corporations, of profits after taxes, of the sum of these two, and of the amount of dividends paid. In Table 2, I show how these sums compare with each other when converted into percentages.

Before going on to point out some of the crucially important conclusions to be drawn from these figures, I should like to say a few words about the figures themselves. They have been compiled by the Bureau of Economic Analysis of the United States Department of Commerce since the early 1930s. They exist for every year since 1929. Yet they are one of the world's best-kept economic secrets.

The reason for this is that until very recently these annual figures were published only in the July issue each year of the Department of Commerce monthly Survey of Current Business. This document publishes each month some 40 pages of statistical tables. There are an average of 70 lines to a page, and about 16 columns of figures, making about
1120 separate figures on each page, about 44,800 figures per issue, and 537,600 figures per year. Out of this huge total there are about 40 figures each year—confined to the July issue—summing up the results for the preceding year of the total and the distribution of corporate earnings. This means that these corporate statistics are found in barely one figure in 10,000—and all in the same tiny type as all the rest.

For the last thirty years the employees of this country’s corporations have been receiving an average of eight times as much from them as has been credited to the stockholders.

It is not surprising that they have escaped general attention, or apparently even the attention of the great majority of statisticians and economists.

But at this point I should like to pay tribute to two publicizers—one an institution, the other an individual. The institution is the American Economic Foundation, which started to call attention to these payroll-and-profit-division figures sometime in the early forties. The individual is John Q. Jennings, who started to emphasize them in 1939, and who in recent years has conducted practically a one-man campaign in reiterating, promulgating, and pounding in these distribution figures and their implications. For the most part he has met with little success, but he recently found a receptive hearing in Australia. At his suggestion, Australia’s Prime Minister Fraser prevailed upon employers to publish and give prominence to this percentage distribution in their own companies. More than 200 corporations complied. This seems to have had a real effect in limiting union demands and reducing the number of strikes in that country.

Now, when nearly half (46 percent) of net corporation profits of the larger corporations in the United States are seized for taxes, when on top of this a so-called “windfall profits” tax is being proposed on oil companies, when the public is being told from all sides that corporate profits are “disastrously” high and even “obscene,” it is time some of the rest of us started calling more attention to the real facts.

Let us begin with a closer examination of the figures showing the division of corporate earnings between employees and stockholders.

If the reader compares the figures in the thirty-year tables year by year, he will find that in every year, with the sole exception of 1958, total dollar payrolls exceeded those in the year preceding. This is not true of profits after taxes. In eleven out of the thirty years, dollar profits failed
to rise over the preceding year. (Both of these results might be changed somewhat if allowance were made both for the declining purchasing power of the dollar and for corresponding accounting adjustments.) But the figures do emphasize that payrolls and profits tend to rise and fall together. This, of course, is because corporate employment and payrolls are determined by present profits and the prospect of future profits. Any government action that seriously reduces profits must diminish employment and payrolls as well.

We also find a striking difference when we compare the division between payrolls and profits-after-taxes in the first ten years of the thirty-year period with the division in the last ten years. In the last ten years, employees have been getting an average of 90.2 per cent of the combined total available for division between the two groups, and stockholders an average of only 9.8 per cent. But in the first ten years in the table—1949 to 1958 inclusive—employees were getting an average of 85.9 per cent and the stockholders of 14.1 per cent. The difference is mainly owing to the higher rates of corporate taxation now imposed.

The contrast remains sharp if we carry our comparisons back even a little further. The figures in my tables have been compiled from those that have appeared over the years in the Survey of Current Business. But at least in the last few years, it is reassuring to report, a table containing similar figures has been appearing in the annual Economic Report of the President. This is a real gain; but the statistical secret has been still pretty well kept because the figures appear on merely one out of 124 tables in the Report, and even that table contains five times as many annual figures as the three we are comparing.

Any government action that seriously reduces profits must diminish employment and payrolls as well.

The statistics presented in the Report are not the totals for all corporations but merely for "nonfinancial" corporate business. This fortunately turns out to make little practical difference. In 1977, for example, the combined sum available to the nonfinancial corporations for distribution between employees and stockholders was 94 per cent of that for all corporations. The nonfinancial corporations paid 89.7 per cent of this sum to their employees as compared with 89.4 per cent paid by all corporations.

The Economic Report carries these nonfinancial corporation figures back to 1929. There is an instructive comparison between what
happened in 1929 and in 1933. In 1929, 81.6 per cent of the total available for both employees and stockholders went for payrolls; 18.4 per cent remained for profits after taxes. In 1933, 99.4 per cent of the combined sum available went to employees; only six-tenths of 1 per cent was left for profits after taxes. A union leader who knew nothing more about the facts than this might conclude that in 1933 labor was at last getting its "fair share." But when we compare dollar totals, we find that nonfinancial corporation employees received $32.3 billion in 1929, but only $16.7 billion—barely more than half as much—in 1933. The reason is that corporation profits after taxes in 1929 came to $7,300 million, while in 1933 two-thirds of the corporations lost money, and the total net profits left after taxes were only about $100 million. In recent years 35 to 40 per cent of all corporations have annually been reporting losses. Corporations losing money cannot long provide jobs. Employment, payrolls, and profits rise and fall together.

Even if this statistical series of the division of corporate earnings were not available to us, other figures have long shown that employees get the lion's share of the national income. The Survey of Current Business for March 1979 places the national income for 1978 at $1,703.8 billion, of which $1,301.4 billion, or 76.4 per cent, went in compensation to employees. This does not mean, of course, that the other 23.6 per cent represented profits. Most of it went to millions of farmers and independent proprietors, owners of small stores—grocers, butchers, bakers, druggists, stationers, barbers, tailors—as well, of course, as to doctors, lawyers, or professional prize fighters.

The truth is that—when recalculated to allow for the distortions of inflation—corporate profits are still far too low for the health of the American economy.

Corporate profits after taxes nominally came in 1978 to $118.2 billion, but after the Department of Commerce had made realistic accounting deductions from this inflated figure for "inventory valuation and capital consumption adjustments," these profits after taxes came to only $75.6 billion, or 4.4 per cent of the national income. It is these profits that one high Federal official recently denounced as "catastrophic."

The truth is that—when recalculated to allow for the distortions of inflation—corporate profits are still far too low for the health of the American economy. As George Terborgh, economist for the
Machinery and Allied Products Institute, has pointed out (April 1979 bulletin) *real* corporate profits increased in 1978 only 11 per cent—less than the 13 per cent rise in the GNP. He went on to point out that adjusted after-tax profits of all corporations, as calculated by the U.S. Department of Commerce, were only 5 per cent of their gross product in 1978, and only 5.3 per cent of their gross product even in the fourth quarter of that year, compared with an average of 8.6 per cent during the pre-inflationary period 1947-1965. In short, because of insufficient allowance for inflation, American corporations have been reporting phantom profits. "What inflation has done," concludes Mr. Terborgh, "is to devastate real profits."

The present political antagonism to profits is in large part the result of the public's ignorance of the real facts about profits, and particularly its ignorance of the close dependence of employment, productivity, and wage-rates on profits. But the managers of American business, I am sorry to report, have been in large part responsible for this public ignorance. There is scarcely a big corporation anywhere whose total payroll is not many times as large as its net profits after taxes. But I doubt that there is one big corporation in ten that makes this fact clear in its annual report to stockholders—or bothers to call attention to the comparison. And there are probably even fewer that call attention to the comparison in special reports to their own employees.

Calling attention systematically to these figures would help the corporations immensely in their labor caused by insufficient real profits and a dismal outlook for such profits.

The top managers of our big corporations have been incredibly shortsighted in failing to reveal to their own employees and to the general public the incomparably greater sums they are paying to their employees than to their owners.

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Calling attention systematically to these figures would help the corporations immensely in their labor
relations—and help them to reduce strikes. Their failure to emphasize or even to make the comparison clear is puzzling. I suspect that the typical management, in preparing its annual report, thinks solely of impressing the stockholders. In its concern to show how well management has done, it tries to show the most favorable profits possible. It seems reluctant to show the stockholders how much more it is paying its employees than it is them. It is not too upset at being compelled by various Federal agencies—including the IRS—to report phantom earnings—to fail to make sufficient deductions, in an inflationary period, from apparent inventory profits and for depreciation and replacement.

Whatever their reasons, the top managers of our big corporations have been incredibly shortsighted in failing to reveal to their own employees and to the general public the incomparably greater sums they are annually and daily paying to their employees than to their owners.

The distributive share between the workers and the owners of big businesses was probably not too much different in earlier generations than it is today. The real difference is that we—at least some of us—now know what the actual figures are. There is no longer any excuse for the rest of us not knowing. For the last thirty years the employees of this country's corporations have been receiving an average of eight times as much from them as has been credited to the stockholders, and an average of sixteen times as much as the stockholders have actually been paid in dividends. And in the most recent years of that period, the division in favor of the employees has been even more favorable.

This is the exact contrary of the impression we have been receiving during these thirty years, and are still receiving today, from thousands of books, tracts, "studies," histories, novels, and hundreds of thousands of "news" broadcasts, pamphlets and editorials. As a result of this false impression, this constantly inculcated myth, the politicians in nearly all countries are daily burdening, shackling and sabotaging capitalism, and trying to substitute a socialism that would tend only to universalize poverty. It is the duty of all of us who are aware of the critical facts to try to make them sufficiently known before it is too late.

See tables 1 and 2 on the following pages.


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### TABLE 1
(Billions of Dollars)

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*Third quarter annual rate seasonally adjusted.
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*Third quarter annual rate seasonally adjusted.
Ed Grady

Agriculture and the Survival of Private Enterprise

One of the most compelling problems we face, as a nation and as a people, is embodied in the question, "Can private enterprise survive in America?"

And my answer to that question is a qualified one: "Yes, private enterprise can, and shall, survive in America... providing":

- providing that as Americans we quit taking it for granted
- providing we understand what makes our system tick
- providing we learn how to make both an emotional and intellectual sale in behalf of freedom
- providing we care enough to make the good fight.

And what is agriculture’s role in the survival of free enterprise in America? Simply put, it is to demonstrate our ability, and our willingness, to measure up to the test provided by each of these provisos. This we are determined, and dedicated, to do.

If we demonstrate as much integrity in organizing support for freedom as its opponents have demonstrated in attacking it, then no question but that we shall win the battle.

If there is one lesson that history tells us again and again it is that concentration of power and authority in "big government" is, eventually and certainly, followed by the loss of personal freedom. And let us never forget that no man’s future is safe in the hands of a political philosophy that is willing to buy today’s popularity with tomorrow’s agony.
Economic freedom is the foundation of political freedom. The two are inseparable.

Make no mistake about it; every time we transfer responsibility and power to a central government, we transfer responsibility and power away from the people.

All of us—the businessman on Main Street and the businessman on the farm included—need a basic understanding of what it is that makes private competitive enterprise go.

The mainsprings of the system are four in number:

(a) Most property privately owned;
(b) Most property privately managed;
(c) Most property operated for a profit, not necessarily at a profit; and
(d) All this under circumstances in which competition prevails.

All production—all civilization, in fact—rests on a recognition of and respect for property rights. A private enterprise system is impossible without security of property; it is possible only within a framework of law and order and morality.

When a man's property rights are protected, he is able to retain and enjoy in peace the fruits of his labor. This security is his main incentive, if not his only incentive, to labor creatively. If anyone were free to confiscate what the farmer had sown, fertilized, cultivated and raised, he would no longer have any incentive to sow or to reap.

Profit is the life blood of a free economy. The opportunity to make a profit (or the opposite, the discipline of possible loss) is the invisible hand, as it were, that guides production and distribution. And in guiding the economy to the satisfaction of society's needs, the profit system does what no central authority is capable of doing as well—even granting that the authority might be staffed by the most brilliant planners and the best able managers among us.

It is said at times that many are willing to trade freedom for security. Even if they were to receive that for which they traded, it would be a bad bargain. But the sad and frightening fact is that when a people seek to obtain security by turning over power and responsibility to government, they lose both freedom and security.

What we must recognize, of course, is that there simply is no real security in any form of society that rests upon centralized political and economic control.

Life in such societies is grim and drab and desperate. The opportunity of the individual to better himself is hamstrung by restrictions and frustrations and limitations which stifle initiative and suffocate progress. The individual in this kind of situation becomes a mere cog in a
rusty, creaking, poorly-functioning machine.

Our form of society is being battered today by the most subtle and most dangerous threat possible—the destruction of the competitive market system. It is most subtle and most dangerous because it always is done with the avowed purpose of benefiting or protecting some segment of our population.

A Flexible Price System

In our economy, it is a flexible price system that serves as the balance wheel for the whole structure. The price system determines how much of any product we should produce; it adjusts consumption to use what is produced; and it guides the flow of investment to insure the production of what is needed.

Now, if we don't permit the price system to perform these functions, we strike deep into the very lifeline, at the very heart, of our competitive economic system. And if the capacity of the price system to perform its function is destroyed, there remains only one alternative: assign the authority to fix prices to government or, put another way, to political management.

Political management of our price system is inevitably inefficient, cumbersome, backward-looking and costly. Even though the appointed fixers were all-intelligent supermen, it would be impossible for them to operate effectively in a situation in which every decision is affected by political considerations and political pressures. Personal ambitions and bureaucratic policies become major factors influencing every decision.

For a physician, the least profitable patient is a dead one. The next least profitable is the well one. The gold mine is the patient who continues sick, or continues to think himself sick. The nobility of the medical profession is the fact that few of us have ever had an encounter with doctors who exploit this obvious truth.

But not always so with politicians. Many of them parade as physicians to doctor the economic ills of their constituents. Our need for protection from exploitation in this instance is less obvious—but far more necessary.

Government farm policy dating back some 40 years has been so long on promises and so lean on performance because it is borrowed from the strategy and tactics of the coercive society and its centrally-directed and centrally-controlled economy. It serves well neither producers nor consumers.

Thus the all-consuming importance of choices, and how it is that one of our continuing challenges is to discover in advance the eventual consequences of the choices we are called upon to make. This is an abso-
lute prerequisite not only of successful self-government but essential also to the survival of private enterprise.

The discussion over the years with regard to compensatory payments (target prices, in the current government farm program glossary) illustrates well what it is one or another choice involves.

Basically, what is wrong with the payment approach?

It is not, as advocates even today claim, a device to control production; it is a scheme to control farmers. Nor is it, as some contend, a plan to establish a free market; it is a proposal to wreck markets. Simply put, it provides an engraved invitation for politically-determined limitations on the farm incomes of individual producers—and it’s ideally suited to implement the concept of rationing the right to earn on the basis of the politics of equal shares. Instead of easing the cost-price squeeze which plagues farmers in Minnesota and throughout the country, it makes matters worse.

Some years ago, the late Aneurin Bevan and his British Labor Party colleagues published in a pamphlet the basic tenets of their political philosophy. If there is one phrase more than any other that appears time and again in this document, it is the term “fair shares.”

Reduced to its most common denominator, fair shares is nothing more and nothing less than a political device for leveling and putting a ceiling on opportunity. This is not the American way; this is the other way!

A moment’s reflection on the fair-shares doctrine should make us aware that it is time for individual citizens to reaffirm their faith in capitalism, American style.

**Curbing the Intervention**

Authoritarian liberals delude themselves into believing they are champions of liberty while favoring creeping coercion as long as they can be authors of the coercion. While they are trying to cure injustice by piling on more government, they lose sight of the fact that all the great struggles for freedom have been directed against the overblown force of government.

There isn’t a one of us—in town or in the country—who isn’t a target of the propaganda campaign being waged by what I call the “cult of the positive.” The conviction of people who make up this breed is that you don’t have a “positive” program for solving problems unless you have a program that calls for government intervention, or government involvement—preferably national—and the more widespread the better. These economic meddlers and political peddlers are determined to be positive—even if it means being positively wrong.
All of which causes me to suggest that if you really know what you’re for you won’t hesitate to be against anything that is inconsistent with it. If you’re for good, solid, juicy crunchy apples, you just have to be against worms. The chaos and confusion arises when people don’t know what they’re for.

So if you’re for the private competitive enterprise system, it won’t disturb you to oppose proposals that would wreck the market system. If you’re for the voluntary method of solving problems, you’ll not hesitate to fight efforts to substitute compulsion or coercion. And if you’re for individual responsibility, freedom and opportunity, you’ll forthrightly and vigorously oppose anything inconsistent with this fundamental concept.

That’s the logic, and the rationale, of liberty.

Dr. Norman Vincent Peale didn’t allow himself to be pressed into serving the positive cult. He says that he is a firm believer in affirmative attitudes and is convinced that they are “supremely important in successful living.” But he is quick to add: “Affirmatives alone are not enough. This world is full of hope and joy, but it is also beset by evil, immorality and sin. You can’t say ‘Yes’ to these things, or even ‘Maybe.’ You have to say ‘No!’ and you have to make it stick.”

Happily, most farmers—and most rural Americans—haven’t succumbed to the myth that there is a magical way by which governments can create prosperity and high standards of living by either ignoring or flouting economic laws.

Instead of embarking on a political safari in search of the pot of gold that is supposed to be found at the end of the socialist rainbow, we favor building a greater nation, a more appreciative and productive people, and a more responsive community on the rock-ribbed foundation of unparalleled success thus far.

And we do so with an abiding faith that God didn’t intend the light of human freedom, nor the private enterprise system so much a part of it, to perish from the earth.

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James Mussatti

Our most formidable fortress of defense in time of stress still remains the Constitution of the United States. But it is only as good as our understanding and defense of the purpose for which it was drafted. Eternal vigilance and personal responsibility are still the price of human liberty.
32. The Restoration of the Individual

There is a logic in thought that we ordinarily see but dimly, if at all. Because we can state ideas separately from one another, it may appear to us that our belief in the validity of a given idea is independent of others. That is not how it is generally, however. The structure that undergirds our beliefs is much broader and more interconnected than we are apt to suppose. It can be likened to the framework of a house. Remove any load-bearing portion of the framework, and the whole house will begin to sag, shift, and settle. Remove the foundation and the whole structure will crumble and fall. This is so for ideas as well. In the thought of an individual this process may occur rapidly. For a society, when it occurs it will take place more slowly, and for an extensive civilization slower still. Even so, the undergirding ideas are as essential to the beliefs of a people as is the foundation to a house. Tamper with them, remove them, and the surface beliefs will no longer have support.

It has been observed that each
succeeding century is the product of
the thought of the leading thinkers
of the century just past. Such a
judgment is gross and imprecise, of
course. A century is an arbitrary
division of time, and some ideas
have much more immediate impact
than that, while others may have
much longer duration. Nonetheless,
the observation has some validity, at
least for recent centuries in Western
Civilization. In important ways, it is
valid to say that the nineteenth cen-
tury was the product of eighteenth-
century thought, and the twentieth
of the nineteenth. Not only do ideas
spread and get accepted rather
slowly but also there is a time lag
between acceptance, exploring their
dimensions, and applying them.

Testing Man's Endurance

The idea that now has the world
in its grip was shaped and set forth
in the nineteenth century. Its appli-
cation has been in the twentieth
century. In its application, it has
been a broad and expansive experi-
ment in exercising power over and
controlling man. Its experimental
character is most apparent in the
testing of man's adaptability and
endurance. How much can he stand?
How much will he take before
breaking or resisting? In what ways
can he be changed, and how rapidly?
The Nazis carried out such experi-
ments most directly in concentra-
tion camps. Physicians and scien-
tists conducted experiments with
human beings to determine, for
example, how much heat or cold
they could endure, and for how long.
The whole concentration camp ex-
perience was an experiment in
human alteration and adaptability.

The Soviet Communists were less
scientific than the Germans but no
less barbaric. Interrogation prisons
were testing grounds for human en-
durance. The Slave Labor Camps
were, from one angle, economic ex-
periments to determine how much
work could be obtained for the small-
est expenditures. The Nazis did
this, too, with the workers brought
in from surrounding countries. As
one historian says, "Once in Ger-
many, they were housed and fed on
the general principle of 'exploitation
to the highest possible extent at the
lowest conceivable degree of ex-
penditure.' "

It is easy to see that those who
gave the orders for such undertak-
ings had devalued man, and that
those who carried them out were
degrading men. It requires only a
little greater imagination to grasp
that the whole revolutionary
socialist effort springs from a de-
valuation of man and an attempt to
reduce him to the point where he is
the willing instrument of others. It
takes considerably more insight,
however, to discern a similar animus behind democratic or
evolutionary socialism. The animus
is often obscured because these gradualists may work within the framework of venerable institutions, proclaim their belief in human dignity and freedom, and move slowly.

Yet, democratic socialism is an experiment, too, an experiment aimed at devaluing man by taking from him control over his affairs. It evinces itself as an experiment to determine how much control over their affairs people will yield up at any given time and how much they will change under the goad of compulsion. The limit at any given time is not so much human endurance as it is how much the electorate will take before they throw out their rulers. The tacit premise of these efforts is that man's value consists in the extent to which he is brought under the control and direction for the use of others.

**Bold Experiments**

The idea that has the world in its grip did not originate as a conscious devaluation of man nor as an explicit intention to subdue him. On the contrary, it arose at a time when human dignity was held in the highest esteem and when freedom was oft proclaimed as the highest end of man. The nineteenth century was a seedbed of bold and daring conceptions of human freedom. One of the great thrusts going on in that century was the establishment of individual liberty. The animus behind this and the ideas on which they were operating can be traced to eighteenth-century forebears (and further back to Greco-Roman and Judeo-Christian antecedents). But nineteenth-century thinkers pressed on, or so they thought, to something much beyond political liberty. The boldest of them reached for what they conceived to be ultimate freedom—freedom from all restraint and limitation, freedom from God.

Friedrich Nietzsche, the mad German philosopher, proclaimed that God was dead, writing in 1882. In consequence, he said, "we philosophers and 'free spirits' feel ourselves irradiated as by a new rosy dawn by the report that 'the old God is dead'; our hearts thereby overflow with gratitude, astonishment, presentiment and expectation." All things now become possible, or so he seemed to be saying. "At last the horizon seems once more unobstructed . . . ; our ships can at last start on their voyages once more . . . ; the sea, our sea, again lies open before us; perhaps there never was such an open sea."²

Not all who denied the existence of God did so with human freedom in view, so far as we can tell. For some, it was a position arrived at from their philosophy, science, psychology, or what not. Ludwig Feuerbach, who is supposed to have confirmed Marx in his atheism, declared in
1841 that what men conceive of as God is in reality only themselves. "The divine being is nothing else than the human being, or, rather, the human nature purified, freed from the limits of the individual man, made objective—i.e., contemplated and revered as another, a distinct being. All the attributes of the divine nature are, therefore, attributes of the human nature. . . ."

Feuerbach, too, saw what he took to be the implications of freedom in this view. "God is pure absolute subjectivity released from all natural limits; he is what individuals ought to be and will be; faith in God is therefore the faith of man in the infinitude and truth of his own nature; the Divine Being is the subjective human being in his absolute freedom and unlimitedness."3

Ernst Haeckel asserted in 1899 that the sciences no longer needed the hypothesis of God to solve "The Riddle of the Universe." "Throughout the whole of astronomy, geology, physics, and chemistry there is no question to-day of a 'moral order,' or a personal God, whose 'hand hath disposed all things in wisdom and understanding.' And the same must be said of the entire field of biology, the whole constitution and history of organic nature. . . ."4

Outspoken atheism never became a popular pastime in the Western world. T. H. Huxley's contemptuous term, agnosticism (contemptuous because he attributed a "gnostic" view to believers) had considerably more success. What happened, however, was not that unbelievers sported such labels ordinarily; rather, theism and Christianity were pushed aside and made inappropriate to intellectual activity. Eugen Weber, an historian of Europe, notes that "By 1939, when the Times Literary Supplement reviewed T. S. Eliot's Idea of a Christian Society . . ., it had to remark that intelligent men seldom admit even the possibility that Christianity 'is a system of truth from which flow inexhaustible principles in metaphysics, ethics and politics.' Hardly anyone would have doubted the thought half a century earlier. . . But the half century had seen great change."5

Removing the Religious Foundations of Western Thought

By 1929, Sigmund Freud could describe religious belief as a kind of distemper of the masses. He said of such belief, "The whole thing is so patently infantile, so foreign to reality, that to anyone with a friendly attitude to humanity it is painful to think that the great majority of mortals will never be able to rise above this view of life. It is still more humiliating to discover how large a number of people living to-day, who cannot but see that this religion is untenable, nevertheless try to de-
fend it piece by piece in a series of pitiful rearguard actions.”

The impact of this development is not to be understood at all in terms of militant atheism. That, after all, is relatively rare in the Western world. The significance lies in removing God from His place as premise of Western thought. Religious belief is tolerated generally in the non-communist parts of the world. Sometimes, it even has official encouragement, though that is rarer nowadays. But it must exist in attenuated form, as private belief which presumably has some impact on private morals. It has been largely removed as the general foundation of thought and belief.

Without God, no system of thought is or can be complete. It lacks a foundation. It lacks, at the least, a Prime Mover, something to set the whole into motion and give impetus to it. Without God, it is necessary to posit a universe which is a perpetual motion machine and, in addition to that, one that was either self-starting or was always running. Scientists usually deny the possibility of a perpetual motion machine on this planet; such a notion runs counter to all experience. But if a perpetual motion machine were possible, it would still have to have an initial impetus. Without God, much more would be lacking as well. There would be no final validation of either reason or fact, no support for a premised order which is essential to make reason of some account. Without God, value and purpose would be downgraded to such values and whatever purposes men might have.

Of course, men do not make do without a god, or gods, of some sort. Certainly, those who would be thinkers and have some following cannot. G. K. Chesterton put it well, “When people cease to believe in God, they don’t believe in nothing, but—what’s far worse—in anything.” In the private realm, those who do not believe in a transcendent God tend to turn to the occult for meaning and purpose. Weber says of the European situation in recent years: “Today there are a thousand professional astrologers in Paris alone, some 50,000 in all of France, counting seers, cards, coffee, and crystal ball gazers; there is a union of 120,000 occultists in Italy; 60 percent of French people read astrology forecasts regularly . . . , and one English astrologer counts among her regular clients fifty British and forty-nine foreign firms.”

A Mechanical Universe

In the public realm, most of the place once occupied by religion has been taken over by ideology. The idea that has the world in its grip is a god-supplement, god-substitute, or god supplier. (It tends to produce a personal god, even, the leader.) This
ideology locates meaning and value in the collective, the mass, or the demos, however, not in the individual. The individual ceases to have any discrete meaningful existence, aside from his own awareness of it. Waldo Frank traces this "depersonalization," back to Descartes and down through Hegel, Marx, Lenin, and Hitler to Mao Tse-tung.

Descartes provided the mathematical foundation for a mechanical view of the universe. By his approach to knowledge, Frank says that for Descartes "Man is left outside the cosmos, of which only as person is he integer and focus. Thus stripped, he coalesces into the mass-man of Hitler..." Not, however, before much else has happened in thought. G. W. F. Hegel was yet another crucial figure in the development of ideas. "Hegel's Absolute works through history but ignores the individual, the potential person; acts indeed, in Hegel's words as if the individual did not exist. Without this Hegelian premise, it is also impossible to understand Marx..."9 "In neither Hegel nor Marx," he says elsewhere, "is there place for the person."10

Lenin reduced the individual to an integer of "the proletariat" or "the people," whose active arm was the Party, whose guide is the leader. "The leader is the symbol of the truth in the workers; he is stability, he is orthodox knowledge incarnate.

He is not, in the Western sense, a person at all. He bears the same relation to the Party as the Party to the people." That is, he is an extract of "the people." This depersonalization has reached its peak, thus far, with the Chinese and Mao Tse-tung, Waldo Frank believes. When Mao speaks, "One feels the half billion Chinese become one figure, waking, rubbing his eyes, shrewdly appraising the situation, getting his legs under his body to hoist himself up on his feet." Perhaps this is overdrawn, but it does suggest the end toward which communism moves.11

Downgrading the Individual to Upgrade Collectivism

In the West, man is drawn into the maws of collectivism by the sense of his smallness, his unimportance, and futility as an individual. It has been by no means easy to exorcise from the West the belief in the value of individual man. (In the East, it was much easier, because Buddhism had always emphasized the suppression of the self.) Democratic socialism continues to proclaim this value in its rhetoric. But the foundation has been cut away, and the structure is crumbling. By organization and numbers the individual is being overawed and made to feel impotent unless he join himself to some group or collective.

Viewed naturally, man is indeed a puny creature. He is exceedingly
fragile, weighing ordinarily no more than a hundred or so pounds even in maturity, and that but some flesh and muscles surrounding a bony structure. He is born of woman in labor, flourishes for a short time in maturity, if he is fortunate, and then is no more. Even the smallest accident can wipe him out, should some vital organ be severed from him or irreparably injured. He can bleed to death in minutes from a severed artery. He is vulnerable, usually rather easily intimidated, and tends to feel helpless when confronted by organizations and numbers. Viewing himself so, he seeks comfort and safety in the warm smell of the herd, as H. L. Mencken said. Alone, he is drawn almost irresistibly to some sort of collectivism.

Make no mistake about it, either, to the extent that force is the arbiter in this world the individual is largely helpless alone. An organization is incomparably more effective in exerting force than many individuals acting independently. The increasingly pervasive reliance upon force which is entailed in the idea of using government to concert all efforts means that force is the arbiter. It is not difficult for the individual to believe that this world is in the domain of force, and he is helpless.

Even so, the case for and position of individual man is not so hopeless as this may imply, even when the matter is viewed naturally. Groups, collectives, and organizations are not themselves independent beings. They are contingent things. They derive every ounce of their energy from individual men. They derive all their initiative, all their force, and all their direction from individual men. Their purposes, too, arise from men. Organizations cannot think, imagine, will, or act; only individuals can do these things. Groups, even organized groups, are not at bottom superior to individual men; they are creatures of men. And, in constructive action, they are inferior in potentiality to a like number of individuals outside them.

**Numbers and Organizations Weaken Self-Reliance**

Collectivism does not draw men into it because of its natural superiority, however. It does so because the devaluation of man has sapped the confidence of the individual in his powers. Man can think, but unless there is substantiation for reason, his conclusions carry no weight. They can only be given weight by numbers and organization. If right is only what the positive law of government proclaims then the ground beneath his claim to right is slippery indeed. Individual man cannot establish his own value. That must be transcendentally or collectively done.
Strive as he will, natural man cannot devise an answer that will overcome the demanding spirit that now overwhelms him. The religions of statism and collectivism do not yield ground to no religion. The only effective answer to low religions is a high and noble religion. The only way to avoid the worship of numerous idols is to worship the one God. The only way to transcend the subjectivity of values and the relativity of all knowledge is to go to the source of value and knowledge. If this world is all there is, force does indeed rule, and some sort of collectivism is the appropriate answer.

There is Good News for any and all who will hear it. It is electrifying news. It is not news addressed to any group, team, class, race, or organization; it is news for individuals alone. It is news beside which *Das Kapital* is a mishmash of history laced with hatred. It is news beside which *Mein Kampf* is the distorted assertions of an egomaniac. It is of something which we would not dare hope for did we not know it already. It is news which confirms, vivifies, animates, and restores man. The primary source of this news is the *Bible*. It is vouched for by the death and resurrection of its bearer. Its truth is confirmed by the testimony of the saints down through the ages. If it come not from God, then whence came it? Surely, it is not of this world.

The Good News, first, is not that man is the origin of values but something much more: he *is* a value. He is valuable because God places a high value upon him. Contemplate the words of Jesus:

"Are not two sparrows sold for a farthing? and one of them shall not fall to the ground without your Father. "But the very hairs of your head are numbered. "Fear ye not therefore, ye are of more value than many sparrows."12

And again:

And, behold, there was a man which had his hand withered. And they asked him saying, Is it lawful to heal on the sabbath days? . . .

And he said unto them, "What man shall there be among you, that shall have one sheep, and if it fall into a pit on the sabbath day, will he not lay hold on it, and lift it out? "How much then is a man better than a sheep? Wherefore it is lawful to do well on the sabbath days." *Matthew* 12:10-12.

**Promise of Immortality**

There is more, however; these verses tell us that man is valuable, but they do not suggest the extent. The greatness of his value is indicated in the following verse. Jesus said,

"For God so loved the world that he gave his only begotten Son, that whosoever believeth in him should not perish, but have everlasting life."

*John* 3:16.
This tells us much more besides. It tells us that man is immortal, that he is a creature chosen for eternity. The “whosoever” in the sentence tells us that only individual human beings may have that promise of immortality. The magnitude of man compared to organizations begins to appear. All organizations are but temporary things, destined it may be to flourish for a time and then be no more. The record of history is replete with instances of kingdoms, nations, empires, cities, and all sorts of organizations which once were and are no more. They lasted only so long as they were sustained by individuals; then they disappeared, things dependent finally upon the memory of men. Man, by contrast, has a future of which this life is only the beginning.

There is a way to test the quality of a religion. It is in that to which it appeals. Does it appeal to the baser motives? Or does it appeal to the highest and best? Socialism is a mean, low, and vulgar religion, and it is as a religion that it finally stands or falls. It appeals to greed, to avarice, to popularity with the crowd, to the desire to get something for nothing, to envy, to jealousy, to class hatred, to the lust for power, to the lowest common denominator, to the will to be free of responsibility, to the urge to destroy, and to the longing to crush that with which one disagrees. The mainspring of socialism is the fear of individual man, and a loathing for him as he is. Socialism incarnates force, and worships the state as the embodiment of it.

By contrast, Christianity appeals to the highest and noblest in man. The God revealed by Jesus Christ does not use force and power upon men in this world. God is love, we are told; He woos man by sacrifice, by coming in lowly guise, having naught of the things of this world by which to awe man. He comes not as an earthly conqueror with force, terror, and violence to destroy men but in boundless love to redeem them. The virtues He commends are higher than any man can conceive. But let them speak for themselves. First, from the Sermon on the Mount:

“Blessed are the poor in spirit: for theirs is the kingdom of heaven.
“Blessed are they that mourn: for they shall be comforted.
“Blessed are the meek: for they shall inherit the earth.
“Blessed are they which do hunger and thirst after righteousness: for they shall be filled.
“Blessed are the merciful: for they shall obtain mercy.
“Blessed are the pure in heart: for they shall see God.
“Blessed are the peacemakers: for they shall be called the children of God.
“Blessed are they which are persecuted for righteousness' sake: for theirs is the kingdom of heaven.” Matthew 5:3-10.
What should stand out in all of this is that there is nothing commended to which any should take offense.

There is a marvelous congruity permeating the New Testament in the virtues commended. Here is an example from the writings of Paul the Apostle:

Let love be without dissimulation. Abhor that which is evil; cleave to that which is good.
Be kindly affectioned one to another with brotherly love; in honour preferring one another.
Not slothful in business; fervent in spirit; serving the Lord;
Rejoicing in hope; patient in tribulation; continuing instant in prayer;
Distributing to the necessity of the saints; given to hospitality.
Bless them which persecute you; bless, and curse not.
Be of the same mind one toward another. Mind not high things, but condescend to men of low estate. Be not wise in your own conceits.
Recompense to no man evil for evil. Provide things honest in the sight of all men.
If it be possible, as much as lieth in you, live peaceably with all men.
Dearly beloved, avenge not yourselves, but rather give place unto wrath: for it is written, Vengeance is mine; I will repay, saith the Lord.
Therefore, if thine enemy hunger, feed him; if he thirst, give him drink: for in so doing thou shalt heap coals of fire on his head.
Be not overcome of evil, but overcome evil with good. Romans 12:9-21.

The Apostle Peter summarized the great virtues this way:

and beside this, giving all diligence, add to your faith virtue; and to virtue knowledge;
and to knowledge temperance; and to temperance patience; and to patience godliness;
and to godliness brotherly kindness; and to brotherly kindness charity.

II Peter 1:5-7.

And from Paul again:

Finally, brethren, whatsoever things are true, whatsoever things are just, whatsoever things are pure, whatsoever things are lovely, whatsoever things are of good report; if there be any virtue, and if there be any praise, think on these things.

Philippians 4:8.

Jesus Christ was God Incarnate; He was the Word made flesh. He came to reveal God's ways to men. The beauty of what He taught and was has brought forth singular words of praise. He has been described as the Lily of the Valley, the Rose of Sharon, the Pearl beyond Price, and in Isaiah, as prophecy: "For unto us a child is born, unto us a son is given: and the government shall be upon his shoulder: and his name shall be called Wonderful, Counsellor, the mighty God, the everlasting Father, the Prince of Peace." (Isaiah 9:6)

This aspect of him has tended to shield us from understanding an equally important truth: Jesus Christ was man incarnate. He re-
revealed to men their full potentialities and possibilities; he lived and taught—was the embodiment of—not a religion, as we understand such things, but a way of life. He showed that the individual person is of great and momentous account. He restored man the individual to his central place in all of creation. The way of the world is wrong, he said; it is the way of death. The way of the world is to use force, coercion, to attempt to control men to the purposes of others, to use them. There is another way: the way of love, of service, of persuasion, of influence, of kindliness, of giving, and of becoming. It is the way of life.

Ancient Pagans believed that man was a plaything of the gods. Modern Pagans believe that he is an instrument of the organization to be intimidated by numbers. "Enlightened" Greeks and Romans believed that man is either a comic or tragic figure. Contemporary intellectuals incline to view man as a sensual being, caught in the grip of passions and desires which rend him.

Man without God is indeed capable of every debasement that can be imaged. He is comic or tragic as you will, a creature of the senses, a plaything, an instrument, an object, a belly, a power monger, or whatever. If proof were needed, this century offers enough for all time. Without God, values are subjective; no judgment can be made. Man is a buffoon; and television offers continuous programs which prove it. Without God, reason is a blunt instrument, for there is no truth. Without God, there are no rights; there are only such perquisites as those who occupy the leverage points over the exercise of power permit. Without God, life is a situation comedy, and the idols provide the canned laughter at man's antics. Without God, life is a tragedy for those who aspire to something better. Without God, individual man is but a dot in the scheme of things, and those who control the organizations work out the puzzle by drawing lines from "dot to dot."

**Man's Support from God**

With God, the perspective changes dramatically. Individual man acquires leverage with which to deal with the world. The basis of that leverage is reason and right. Individual man can think; no group or organization can do that. If there is a God, there is truth, for He knows it. If a tree falls, and no man hear it, it still makes a sound, for God hears it. Man's special means for discerning truth is reason. Reason provides truth before which organizations, numbers, and machines must bow, else they proclaim their own futility.

The other lever is right. The individual in the right, and secure in the knowledge of right, is formida-
The most fundamental right of the individual is his right to his property. That right is affirmed over and over in Scripture. "Thou shalt not steal" is an ancient commandment, as is "Thou shalt not covet." The Apostle Paul put the most basic principle this way:

Let him that stole steal no more: but rather let him labour, working with his hands the thing which is good. ...  
Ephesians 4:28.

Since all other rights stem from or depend upon the right to property, all just rights of the individual have transcendent support.

Jesus demonstrated what an individual man can be and do; in this, he was man incarnate. The bare details of his life show that this was what he demonstrated. Of the things of the world, he had none of any consequence. He was born in a stable, in a trough from which the animals ate. His parents were people of low estate. He must have had very little of formal education or training. Legend has it that when he reached an age to work and provide for himself, he learned and practiced the trade of carpentry. No organization ever set its seal of approval upon him. He lamented the fact that he was without honor even in his own community. He had for support only twelve men; they were such as he gathered about him in his wanderings, and of uncertain loyalty. He became what we would call an itinerant preacher, traveling here and there, speaking to such as would hear him.

True, there were some who heard him gladly. There were even those who said that he spoke with such authority as no man ever had before. But the rich young man turned away from him sorrowfully, and people of prestige, if they came at all, came in secret, as Nicodemus did. In all those things which a man is supposed to have in order to make an impact, he had none. Organizations and men of authority suspected him of sedition. The Sanhedrin condemned him and turned him over to the civil authorities of Rome to be tried. He was condemned by a throng of accusers and, though Pontius Pilate, the judge for Rome, found no fault in him, he was condemned to be crucified to please the crowd. At the last, the authorities offered to release him, or such as the crowd might choose. They chose a notorious thief instead.

The Confrontation between Might and Right

Why were the Jewish rulers so fearful of this man? Why did the pillars of Rome tremble in his presence? Why was the crowd so determined to see him put to death? We are not told. Yet we know. He had flung no challenges, broken no laws, formed no revolutionary party. He was innocence personified. But he
had taught a way of life which undermined the way of the world, a way so superior to the way of the world that no comparison is possible. Organizations had to show their powers; numbers (the throngs) had to intimidate else they must yield; force must be triumphant. If might did not silence him, it would give tacit approval to right, the very means by which it is constrained and limited.

But force was not triumphant. He rose again from the dead; many witnesses testified to the fact. Nor did putting him to death put an end to his teachings. God used even this great wrong to bring about good, as He had purposed. Jesus had said, "And I, if I be lifted up from the earth [crucified], will draw all men unto me." And so it has been. The Good News has been told from one end of the earth to the other. Where once there were only twelve disciples, and they not firmly planted, there have since been millions moved to follow him. True, many wrongs have been done in the name of Christ, but every one of them was without warrant. Unable to stifle the message, the world has often enough done the next best thing: adopted it and adapted it to its own purposes, even to the use of force for supposedly good and constructive purposes. These actions have done much damage to the name of Christian, but to those who will hear the message, it still shines through undimmed. To those who would take it to their hearts and study it with understanding there has been given the gift of a new birth of the spirit. Everywhere that the message of love, sacrifice, and concern has gone in the world it has gentled hearts, produced works of charity, freed slaves, buttressed responsibility, and begun its work of liberation. All this has come about, "Not by might, nor by power, but by my spirit, saith the Lord of Hosts." It is a testament to the influence of example and to the potentiality of man—with God.

Individual man without God is very little. Man with God is in another dimension; he is man as he may be. Lest it be thought that what Jesus did does not tell us anything of the possibilities of men generally, Jesus made it clear that it does:

"Verily, verily, I say unto you, He that believeth on me, the works that I do shall he do also; and greater works than these shall he do; because I go unto my Father."

John 14:12.

Man the individual begins to come into focus with all his potentialities. "Ye are the salt of the earth," Jesus said. "Ye are the light of the world." (Matthew 5:13, 14)

Moreover,

"Ask, and it shall be given you; seek, and ye shall find; knock, and it shall be opened to you."
"For everyone that asketh receiveth; and he that seeketh findeth; and to him that knocketh it shall be opened."

Matthew 7:7-8.

What emerges from this is a vision of a man who can stand against the might of this world. How can this be? Paul says that to do so one should "Put on the whole armour of God."

For we wrestle not against flesh and blood; but against principalities, against powers, against the rulers of the darkness of this world, against spiritual wickedness in high places.

Wherefore take unto you the whole armour of God, that ye may be able to withstand in the evil day, and having done all, to stand.

Stand, therefore, having your loins girt about with truth, and having on the breastplate of righteousness;

And your feet shod with the preparation of the gospel of peace;

Above all, taking the shield of faith ... ;

And take the helmet of salvation and the sword of the Spirit, which is the word of God. . . . Ephesians 6:11-17.

Men who are thus prepared can stand. They have stood in the past, and they may stand again in the future.

Man is a whole potentially much greater than the sum of his parts. Far from being a mere zero, a cog, an object or thing of use, individual man is valuable beyond compare. He is a living, breathing being with a soul, mind, and body. He is touched by the Divine. Each child that is born is a miracle, and every full grown person potent with possibilities beyond our dreams. He is a creature worthy to put in their places principalities, powers, rulers of darkness, and the wicked in high places. They are, after all, but gossamer, deriving all their strength from his flesh and blood. God has placed a value on man; he has put him in an high place. None may reduce that value with impunity.

Restored man, confident of his place, can loosen the grip of the idea.


—FOOTNOTES—

4Ibid., pp. 578-79.
7Quoted in Weber, op. cit., p. 1019.
8Ibid.
10Ibid., p. 164.
11Ibid., p. 165.
12Matthew 10:29-31. (All quotations below are from the King James Version of the Bible.)
The wise social philosophers were those who merely hung up their ideas and left them hanging, for men to look at or to pass by, as they chose. Jesus and Socrates did not even trouble to write theirs out, and Marcus Aurelius wrote his only in crabbed memoranda for his own use, never thinking anyone else would see them.

The above quotation is from *A Journal of These Days* by Albert Jay Nock. It is revealing because it describes precisely the way Nock's own thoughts were presented to the world, a world—to judge by Nock's writings—in which he was not often comfortably at home. Yet there was so little intellectual vanity in him that he could not, one feels, have been terribly desolated by the knowledge that his ideas were neither widely endorsed nor adopted. The fact that those ideas were not (and are not) instantly popular may indeed be proof of their basic soundness. But for Nock, it was enough to be able to offer his opinions, not caring a fig if people liked them or agreed with him. It was the search for truth which led him to the ideas, and not the fruits of acceptance or approval, that mattered to him.

Nock was far from the dogmatist who, besides believing passionately in something, is only really content when he can hammer his convictions into as many ears as he can find and drag his hearers—willing or not—around to his point of view. He was a man of strong beliefs, but he lacked the missionary zeal to

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Mr. Cooney is a free-lance writer in Berkeley, California.
force them on others. He, as he says, "left them hanging." The point remains that Nock, like his spiritual mentor Montaigne, was animated by and built his thought upon a flinty skepticism. Like Socrates and Jesus, he was a gadfly, a man who stood apart from the prevailing wisdom of the time and tendered his doubts, whatever the consequences.

As a social critic, Nock wrote upon a variety of subjects. I mean to concentrate mainly on his political writing for it seems to contain the true essence of his thought. The worth of any philosopher can be judged by the extent to which the issues he raises still live in the contemporary age. In the area of the relationship between the state and society, Nock made a lasting and unique contribution—one which is as relevant today as when he lived. Such, however, is the unity of Nock's work that one may, by examining a part, come to comprehend the whole.

**State vs. Society**

For Nock, the conflict between state and society arises from their different and incompatible sources. An individualist to the core, he was never able, he admits, to conceive of society as more than "a concourse of various individuals." Society is best served when its members are left to their own devices, when each individual pursues his own interests according to his lights.

The state, on the other hand, has interests of its own, which Nock insists are not synonymous with those of society:

The interests of society and of the State do not coincide; any pretense that they can be made to coincide is sheer nonsense. Society gets on best when people are most happy and contented, which they are when freest to do as they please and what they please; hence society's interest is in having as little government as possible, and in keeping it as decentralized as possible. The State, on the other hand, is administered by jobholders; hence its interest is in having as much government as possible.

Nock does not hold with the view that the state represents society, and that it came into being for the purpose of accomplishing those things which people cannot do for themselves. He draws a distinction between the state and government. The former is distinguished by the fact that it is not limited (as is mere government) to negative interventions into the lives of society's members (e.g., providing a free and accessible system of justice), but intervenes daily in a positive, which is to say active, way (e.g., enacting ironically disnamed "social" legislation).

Nock makes the point again and again that increases in state power beyond the boundaries of negative intervention are made always at the expense of social power—the purely voluntary reflexes of free people.
Editor's Note: Anyone further interested in the ideas and writings of Albert Jay Nock may wish to contact:

THE NOCKIAN SOCIETY
30 South Broadway
Irvington, New York 10533

This is a "no officers, no dues, no meetings" society occasionally contacted by The Reverend Mr. Edmund A. Opitz of the staff of The Foundation for Economic Education.

Available from The Nockian Society at $1.00 is a 91-page collection of *Cogitations from Albert Jay Nock* selected and arranged by Robert M. Thornton.

Each incursion by the state into the realm of social power leads to a corresponding diminution of social power and a resulting decline in individual liberty. What happens, in effect, is that society either willingly abrogates its responsibilities or has them usurped by the state.

Collectivists and those similarly inclined like to speak with grand vagueness about the "larger good" and about putting the interest of society before personal—and they always assume, base—interests. The implication, of course, is that society's needs are not only different from but greater and more noble than those of a single person. Nock would scoff at any such notion. What, he would ask, is a society but the individuals who make it up? In his mind, the distinction has no meaning. A society is not something beyond individuals but is individuals.

Up to this point Nock's ideas are close to or even derived from those of Herbert Spencer. But Nock was, if that is possible, more critical of the state—both of its nature and of its effects—than Spencer. The English philosopher, great libertarian that he was, wrote little about the economic exploitation that is found
under a statist regime. The subject was of fundamental importance to Nock, and in fact he traces the ancestry of the state to that very exploitation:

The positive testimony of history is that the State invariably had its origin in conquest and confiscation. No primitive State known to history originated in any other manner. On the negative side, it has been proved peradventure that no primitive State could possibly have had any other origin. Moreover, the sole invariable characteristic of the State is the economic exploitation of one class by another.

The modern state, argues Nock, pursues identical ends of confiscation through different and more sophisticated means. This exploitation may be disguised and carried out for “good” purposes but is not beneficial to society. It is part of the instinct of self-perpetuation within the nature of the state. Economic freedom is a Nockian first principle.

Nock understands that modern man is an economic creature and that power—social or state—resides to a large degree in economic factors. He sees quite clearly that an individual’s social liberty is bound indivisibly to his economic liberty. And as men and women should be able to associate, to speak, and to exchange ideas freely, so they should enjoy a like freedom in their economic associations. The advent of economic freedom would, Nock feels, deal a grievous wound to state power, and the political freedom which followed as a natural consequence would supply the coup de grâce. It is impossible to envision the state allowing either, for that would mean that it would be signing its own death warrant.

Two Kinds of Power

Nock’s views on economic tyranny form a powerful rebuttal to the charge that capitalism—the freest of all economic systems—is intrinsically exploitative. They are also of a piece with his insightful criticism that the state, whatever its pretenses to the contrary, lacks the necessary quality of disinterestedness. He recognizes that the people who are employed in administering the state’s every whim, the jobholders and bureaucrats, have no reason to cut down the state’s sphere of influence but an active interest in seeing that it is expanded. Living as he did at the high tide of the New Deal, Nock was ideally situated to observe how those elected to power utilized for political gain the various apparatus they controlled.

He was less than sanguine about the social order being ushered in by the Roosevelt administration. He believed that the state could have an influence on society but he was convinced that that influence was inevitably malign. He saw the effects
on society—once again—as effects on individuals. As state power increases, moral judgment and individual responsibility decline, self-reliance weakens, and independent thought, never very hearty, dies of a wasting disease.

Reading Nock on these matters can be a bracing and tonic experience, but it can prove depressing, especially when one sees how closely events have paralleled Nock’s warnings. One wants to ask: was Nock a complete pessimist, a man who saw the people of the world sliding into some modern statist barbarism? Certainly he was too clear-sighted to exude, in defiance of all the evidence around him, a hollow optimism about the future. But neither was he a resigned monger of gloom, blindly raging against the march of history.

Ambrose Bierce, himself the archetypal bitter cynic—once defined a conservative as a man enamored of present evils in contrast to a liberal who wants to replace them with others. Nock, true to his nature, cannot be safely lodged in either half of Bierce’s definition. He did not pine for some mythical golden age, but he found in the present very little that was to his liking.

One might assume then that Nock was in accord with the various reform movements that took place during his lifetime. Nock was not the sort of man to remain uncritical or to wrap complacency around him like a shroud. He regarded reform movements as ill-starred and ineffectual. He had observed many such movements and the vast majority had failed “due to their incorrigible superficiality.” Reforms, to his mind, do not attack the problems of society at their source. Reform movements symbolize action without thought. They are conceived in impatience and reared in haste. They are based on an insufficient understanding of institutions and human beings. They represent a cosmetic solution of any problem, and ignore completely the factor—human nature—that is the source of most of them.

True Reform Begins with Self-Improvement

Nock knew that the great appeal of reforming movements is their promise of an instantaneous and observable improvement in conditions. People are drawn to them because they hold out the hope, however slight, of the quick and easy alleviation of social problems by modifying what Nock called the “mechanics” of society. But he knew also that the only reform worth the effort, and the only one with any chance of final and lasting success, was the difficult and painful task of each person to first reform himself:

The only thing that the psychically-human being can do to improve society is to present society with one improved
unit. In a word ages of experience testify that the only way society can be improved is by the individualist method which Jesus apparently regarded as the only one whereby the kingdom of Heaven can be established as a going concern; that is, the method of each one doing his very best to improve one.

That statement sums up rather neatly the Nockian philosophy as a whole. I suppose that, in strictly academic terms, Nock would not be considered a philosopher at all. He didn’t construct any complicated system which proposed to answer all the universal questions. He would, no doubt, be thought of as too commonsensical. The strange thing about common sense, however, is its ever-increasing rarity. It is a compliment to Nock to say that he possessed common sense to a quite uncommon degree. His sharp and diamond-like prose refracted his thought to a high brilliance. In his works, one finds a great amount of heat, but no less amount of light.

One finds also a complete absence of what Mencken called the “messianic delusion.” Nock wrote only with the aim of saying what he thought, and not swaying great masses of people or bludgeoning them into believing as he did. There was a serene integrity in Nock’s character which shows through every word he wrote. Nock wrote of “the remnant,” a group of people bound together by nothing more than their desire to achieve self-reformation, and practice of independent and disinterested thought. Nock would not have sought to be the remnant’s “leader” but the title belongs to him nonetheless. For his life and work embodied the admonition that must stand as the remnant’s motto: “Know thyself.”

How Ideas Grow

We can all no doubt remember having found ourselves suddenly under the influence of an idea, the source of which we cannot possibly identify. “It came to us afterward,” as we say; that is, we are aware of it only after it has shot up full-grown in our minds, leaving us quite ignorant of how and when and by what agency it was planted there and left to germinate.

For some time it is inert; then it begins to fret and fester until presently it invades the man’s conscious mind and, as one might say, corrupts it. Meanwhile, he has quite forgotten how he came by the idea in the first instance, and even perhaps thinks he has invented it; and in those circumstances, the most interesting thing of all is that you never know what the pressure of that idea will make him do.

ALBERT JAY NOCK, "Isaiah’s Job"
What was written as "Introduction" to The Writings of F. A. Harper may also serve as a review of this two-volume memorial edition just published by The Institute for Humane Studies, Inc., 1177 University Drive, Menlo Park, California 94025.

Dr. F. A. (Baldy) Harper left a position as Professor of Marketing at Cornell University to join the staff of The Foundation for Economic Education from 1946 through 1958. He helped to found and served as Executive Director and then as President of The Institute for Humane Studies until his death in 1973.

I would not push the illiberal notion than any individual is like any other. It is because of our differences that liberty is so vital. But Baldy did adhere to the guiding rule of Socrates, "Know thyself." He believed with Socrates that goodness is based on knowledge, wickedness on ignorance. Like Socrates, he sought truth all his life, in ways that attracted young scholars. By the Socratic method of a series of carefully directed questions, he would encourage the other person to find out the truth for himself.

In these collected writings of F. A. Harper, concerned with liberty in the broadest sense, are to be found some of his conclusions. But the reader will also find throughout his works a series of carefully directed questions. For as Judge Learned Hand observed, "The spirit of liberty is the spirit which is not too sure that it is right." I believe that is the spirit in which Baldy would have us pursue his search—a never-ending search for the truth about liberty.

How does that search begin? Perhaps best with his premise as to the nature and destiny of man:

In the design of the universe, everything is subject to certain natural laws. . . . A person's capacity to perceive the nature of these natural laws, which rule
his being, is limited by his intelligence or powers of instinctive conduct; his beliefs, in this respect, are both his privilege and his responsibility; he is free to choose his sources of information as guides in his search for truth, and he is personally responsible for the wisdom of that choice and for the resulting conclusions; he will know that no person, not even himself, has any direct and certain line of communication with the sources of truth; all conclusions carry a corresponding uncertainty no matter who holds them; he knows that while he cannot avoid acting on the basis of some belief, these beliefs must ever be held subject to change as further evidence or new reasoning becomes available; but always he is obligated, by honesty, to believe and act in accordance with truth as he then sees it.

That premise as to the truth about liberty is broad enough to encompass a lifetime search in any direction. And this list of some of his titles illustrates Baldy's wide range into the moral, social, political and other aspects of the subject:

"Society under God"
"Morals and Liberty"
"In Search of Peace"
"The Disharmony of World Unity"
"Fruits of Intolerance"
"Blessings of Discrimination"

However, his specialty was the search for and promotion of a greater understanding of free market economics and its importance to the individual who would be free. "Economic liberty pervades the entire problem of liberty and is an absolute requisite to liberty in general."

Textbooks may help us, but few of us come by our discoveries of truths in anything like a logical textbook arrangement. At some moment, a better idea displaces an assumption or a myth that had formerly occupied one's mind. And many of the shorter articles assembled here are shots fired at popular myths. But they are shots from the orderly and well-disciplined mind of a scholar and teacher. Let me share, then, the steps that I believe Baldy may have taken—the points he seemed to stress as most important—in his study and exposition of free market economics.

Undoubtedly of first importance is the concept of private property—"the economic extension of the person." The point is stressed throughout his writings, but comes most clearly, as it should, in his latest discussion, "Property and Its Primary Form":

As I now see the matter of property and ownership, the first person singular is the primary form from which all other forms of property arise. It is the prior and superior form. . . . This view of self-ownership as primary property, from which all other property arises as derivatives . . . rests on the subjective evaluation of worth, with all market prices determined in the market as with other things of worth.

So, in economics, one starts with
the freedom and dignity of the individual human being and his natural right to his own decisions and their consequences. Because he is his own man, the fruits of his peaceful actions are his property—and his responsibility. With that as their premise, competing individuals can peacefully determine "what is mine and what is thine."

Once the concept or institution of private property is accepted, human beings in their infinite variability, and with their respective degrees of skill and talent, are in position for the next step of specialization in various productive efforts. Until a man can own what he produces, he is unlikely to produce much beyond his immediate needs. But if the product is his property, then he will strive to produce enough to meet future needs and begin to think how he might trade some of those savings for other goods or services.

So begins another step in free market economics, the process of competition and cooperation through voluntary exchange of private property. Exchange, yes, but at what rate of exchange, how much of mine for thine, at whose price? At the market price, suggests Baldr, if the objectives of the participants are to maintain peaceful relations and to maximize productivity in the light of the always scarce and limited resources available.

What a man brings with him to market as his own property affects what he will be able to bid for the property of others. Some have their skills or their productive labor to sell, some have tools or land or buildings or other savings to offer, some have new and better ideas for combining labor and tools and other scarce resources more efficiently to serve consumers.

Where more than two or three are gathered together in a market place, each interested in selling one or many items and in buying one or many items, some one or more of those items of commerce will be put to use as money to get away from the limitations of barter—to facilitate exchange. How much money, of what size or shape or other condition? Leave such matters to the market—to the willing buyers and sellers in the market.

Once traders have found a satisfactory medium of exchange, then market exchange rates will be expressed in money prices, and these market prices afford businessmen a means of economic calculation or business accounting—a way of knowing their profit or loss.

Out of this seeming bedlam of bids and offers, from individuals with various and ever-changing supplies of goods and services and demands for other things, emerges a series of market prices. Workers competing for jobs and employers competing for laborers set the pattern of wages for
different kinds of work. Savers and borrowers compete and cooperate to find the rate of interest that will best serve their more urgent requirements. Market prices help individuals decide how much of what to consume and how much to save and invest in tools and raw materials and other factors of further production. Profits and losses ultimately disclose which competitors have succeeded or failed and guide them and others into the most fruitful and efficient lines of productivity.

Finally, but by no means the least of the services the market affords, is education. It affords a measure of the worth of experience, of schooling, of learning. It tells the cost of buildings, of books, of hired teachers, of various educational facilities. It lets the individual (the parent of the child) choose what he can afford to spend for greater wisdom in relation to his other needs.

Were Baldy to survey this humble attempt to outline his views of the free market economy, he might conclude that the attempt has raised more questions than it answers. And I could only answer that I learned some of that procedure from him. But, hopefully, the attempt may help alert the present and future students of F. A. Harper to some of the main points of his free market philosophy.

Unfortunately, ours is not an ideal free market economy. Not all men are always peaceful, tolerant and wise, however good their intentions. Some will resort to coercion to gain advantage and to rule over others. They will turn to government to tax some and subsidize others, to regulate and control people "for their own good," to dispense "charity," to prevent failure, to penalize success, to invent a magic money machine, to apply rent and wage and price supports or ceilings and thus refute the vital signals of market pricing, to manage the rearing and the education of the young, to interfere with the free trade of free men in countless other ways.

Much of Baldy's life was devoted to exposure of these frustrations of the free market economy and these limitations on freedom. And that is a never-ending task. Fortunately for us, we have his record and example of the ideal of a free man toward which to strive.

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Volume I (453 pages) and Volume II (611 pages) of *The Writings of F. A. Harper* list at $10.00 each volume, but also are available as a set at $16.00 from:

The Foundation for Economic Education, Inc.
Irvington-on-Hudson, New York 10533
When in 1940, Felix Morley decided to leave a prestigious and influential position as editor of Eugene Meyer's Washington Post to become president of Quaker-supported Haverford College, he did it in all humility. Rufus Jones, who had taught him philosophy at Haverford in the early part of the century, said he should take the job "not because thee is a good Quaker but because further exposure to Quakerism will do thee good." Felix Morley accepted the kindly admonition in good grace. "I was," he said, "indeed already keenly aware that my life was deficient in spiritual values and that I had need of them."

Felix Morley's recollection of his conversation with his old professor comes on page 347 of his fascinating memoirs, For the Record (Regnery-Gateway, Inc., South Bend, Indiana, 472 pages, $15.00), and it strikes one with considerable surprise. The truth is that Morley seldom did anything in his life for a purely materialistic advantage. He was born practically on the Haverford campus, where his father, a gifted mathematician from East Anglia in England, had settled with a supreme indifference to anything but his scientific specialty.

There were three Morley sons—the eldest was Christopher, the poet. Felix, the middle one, became a journalist and educator, and Frank, the youngest, had a triple career as mathematician, historian and publisher. Not a single member of the family ever seemed to care particularly for what ordinarily passed for success in materialist circles, yet, in following their various bents, all of the Morleys did well enough in a worldly way. The point is that they cared more for the doing than for the rewards thereof. That, in itself, is a kind of spirituality, whether Quaker
or not. The whole of *For the Record* is about such spirituality.

**Seeing and Knowing**

The young Felix made some tentative gestures toward becoming an imaginative writer in the mode of his brother Christopher, but it soon became apparent to him that his main interest was in seeing and knowing as a prelude to philosophical understanding. For a moment he thought he might become a marine architect (he loved the graceful lines of ships), but, as he confesses, he never did understand the calculus he studied in deference to his father. By necessity he gave up engineering aspirations. Like John Dos Passos, he had a fling with an ambulance corps in the early years of World War I. Europe was as much home to him as America—his family, always more English than American, had taken Kit and Felix abroad for a particularly long sabbatical in England and at Gottingen in Germany, where Felix developed his natural ear for his first foreign language.

Coming home to America after his experience with the Quaker ambulance service, Felix tried to become an officer once Woodrow Wilson had elected to take us into a war that the Quakers deplored. He didn’t make it as “officer material” because his “attitude,” which included a sarcastic view of bayonet drill as sticking effigies that would be using revolvers if alive, was deemed deficient. Again, one is struck by the parallel to John Dos Passos’ experience—“Dos” got into trouble as a prospective soldier because he couldn’t hate his enemy as an all-inclusive abstraction.

**A Rhodes Scholar**

Felix Morley did his cub newspaper work in Philadelphia and in Washington, but he yearned for wider horizons. Like both of his brothers, he managed to get a Rhodes scholarship to Oxford. Because of wartime mixups, the Rhodes authorities waived the provision that only bachelors were eligible to accept appointments, and so Felix and his wife Isabel were off for a long sojourn in Europe that included much incidental journalism in Ireland, Germany, France and Britain as well as a period of study at the London School of Economics. During this period Felix made himself an authority on the British labor movement.

Curiously, it was through English editors that he was recommended as an editorial writer to John Haslup Adams at the *Baltimore Sun*. Since Isabel was pregnant, and Baltimore was home to all the Morleys after their mathematician father had transferred from Haverford to Johns Hopkins, Felix jumped at the opportunity that was offered to him to become assistant to a great editor.
But, as always, the Morley interest was philosophical—he wanted to write about foreign affairs with a hope that he might be contributing to the understanding of the prerequisites to peace, which was certainly a Quaker objective.

**International Assignments**

In the back of his mind, Felix Morley hoped he might become the *Baltimore Sun* correspondent in London. But his new employers had other ideas. They sent him off to the Far East to learn something about Japan, China and the Philippines in the yeasty period in which Chiang Kai-shek was endeavoring to push the Communists north of the Yangtse and consolidate his position as the successor to Sun Yat-sen. Morley took all this as experience. The Asian interlude made him avid for an international listening post, so, after publication of his book, *Our Far Eastern Assignment*, he was off to Geneva, where he proposed to combine newspaper correspondence with writing a study of the League of Nations. The Brookings Institution eventually brought the study out as *The Society of Nations*.

Morley liked Herbert Hoover, who had a Quaker viewpoint. Eugene Meyer, who had bought the then moribund *Washington Post* in the early Thirties, had worked for Hoover. So it was perhaps by a natural affinity that Felix Morley became Meyer’s editor for the period of the New Deal. As always, Morley tried to be the practical philosopher of peace. No isolationist, he wanted to use power to the ends of justice, employing League of Nations machinery to take the sting out of the inept and inequitable Versailles Treaty. Of course, it didn’t work: the punitive victors of Versailles had done their work too well. They had brought Hitler upon themselves, and neither Hitler nor the Nazis were amenable to belated blandishments.

**World War II, and After**

The war came, and Felix Morley had no desire to write editorials that could not be sharply critical of national policy if the occasion for such criticism arose. So it was off to Haverford, to keep liberal education alive in a period of war stringencies that threatened to turn all our campuses into vocational arms of the Pentagon. It was at Haverford, in his seminar on “The Development of Political Ideas,” that Morley gave pointed shape to the convictions of a lifetime. He was obsessed with the dilemma of the modern republics: how to maintain individual freedom when the necessity to arm against barbarians in the technological age demanded a centralization of power that cut across a traditional separation of the powers.

Nevertheless, despite the di-
lemma, the duty to fight for both freedom and federalism remained. Morley’s post-Haverford books, *Freedom and Federalism* and *The Power in the People*, are yeoman attempts to fight the drift to a centralization of power that Morley fears “will eventually destroy our federal republic, if it has not already done so.” Most important of all, Felix Morley was a co-founder, with Frank Hanighen, of *Human Events*, the Washington weekly that tries to balance the claims of a libertarian conservatism with the need for eternal wariness against the totalitarians. Morley differed with Hanighen on emphases, and withdrew from the enterprise, but *Human Events* is perhaps his most enduring monument.

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**WHAT MAKES YOU THINK WE READ THE BILLS?**

by Senator H. L. Richardson

(Caroline House Books, P.O. Box 978 Edison, N.J. 08817)

136 pages • $7.95 cloth; $2.95 paper

Reviewed by Tom Starkweather

A politico who writes with candor, humor and simplicity? The American public can’t accept such a creature—blame it on conditioning, cynicism, sophistication, idealism, pampering, realism or whatever. This national frame of mind will make it difficult to seriously consider *What Makes You Think We Read the Bills?*

The author of this little gem is a California legislator who has served in the State Senate for 12 years. He is obviously a keen observer and analyst of the political scene. His book is funny. Indeed, it is hilarious. It is educational. Mr. Richardson describes what really happens when our elected representatives get together to spend our money and write our laws.

This book is frightening, for the character traits, the situations, the pressures, the psychology and the neuroses described therein are not peculiar to the Golden State. They are universal in our political environment. The book is also entertaining and that’s appropriate since the media have made politics a branch of show business in recent years.

Those who would complain about government should first be required to memorize Chapter six, “What’s A Seat Worth?” or at the minimum determine their contribution to the problem based on this chapter. This book should be mandatory reading for all who seek public office or exercise their heritage at the ballot box. *What Makes You Think We Read the Bills?* calls to mind the statement attributed to the 1866 New York Circuit Court: “No man’s life, liberty, or property are safe while the legislature is in session.”
Capital Punishment  
John Semmens 515
How inflation and taxation discourage and prevent the generation of capital for better jobs.

Prices: Guidelines that Work  
William E. Cage 523
Let the market price guide production and consumption; put the controls on government spending and inflation.

World in the Grip of an Idea  
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Clarence B. Carson 530
The individual is responsible for tending to his own business and fulfilling his purpose.

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Private property must be respected and free trade encouraged if conflicts are to be minimized.

F. A. Hayek: Classical Liberal  
Thomas W. Hazlett 551
A salute to one of the great students and defenders of liberty in our time.

The Tiller, the Van, and the Typewriter  
Ruth B. Alford 563
One woman's firm stand against coercive measures that disrupt and destroy an advanced market economy.

Book Reviews:  
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"Memoirs of a Dissident Publisher" by Henry Regnery  
"Economics of Public Policy: The Micro View" by John C. Goodman and Edwin G. Dolan

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.
A widely forecast recession did not occur in 1978. The Carter Administration stood practically alone in its insistence that there would be no recession. So, when the year ended with healthy gains in reported corporate profits there was much rejoicing, right? Well, not quite. It seems that while prosperity is a circumstance to be much sought after, profits—one of the symptoms of prosperity—are a "catastrophe" that the body politic cannot abide.

There is no rejoicing. Instead, the occasion serves to stimulate demands for mandatory profit controls from union potentates, while the President seems intent on providing an opportunity for in-house economists to grope for new meaningless phrases to describe and defend government economic policy.

The most amazing aspect of the whole spectacle is that so much inspiration could be generated by an event which never occurred. There was no increase in corporate profits in 1978. When adjustments are made to account for the effects of inflation, net profits actually declined by 4% rather than increasing by 16%, as the reported figures seem to imply.¹

This discrepancy between reported and real profits is one of the less ambiguous government accomplishments of recent years. On the one hand, a manipulative monetary policy has facilitated a phantom doubling of nominal profits

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¹ Mr. Semmens is an economist for the Arizona Department of Transportation and is studying for an advanced degree in business administration at Arizona State University.
over the last decade. On the other hand, a tax code which makes no provision for the declining value of each dollar, allows the government to confiscate ever larger portions of the nation's wealth. It is the old story of crime and punishment. Only in this case, while it is an agency of the federal government which robs the holders of money of their purchasing power, the punishment is dished out to the productive sector of the society.

Such a policy, though it may be temporarily expedient in the aggrandizement of government power, has significant negative effects on the general welfare. The progressively worsening bouts of stagflation, with each episode more unnerving than the last, are a manifestation of the future that such a policy portends.

It is possible, one must suppose, that the originators and executors of this counterproductive treatment of business profits are unaware of the damage wrought or, at least, that they discount its seriousness. However, a supposition of this sort must border on the absurd, given both the extensive discussion of the issue in academic and business circles, as well as recognition of the need to warn investors of the distortions to a firm's reported financial condition evinced by the Securities and Exchange Commission.

In May of 1976 the S.E.C. issued ASR 190, which required publicly held corporations to prepare additional financial statements estimating the impact of inflation on reported financial results. Thus, the business firm's access to equity financing is being stymied from all sides. The Internal Revenue Service, ignoring the effects of inflation in creating imaginary profits, siphons off retained earnings. Meanwhile, the S.E.C., citing the effects of inflation, is warning off would-be investors from providing external sources of equity finance.

Since the counterproductive policy persists, despite its absurdity, we must demonstrate more convincingly its effects and why it is imperative that it be changed.

**Suppressed Evidence**

The most convincing evidence we would cite to illustrate the seriousness of the problem is the lack of progress in the stock market. The Dow Jones Industrial Average, the most famous of stock price indices, has failed to advance much above 1000 in the past ten years. In fact, the DJIA now stands lower than it did ten years ago. This is in spite of a near "doubling" of earnings over the span.

Customer's men and stock market touts are not the only ones to be mystified by the "sick" market. Looked at from the standpoint of the "value" of the assets owned by the
firm, it would appear that shares are undervalued. The ratio of market price to book value is about half of what it was a decade ago. And since the nominal return to equity is approximately the same as it was then (about 12% on the Dow Jones Industrials), the shares must be worth twice as much, right? Wrong, the shares’ price-to-earnings ratios are halved and the number of companies whose shares sell for amounts less than tangible book value is substantial.

An obvious case of market irrationality, it would seem. Unless, that is, one is willing to consider an alternative hypothesis. What if it is not the market that is out of step with reported earnings, but rather, the reported earnings which are out of step with an “efficient” market? There are sufficient grounds for such a hypothesis in economic theory. At the root of the capitalistic theory of the economy is the presumption that given a reasonable period of time, the market is the most effective and efficient allocator of resources. Now, if a cost level adjustment to the reported financial statements of a sample of firms were made for the years 1967 through 1977 and the resulting figures appeared to more closely conform to the market value of the shares, then would it not be logical to conclude that the sickness is in profits and not the market?

For the purpose of evaluating the above hypothesis, the earnings and market values of the 30 companies which now compose the DJIA were compiled for the ten-year period. Use of these firms is defended on the grounds that combined they account for nearly 15% of the total earning power of all U.S. non-financial corporations. This is a significant slice of the total economic pie in this country.

Using an unweighted average of common stock earnings divided by average market prices of DJIA shares, we find an apparent rise in rate of return from 6.4% to 10.0% between 1967 and 1977. The return on common stock, by this measure, has increased substantially. However, if we adjust earnings to reflect the effects of inflation on the firms’ depreciation reserves for long-term assets, an entirely different picture is revealed. In this case we find virtually no change in the return on common stock. In 1967 the rate was 5.2%, while in 1977 the rate was 5.4%.

Tortuous Taxation

“As a consequence of the U.S. tax system, inflation unambiguously reduces incentives to undertake new investment projects, and therefore, business investment spending declines.”2 It would appear that the chickens of Keynesian monetary manipulation have come home to
roost. American investors can no longer be duped into accepting nominal rates of return which conceal lower real rates of return.

Despite demagogic rhetoric attacking "obscene profits" and "tax loopholes," an examination of real earnings portrays a much different story. Even though inflation effectively reduces income, the tax code makes no allowances for the reduction in real income. As a result, the after tax return to equity takes a beating. In the last decade real after tax return to equity dropped by over 50%, i.e., from over 10% to under 5%. Meanwhile, the effective tax rate on real income has soared to over 70%. Far from escaping "fair" taxes and piling up "windfall" profits, American corporations are being progressively bled dry.

This rising effective tax rate has been cited by numerous studies of the tax consequences of inflation. The important consequence, of course, has been the powerful disincentive for capital investment that is created. The real reduction in return that occurs when cash flows can recover only the original historical cost of fixed assets leads, quite naturally, to a more negative assessment of investment pay-offs, and therefore, to less investment.

Ostensibly, the accelerated depreciation schedules that the IRS allows are supposed to offset the tax effects of inflation. While this may have been an adequate resolution of the problem 20 years ago when inflation rates were more modest, it does not provide much help today. An article in the Federal Reserve Bank of St. Louis Review found that the presence of a negative inflation effect was independent of depreciation methods used. A similar conclusion was reached by Richard Kopcke. Whether one used straight line or sum-of-the-years digits depreciation under high inflation rates, the difference was minor, i.e., with an equipment life of 10 years and an inflation rate of 9% per annum, the difference in present value of the streams of cash flow under the two depreciation methods was only 1%.

Neither is the investment tax credit adequate to overcome the penalty resulting from taxation based on historical cost recovery depreciation allowances. A study by Parker and Zieha showed that under inflation rates of recent years, even an investment tax credit of 10% was not sufficient to offset the negative incentives of the basic tax code.

The Real Crime

A look at the earnings performance of the 30 DJIA companies will serve to indicate the magnitude of the disincentives produced by the taxation and inflation combination. After adjustment for inflation, every company has experienced a decline
in return on equity between 1967 and 1977. For the entire period, profits were overstated by 29 to 55%, (using weighted and unweighted averages respectively). A year to year comparison reveals the growing distortion in reported figures. In 1967, nominal earnings were overstated by only 8 to 16%. However, by 1977 nominal earnings were overstated by 66 to 116%.

These phantom earnings are, of course, taxed as if they were real. In 1977, out of a pre-tax net income of $39 billion, $28 billion went to cover tax liability, $10 billion was paid out in dividends, and only $1 billion was retained to facilitate company growth. The ratio of taxes to real retained earnings in 1977 was 28 to 1. For each dollar these firms retained for future expansion, $28 had to be set aside for government consumption. This compares to a calculated ratio of $3 in taxes for every $1 in retained earnings in 1967.

Excessive taxation is the real catastrophe, not corporate profits that are “way too high.” The retained earnings of the 30 companies used in this study amounted to less than .3% of the total assets of these firms. Since it requires at least $80,000 in real capital (adjusted for the effects of inflation on replacement costs) to support each job, the total employment-generating capacity of these firms from internal sources was 13,000. If this phenomenon can be said to be typical, then the total number of jobs that could be generated by the retained earnings of all U.S. non-financial corporations in 1977 was fewer than 90,000. This equates to an employment growth rate of one-tenth of one per cent.

These figures may shed some much needed light upon the great mystery of modern economic orthodoxy: the simultaneous occurrences of high inflation and unemployment. Keynesian monetary manipulation assumes that more inflation means less unemployment, and vice versa. This theory relies heavily on the presumption that nongovernment investors are dopes. This, of course, is the fatal flaw in the system. Independent economic actors will seek to protect themselves against the losses resulting from investments penalized by inflation.

**Job-Creating Programs Consume Available Capital**

The progressively worsening results of monetary manipulation have been compounded by the implementation of various public job creating programs. If $80,000 in capital can provide only one job in the private sector, then $80,000 ought to be able to make work for at least five persons if it is simply spent by the government on
salaries. Such a simplistic solution ignores the lesson told in the golden goose fairy tale. Private capital normally earns a return in excess of its cost. Over an extended period, the $80,000 in capital would not only regenerate itself, but provide an increment for the expansion of the enterprise and employment. In contrast, the government program which consumes the $80,000 to create five jobs is exhausted within one year. Repeated resort to consumption-based job creation must inevitably erode the long-term employment opportunities of the economy.

There can be little question that inflation and taxation lead to a lower rate of capital formation. Output is reduced, but the question is: by how much? One researcher called the total social welfare loss resulting from the current tax treatment of earnings on capital “astounding.” His estimate of the yearly welfare loss was $50 billion. The chief victims of this loss are working people. The punishment of capital and the reduction of returns on capital also reduce the returns on labor. Consequently, upward mobility and an improving standard of living are hampered by the poor returns on capital investment. These consequences are no less real merely because they are unintended. Policy makers would do well to remember this point the next time they seek to punish corporate “profiteers.”

The persistent reliance on inflationary policies has created what may be the most difficult problem to reverse— inflationary psychology. The penalties inflicted on thrift and productive investment have nurtured an “eat, drink and be merry for tomorrow we die” philosophy. It was Keynes himself who said “in the long run we’re all dead.” True to his word, Keynes is dead, leaving the rest of us to reap the harvest sown by policies based upon his theories. The “long run” of 1935 is here today, with all of the distortions and disincentives that Keynes’ early critics predicted. More and more, we see purchases made in order to avoid higher prices later. This rush to acquire hard goods increases the proportion of malinvestment. The earlier one commits to a specific investment, the less certain one can be of the future. This in itself would tend to lower return on fixed assets, even were inflation to be ended.

Further, manpower and resources are diverted to nonproductive pursuits. The deterioration of monetary assets impels an increase in money velocity and paper financial transactions, as firms and individuals seek to minimize cash balances. This creates a demand for financial services in great excess to what would be necessary under a more stable monetary unit. These trans-
actions consume resources that might serve more productive ends. In addition, managerial talent must be directed, at least in part, toward coping with the problems of inflation and its tax consequences. This diverts talent from dealing with matters that could be of more substantive benefit to our material well-being.

Possibly the most damaging effect of the inflation-taxation policy is the destruction of truth in both financial reporting and policy discourse. The disintegration of the monetary unit goes a long way toward invalidating corporate annual reports. Even worse, this distortion pollutes the price system and upsets the balancing and allocating functions performed by this system.

But the lowest blow of all is the contribution this policy makes to the deterioration of public policy debate. The whole "advantage" of a deliberate provocation of inflation is the element of deceit based upon the "money illusion." The money illusion concept is an illustration of Keynes' contempt for the intended victims of government manipulation of the money supply. People are not astute enough, Keynes reasoned, to perceive the erosion of purchasing power in the monetary unit. As long as the nominal dollar amounts of their incomes remained unchanged or higher, they would not react to protect themselves from the effects of inflation of the money supply.

Disciples of this "money illusion" theory attempt to trick the economic units in society into pursuing actions they would not ordinarily take. This makes dissemblers of our public policy spokesmen. How can a political system based upon democratic decision-making operate when the citizens must be fed lies as a matter of course in the implementation of national economic policy? One critic even goes so far as to claim that the whole process is intentionally dishonest—not for the people's own good, as apologists might argue—but for the express intent of increasing the government's tax take. 7

The Ultimate Punishment

We have examined the effects of inflation and taxation on corporate profits. There can be little doubt as to the negative consequences. Corporate profits are, as a result of inflation, overstated. Since the tax code makes no allowance for inflation, profits are then overtaxed. Real earnings are substantially reduced. The penalties against earnings from capital investment have, naturally, discouraged such investment. This portends a rather dire future for the United States economy. Dis­couragement of investment shrinks the capital stock. If the effect on the 30 DJIA companies we have examined is representative, then the
economic growth capacity of private business in the United States is less than ½ of the rate of population growth. If the long-term standard of living is to rise, or at least avoid a decline, more capital must be created. This is precisely what the government’s policies on inflation and taxation are preventing.

Perhaps the greatest irony of the manipulative monetary policy has been the rising value of that “barbarous relic”—gold. At the same time that stock prices and the return on productive assets have declined in real terms, the price of gold has surged. The inflationary monetary policy spawned by Keynesian economic theory has done more to promote the resurgence of the “barbarous relic” than all hoarders and speculators could ever have hoped to achieve. Which only goes to show that in the long run, crime does not pay.

—FOOTNOTES—

3Ibid.

Plunder by Fraud

The world is not sufficiently aware of the influence that sophistry exerts over it.

When the rule of the stronger was overthrown, sophistry transferred the empire to the more subtle, and it would be hard to say which of these two tyrants has been the more disastrous for mankind.

Men have an immoderate love of pleasure, influence, prestige, power—in a word, wealth.

And, at the same time, they are driven by a powerful impulse to obtain these things for themselves at the expense of others.

But these others, who constitute the public, are impelled no less powerfully to keep what they have acquired, provided that they can and that they know how.

Plunder, which plays such an important role in the affairs of the world, has but two instruments: force and fraud, and two impediments: courage and knowledge.

FREDERIC BASTIAT, Economic Sophisms
One of the stories handed down over the years tells how kings used to execute messengers who brought bad news. The nobility apparently thought—literally—that no news was good news. If only we don’t know about a catastrophe, it isn’t bad at all!

We can laugh at such an attitude today because we realize the importance of information, whether it is good or bad. The good news tells us things are going well and the bad news is a call to action. Whether the messenger carries information about an earthquake or a shaky financial structure, we respond by taking helpful and remedial actions. Bad news is no longer cause for beheading the courier but rather is an alarm that signals that something must be done.

There are those who still take the old view that bad news is somehow the fault of the messenger who carries that news. Their response to information about calamities is to shut down the news service. They would rather have the morning newspaper full of blank pages than have the assaults and accidents reported as they happened. Most of this crowd—the “hear-no-evil-and therefore-everything-is-fine” crowd—seem to hold public office.

That doesn’t mean that the freedom of the press is in jeopardy—not yet, at least. Those who would eliminate bad news have a much bigger target in their sights. What they are aiming at is the biggest communications system in the world.

It may come as a surprise that this system is not a broadcasting company, the phone system, nor a publishing company. The world’s biggest communications system does trillions of dollars of business each year but has no paid employ-
ees. It doesn’t use satellites or microwave towers, and it doesn’t even have a corporate headquarters.

The Price Network

This communications system is the network of prices that keeps our economy going. Whenever people start buying more of an item, the price of that item starts going up—a signal to producers to produce more. If a particular skill is needed by businesses, the price of people with that skill (their wage) goes up. Those who have that skill are allocated to that part of the economy where they are of the most value, and more people are attracted into that profession or trade as a result of the higher wages. If OPEC simply decides to shut off all oil to our country, we will quickly experience a massive shift to other energy sources—not because the Department of Energy so decrees but rather because oil prices will rise to the point that other energy sources become more attractive.

That message system—the price network—works efficiently night and day. When it makes a mistake, it is quickly corrected. It sends the labor, the natural resources and the finished goods to the places where they are most highly valued. It tells a businessman when he has made a mistake in interpreting consumers’ wants and it rewards those who develop new or better ways of solving problems. Last year, in the U.S. alone, our price network allocated over $2 trillion of goods, services, materials and talents—and it all went smoothly.

The Burden of Inflation

Well, it almost went smoothly. The price network has had an extra burden to bear for the past decade and especially for the past few years. The extra burden is inflation. To be sure, the price system has done its job. It has reported to us that the dollar is losing its value, both at home and abroad. At the same time that the price network was delivering this message it was still having to simultaneously adjust for changes in people’s tastes, technological advances and new products. This would be similar to a juggler having to keep all of the balls in the air while riding a roller coaster!

The price network kept the messages coming despite having to adjust for the extra messages about the value of the dollar. Normally, such faithful service in the face of overwhelming demands would call for
recognition of and reward for meritorious duty. But the old practice of kings is re-instituted instead. Washington declared that we should execute the messenger who dared report bad news. Their sensitivity is understandable. After all, the bad news was that there were too many dollars in circulation—and that was the fault of the Federal Reserve System, a quasi-government agency.

The execution of the messenger is to be voluntary, at least in the beginning. The government asked all of those in the economy to voluntarily ignore the price network. Even if customers have more dollars to spend, producers are not supposed to raise prices more than they have during the past couple of years (actually, one-half per cent less). Employees are not supposed to be given wage increases in excess of 7 per cent, even if an employer loses his entire work force to a competitor. If costs are restrained, and prices are restrained—so goes the Washington view—inflation will no longer be a problem. Let the messenger drink a cup of hemlock and there will no longer be any bad news!

The bad news, of course, will still be there. The price network has simply been delivering the message that there is an excess supply of dollars and that the value of the dollar is therefore lower. Now, if those excess dollars are still out there, what will happen if everyone faithfully follows the wage and price voluntary guidelines?

In doing so, we are (voluntarily) executing our economic messenger—the price system. That price network would otherwise be telling us that people have lots of dollars and that they want to spend those dollars, driving prices up. If prices and wages are voluntarily restrained, the dollars are still in circulation and the demand for goods and services still exists. But, under the guidelines, that dollar demand cannot have an effect on wages and prices (in excess of the guidelines).

The producers in the economy must receive higher prices if they are to produce more. The only way that businesses can maintain their profit margins is to charge more as inefficiencies creep in with expanded production. But if they cannot—or will not—charge more, they cannot be expected to produce more.

**Maladjustments**

So, if everyone were to faithfully follow the guidelines, the demand for more goods would be unmatched by an increase in the supply of those goods. Those items in greatest demand would soon disappear from stores. Without the price network to broadcast up-to-the-minute economic news, shortages would begin to crop up.

But the consumers, thwarted in their desire for the products in
greatest demand, will try something else. Second-hand goods, antiques, and all those things not under the guidelines will become popular as people seek to get out of dollars and into something of value! Even as they spend for such things, though, the dollars are still in circulation in our economy. They may have passed into the hands of used car dealers and antique store owners, but the dollars are still there.

At some point, if we cannot get the additional goods and services we want from our own economy, we are going to buy those products from another economy. To get foreign goods, though, we need to have foreign currency. As we try to purchase goods abroad, offering dollars to get francs, marks, yen and lira, the value of the dollar will start downward. We may have done away with our own economic messenger but the international price network will quickly send the same report: there are too many dollars and their value must fall.

The U.S. government could hardly stand by and let the international markets telegraph such information. For a while, our government will step in and supply the foreign currencies we need to buy foreign goods. But the government's supply of those currencies is limited, so the dollar support program could only have a limited life. Before its demise, we can expect direct trade restrictions to be imposed, preventing us from buying French wines, Japanese stereos and German cars.

When we put our price network out of commission—voluntarily—we implicitly agreed that we would resort to some other way to allocate the available goods and services. Whether we resort to government licenses to buy imported products or coupons to buy gasoline, or simply the arbitrary system of first-come, first-served, we will have to use a very inefficient means for dividing up the gross national product. Worse yet, we can expect fewer products to be available because our domestic companies have no incentive to produce more and we won't be able to buy as much from foreign companies.

**Inflation Persists, Despite the Disguise**

The inflation problem is still with us, even if everyone follows the wage and price guidelines. All that we have done is disguise it. If you want to buy gasoline, you will still have to pay more for it—except that now the payment will be partly in cash and partly in a willingness to get up at 3:00 A.M. to get in line at the service station. If you want that increase in salary you deserve, you will either have to change companies or settle for non-monetary fringe benefits—a new office, more
secretarial help, a fancier phone on your desk.

Total compliance with the voluntary guidelines does nothing to solve the problem of inflation. It simply drives the problem underground. The bad news is still there, and liquidating the messenger doesn’t change the message.

Ignoring the price network makes life in a complex economy exceedingly more difficult. Because the demand for goods and services cannot be expressed entirely in dollars, everyone must learn how each store or industry operates. We have to find out when the meat counter receives its daily shipment; when the gas station will be open; whether we have any friends to whom we can turn to supply what we want. Employers must try to keep their employees without granting wage increases in excess of the guidelines and figure out how to get the materials needed for production without paying more than the guidelines allow. As the demand for products and labor will not be satisfied under the guidelines, that demand will seek its own level elsewhere. As the prices of the goods and services not under the guidelines begin to rise, we can expect governmental restrictions and controls to spread. Import controls, restrictions on investment abroad, credit controls and perhaps even an extension of the guidelines to used merchandise and individual wages and salaries are all conceivable.

Difficult as life in that type of economy would be, we could still muddle along. Most people probably don’t realize just how difficult life would be, for it is widely reported that nearly two-thirds of our adult population supports the guideline approach to controlling inflation. If there were any reasonable chance that the guidelines would in fact reduce inflation, that support might be understandable. However, the only result that we can expect from even complete compliance with the guidelines is a new face for inflation. Instead of higher dollar prices, there will be higher non-dollar prices. Instead of higher wages and salaries, there will be more money spent for redecorated offices with oriental rugs. Instead of buying imported goods at market prices, we will have to buy licenses to get those foreign goods at below-market prices.

**Destroying the Messenger**

The voluntary wage and price guidelines will fail to control inflation because they do nothing to rid us of the cause of inflation. The guidelines confuse the message and the messenger.

The cause of inflation is simply too many dollars available to buy too few goods and services. When there are too many dollars relative to products, the dollar price of those
products will go up. The rising prices are the result, not the cause. The rising prices are just telling us that there are an excessive number of dollars chasing a scarce amount of goods around. Only when an anti-inflation policy attacks the root cause of those excess dollars will inflation be controlled.

The number of dollars—our country’s money supply—has increased about 6 per cent per year for the past 5 years. Prices have increased about 6 per cent per year over the same period of time. This close relationship between increases in our nation’s money supply and increases in prices has been traced back and verified for as many years as we have data. So, the immediate cause of inflation is an excessive increase in the supply of money. To effectively control inflation, we must get to the reasons why our money supply has been expanded at such a high rate.

Federal Spending

The basic reason for such excessive monetary expansion is that the federal government has persisted in spending far more than its income. The gross federal debt has increased by more than $300 billion in the past five years. That $300 billion was borrowed, some of which otherwise would have been available for investment in productive facilities. That diversion of funds from private investment to public spending in itself would reduce productivity and produce a sluggish economy. But the inflationary forces were unleashed when part of that $300 billion of borrowing was supplied indirectly through the Federal Reserve System.

The “Fed” is the agency that controls the amount of money in the economy. When the federal government borrows heavily, the Fed is under pressure to step in and help supply the needed funds. The trouble is that the Fed supplies those funds by simply printing more money! As those new dollars find their way into the economy, unmatched by an increase in goods, the inflation process begins.

The only way to end that inflation, then, is to halt the rapid increase in the supply of money. But the only way to curtail the monetary expansion is to curtail the deficit spending of the federal government. Guidelines can bring inflation under control, but they must be guidelines to curb federal deficit spending.

Guidelines can bring inflation under control, but they must be guidelines to curb federal deficit spending. Government spending guidelines will reduce inflation—wage and price guidelines won’t.
The Outlook

Suppose that we continue with this futile experiment in controlling inflation by wage and price guidelines. What will be the outcome?

First, inflation—in one form or another—will continue unabated. To the extent that businesses and employees comply with the guidelines, the inflation will be disguised but nonetheless present. To the extent that the guidelines are ignored, prices will continue to rise at a rapid rate. If this happens, there is certainly the possibility that mandatory wage and price controls will be imposed. If the price network won’t die through voluntary actions, we will execute it!

Test your memory: what was the rate of inflation in August, 1971, just before mandatory price controls were last instituted? In 1978, consumer prices rose in excess of 9 per cent per year, and the average increase over the past 5 years has been in excess of 6 per cent per year. If inflation were to continue at even 8 per cent per year, the general price level would double in 9 years!

Now, what was the inflation rate back in 1971? Less than 4 per cent, and it was declining. Compared with the present economic conditions, that was a period of stable prices—yet mandatory controls were imposed on wages and prices because of the rate of inflation!

Mandatory controls will work no better than voluntary guidelines in bringing inflation down. Mandatory controls will drive more of the inflation into disguise, but they will not get rid of it. To eliminate inflation, there is but one answer, and a simple one at that. Issue guidelines and impose controls, but aim those guidelines and controls at the real cause of inflation—federal deficit spending. Those are the only controls and guidelines that will work.

Dr. William E. Cage is an economist and administrative analyst at Tamko Asphalt Products, Inc., of Joplin, Missouri. He has also been a university professor and economic consultant.

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33. Conclusion: Loosening the Grip of the Idea

As this piece is being written there is a hint of spring in the air. The ice has melted away, and the weather has turned mild. A gentle rain has fallen, preparing the earth for a new season. A moment ago, I heard a bird chirping outside. The sap has begun to rise in the trees; the matted down grass blades look here and there as if they might be changing color from brown toward green; flowers not yet ready to bloom are nonetheless pushing gently upward toward the sun. In a few weeks, if I mistake not, tiny green leaves will be thrusting forth from the branches of trees, flowers will be blooming, the people will be emerging joyfully from their winter cocoons. The earth which lately looked so glum will be suddenly supplied, as it were, with new raiment in an ever recurring annual cycle.

Even so, experience teaches that however hopefully we anticipate the coming of spring we should be wary as well. Spring will not be likely to arrive without a great struggle in the atmosphere. The warm winds blowing up from the south collide time and again with the cold winds...
from the north as winter gives ground grudgingly to spring. From these collisions there are often thunderstorms, heavy rains, floods, high winds, and even tornadoes, the most locally devastating of all natural phenomena. The best things in life are not free; there is always a price to pay. Stormy weather is the price we pay for spring.

But then, on the heels of these things there comes a very special moment—a few hours, a day, or, when we are lucky, several days—for all who will attend it. It is a day when the sun shines brightly, when the last bit of chill has gone from the air, when the wind has finally blown itself out and a near stillness is upon the earth. The fragrance of flowers fills the air, the birds are singing, and animals are at play. It is a time for sitting or lying under a tree, for stopping the never ending struggle, for drowsing if that should occur, or just for peaceful contemplation. At such moments, a man may be as near to peace and a sense of harmony with nature as he gets, a nature against which he has so often struggled. He may feel himself at the threshold of some great truth. Perhaps he is. It is a time for reading and pondering these words of Jesus:

"And why take ye thought for raiment? Consider the lilies of the field, how they grow; they toil not, neither do they spin:

"And yet I say unto you, That even Solomon in all his glory was not arrayed like one of these.

"Wherefore, if God so clothe the grass of the field, which to day is, and to morrow is cast into the oven shall he not much more clothe you, O ye of little faith?

"Therefore take no thought, saying, What shall we eat? or, What shall we drink? or, Wherewithal shall we be clothed?

"But seek ye first the kingdom of God, and his righteousness; and all these things shall be added unto you."

A Lesson in Economics

Some of these passages are surely not to be taken literally. No one is supposed to conclude that because lilies neither toil nor spin that man need not do so either. There are some crucial differences between lilies and man. If man were literally to stop giving thought to what he would eat, drink, and wear tomorrow, the cupboard would almost certainly be bare. Although the ostensible subject of these passages is faith, they also contain a lesson in economics. A part of the message I glean from the quotations can be stated in this way. Do not engage in vain struggles to accomplish what you would do. (The verse which immediately precedes those quoted reads, "Which of you by taking thought can add one cubit unto his stature?") Get yourself in accord with the nature of things. Be right, first, and what is good and desirable
will follow from your efforts. But to grasp the full import of this, it is necessary to delve into basic economics.

One difference between the lily and man is that man is totally dependent upon outside sources for his energy supply. The lily is not, of course, completely self-contained and self-sufficient. In order to grow, it requires sunlight, water, and certain minerals. The water and minerals it extracts from the soil, and sunlight does the rest. It makes its own energy—its food supply—by a process of photosynthesis. Another difference between man and plant is that man can think—even to taking thought for the morrow. And perhaps the most critical difference, man is a moral being—with the capacity even for seeking righteousness first. It is these differences in combination that give rise to economy, i.e., man is energy dependent and energy in usable forms is scarce. He uses his intellect to acquire energy efficiently, and morality prescribes what means are rightfully available to him. Man is mobile, too, and the plant is not; this gives more scope to his efforts at economy.

Household and Market

Economy assumes two forms, and two only. There is, first, the economy of the household. It may also be thought of as the economy of the family, but the term will not serve in all cases. Not everyone lives in a family, but everyone has a household, even a tramp who has only a can of beans and a makeshift shelter. The other is the market economy. It can also be thought of as a money economy, but the term is not quite so inclusive, for it is possible to have a market without money. It would be more precise to call it an exchange economy, but that does not distinguish it so well from the household economy in which there may be some elements of exchange. There are those who speak of an interventionist economy, but so far as intervention holds sway it is not an economy. The same goes for a "planned" economy.

There are some similarities between the household and market economies. Exchanges may occur in both, though exchange is essential to the market and usually incidental to the household. Division of labor usually occurs in a household of two or more people, and always in the market, or, more precisely, it brings the market into being. Each has a rightful claim to the title of economy, for each deals with the allocation of scarce resources.

But the differences are much more pronounced than the similarities. A key difference is that the household is primary, basic, and fundamental; while the market is secondary and derivative. The household is a center of value; the market is only a
utility. The household is a miniature community; the market is a mechanism. Labor is an asset in the household; it is a cost in the market. There are no prices in the household ordinarily; whereas, the prime activity of the market is the determination of prices. The household is local and limited: its locale circumscribes what can be efficiently produced; it is limited to the wants and productive capacities of its members. Potentially, the market is world-wide and encompasses the wants and productive capacities of all the people in the world.

In actuality, we usually encounter the household intertwined with the market economy. This can lead to the conclusion that there is nothing more to household economy than what is presently described as consumer education, i.e., that it consists of the most effective means for utilizing the market. On this view, the household tends to become an extension of the market. This reverses the normal relationship, making the market basic and the household contingent. This might be of no great consequence in a free market, but when intervention has proceeded to great lengths such a dependence on the market lays the household open to political control.

The *modus vivendi* of the market is *advantage* or *gain*. Men enter the market in quest for something different from or better than what they have. They seek their own advantage by trade. Each person trading in the market must be assumed to be pursuing his self-interest, else there is and can be no market. In order to see this it is necessary only to imagine two people trying to make an exchange with each other in which neither wants what the other has. If an exchange took place, it could only be by gift. That would be the practical result, too, of each seeking only the well-being of the other. In the final analysis, it could only be an exchange for the sake of exchange.

**An Assault on the Market**

The idea that has the world in its grip is an assault on the market. This is so, most basically, because it is an attempt to remove the individual pursuit of self-interest from social relations. If this could be done, there would be no market. But there would also be no economy which could be regulated, controlled, or managed. No means would exist for coordinating or concerting all human effort for the supposed common good. In fact, socialism cannot dispense with the market entirely, any more than it can dispense with the motive of self-interest. It can, as already noted, level its attack at the independence of the individual. This it does. In doing this, the market, or a truncated version of it, is a prominent and essential means. Organization and numbers, as already dis-
cussed, are the means by which it does so.

Gradualists use the market much more broadly than do communists. By taking away much of private property, communists remove one of the basic conditions of trade. At the same time, however, they establish a near absolute dependence upon some sort of market for people to get a livelihood. Thus, while the market has only an attenuated existence in communist countries, what there is of it, free or not, is much more important than in gradualist countries.

**Intervention to Grasp Power**

Be that as it may, the crucial theorem for an understanding of the impact of socialism is this: *The more firmly the grip of the idea is fastened on a people the less the advantage to the individual of exchanging in the market.* To put it another way, the more government intervenes in, controls, and occupies the market, the less the chance of gain for the individual in the market. That is not to say that there are not gains to be made in the hampered market, but they are gains increasingly to those in a position to manipulate and use government to effect their gains. That is not an arena for individuals acting alone; it is an arena for groups, for collectives, for organizations, and for conglomerates—those who can mass numbers and organizations so as to grasp the handles of power. Such activity is a way of life in every "advanced" country in the world today. In well-run communist countries, the rulers often perceive advantage in favoring groups, but the flow of power tends to be one-directional—from the rulers to the ruled.

We live in a world in which conditions are rigged against the individual. The market is increasingly rigged against him; the penalties that attend its use increase, and the costs of trading there become prohibitive. Government is rigged against him; it attends almost exclusively to collectives and organizations and concerns itself only with matters where large numbers are involved. (The courts are a partial exception to this, but predicting court decisions has become an increasingly parlous game).

The individual appears to be on the horns of a grotesque dilemma. Either he must operate individually in a market rigged against him or he must become a part of some collective and yield up management of many of his affairs to the group. To put it perhaps too dramatically, it looks as if the individual must hang alone or be hanged with the collective. That is not a socialist slogan; it is the future toward which socialism leads.

Is there a way out? Let us look again to the lilies of the field. There
are three lessons, at least, to be learned from the lily, or almost any other plant, for that matter. They can be concisely stated this way:

1. Mind your own business.
2. Provide for your own sustenance.
3. Fulfill yourself.

We know already, of course, that in applying these lessons we must keep in mind that man differs from a field plant in that he is mobile, rational, and moral. The lessons are valid, but it does take imagination to apply them.

**One’s Own Business**

Much of the toiling and spinning that is going on in the world today is worse than wasted effort; it is obstructive and counter-productive. The attempt to concert all effort—to manage economies, to fit everyone into the effort as a cog in a machine, to project the future from the past—runs aground on human nature and arouses resistance rather than productive effort. The attempt to transform man into an ant can no more succeed than would an effort to make a lily into an oak. The biological case against this possibility was well expressed a while back by Aldous Huxley:

> In the course of evolution nature has gone to endless trouble to see that every individual is unlike every other individual. We reproduce our kind by bringing the father’s genes into contact with the mother’s. These hereditary factors may be combined in an almost infinite number of ways. Physically and mentally, each one of us is unique. Any culture which, in the interests of efficiency or in the name of some political or religious dogma, seeks to standardize the human individual commits an outrage against man’s biological nature.²

The deeper case for the individual provided by Christianity has already been discussed.

Plants are especially adept at minding their own business. They put down their roots wherever the seed has fallen and reach outward to such supplies as they can use. No lily ever poked its petals out and launched any such plaint as the following: “Would you look at this situation! There is too much vegetation hereabout and too little water and minerals to go around. Look at that huge maple over there. It’s going to drain all the water and minerals from the soil. All the lilies need to get together and see that each plant gets no more than its equal share. Moreover, we have got to do something about the uncontrolled reproduction of crabgrass.” It is not that the lilies, considered as a class, may not have such problems; it is rather that it is no part of their business to deal with them. Each lily deals with its own particular difficulties of getting enough water, minerals, and sunlight.

Loosening the grip of the idea which has us in its hold requires an
emulation of the lily. The idea extends its sway by bidding us conceive of the whole world as our business. A recent civics textbook (usually taught in junior high school) describes a portion of the world-wide problems which confront us this way:

In 1976 U.N. Secretary-General Kurt Waldheim said: "The problems which face mankind are common to all nations and all areas. It is not possible to resolve them any more by purely national, or even regional, responses. Slowly we have realized that we are physically and economically interdependent on this planet."

What are the world wide problems which all nations face? Among them, most scholars agree, are:
- poverty and hunger
- over-population;
- the using up of limited natural resources...\(^3\)

**Pitfalls of Vanity, Immorality, and Tyranny**

There is Divine warrant for believing that these problems are none of my business, that I should give no thought to them, and am to continue on my way without regard to the morrow. Why? Because, in the first place, it is vain to think on such things. It is vanity for me, one who knows not the ends to which a single child is born, to speculate about such matters as over-population. More, think as I will, I can discern no way generally to reduce poverty and hunger without using up limited natural resources.

In the second place, thinking on such things leads to the contemplation of actions I believe to be wrong. Should the world's goods be redistributed by force? But that would be theft, and Thou Shalt not Steal. The authors of the above text suggest the direction such thought takes:

If people live longer, the population will get even larger—unless fewer people are born. Should we try to cut the birth rate and work to enable people to live longer? Should we set an age limit beyond which we would not help people to live?\(^4\)

In the third place, tyranny is the logical conclusion to which such thinking leads. Aldous Huxley described it as the Will to Order in the social realm and described its process this way:

Here the theoretical reduction of unmanageable multiplicity to comprehensible unity becomes the practical reduction of human diversity to subhuman uniformity, of freedom to servitude. In politics the equivalent of a fully developed scientific theory or philosophical system is a totalitarian dictatorship. In economics, the equivalent of a beautifully composed work of art is the smoothly running factory in which the workers are perfectly adjusted to the machines. The Will to Order can make tyrants out of those who merely aspire to clear up a mess. The beauty of tidiness is used as a justification for despotism.\(^5\)

It would never occur to me to go
about telling my neighbors how many children they should have. Nor would I think of advising my neighbors to cease all efforts at keeping the elderly among them alive. Were I to do so, I should most likely be told to mind my own business. And rightly so. Yet, once one's mind is bent by the idea that has the world in its grip, many people experience no difficulty in accepting the use of force to compel what they would hardly think of making efforts to get done voluntarily at the local and concrete level. Minding one's own business is the essential first step in loosening the grip of the idea.

Coercively Involved

But what is one's own business? A Secretary General of the United Nations has said, in effect, that my business is entangled with everyone else's business. The peoples on this planet "are physically and economically interdependent," he has said. Let us spell out a little of what may be meant by this. If my money is being taken to pay the hospital fee for an infant being born, how many children that family has does become my business. If my gasoline supply is determined by the actions of OPEC nations, I am in some measure dependent on them. It is at least possible that what they do becomes my business. If I buy hospitalization insurance, or automobile insurance, or any sort of insurance, my rates may be determined by the behavior and carelessness of others.

To untangle this web, we need some distinctions. The distinction between a market economy and an interventionist economy needs to be made. The rule in the market economy is quid pro quo. There is a saying regarding legal settlements that goes like this: "Leave nothing on the table." It means that nothing should be left to be resolved later, that all accounts should be settled. The meaning of quid pro quo is that all parties to a transaction have fulfilled their commitments and that measure for measure has been given. Neither owes anything further to the other. Such transactions take place all the time. I drive up to a service station and order five dollars worth of gasoline. The attendant pumps two gallons, or however much it takes to equal five dollars at his prices, I pay five dollars, and that is that. A quid pro quo has been given, and nothing has been left on the table.

Activity in the market does not, of itself, entail either dependence or interdependence. The free market in a money economy is really a mechanism for making exchanges by people who retain their independence one of another. Even in contracts where some dependence is established, that dependence is tem-
porary and limited. "Leaving nothing on the table" does not mean that there may not be obligations to be satisfied in the future. The phrase is used in real estate transactions in which there may be warranties running for several years and payments to be made for as much as thirty or more years. It means, rather, that all these obligations are specified, agreed to, and thereby limited.

"Left on the Table"

Government intervention intrudes force into the market. To the extent that force plays a role quid pro quo is not the rule. Indeed, the idea that has the world in its grip aims to remove quid pro quo from social relations, for quid pro quo depends on the working of individual self-interest just as does the market itself. In consequence, transactions in the market do tend to establish the kind of dependence that is unlimited and may well be described as interdependence. When force is used in the market "something is always left on the table." What is "left on the table" is, at the least, whatever was extracted by force. Dependence is established, because the transaction is never completed.

Let us take a simple example. Let us return to the service station and the transaction involving purchase and delivery of five dollars worth of gasoline. Something was "left on the table." The price included a state and Federal gasoline tax. I did not get my full quid, though he may have got his quo. In fact, I did not get five dollars worth of gasoline; I only got $4.40, say. The service station operator and I are not quit of each other. How he runs his business has become in some measure my business. It has become my concern, though I may not be aware of it, that he pay the taxes collected into the proper government collection agencies. Beyond that, it becomes my concern that the money is properly spent on goods or services which is in accord with the law.

Of course, much more than sixty cents was "left on the table." However much more I had to pay than I would have had to pay without the collusion of the OPEC cartel was left on the table. All the tribute paid to tax collectors, union wages, and so forth during the whole of the process of getting gasoline to and from the pump was left on the table. A whole set of dependencies and interdependencies were entailed in the transaction, many of which are very much my business.

Self-Supporting

Before going further with this analysis, it is in order to return to the second lesson to be learned from the lily—To provide for your own sustenance. The lily is equipped to make its own food literally by photo-
synthesis. Man is, as already noted, energy dependent. Even so, man is normally equipped with the means for establishing his independence. His mobility enables him to range in quest of sources of energy and to make exchanges with others. His rationality enables him to accumulate capital and use tools to provide for himself and his own. His morality enables him to cooperate with others, to distinguish between what is his and what belongs to others, and enjoins him to works of charity in aid of those unable to provide for themselves. That he be responsible for himself and fulfill his obligations is a necessary condition of his independence as a man.

Man's independence is contingent upon his household economy. It can be stated simply this way: Man can be independent to the extent that and so long as his household consumes no more than he has produced. Participation in the market does not fundamentally alter this axiom. The market enables individuals to specialize by providing the means for exchanging what surplus they may have for that of others. Nor do debts which may be contracted in the market alter the axiom; they can only defer for a time the balancing of accounts. Debts do tend, however, to reduce the independence of the individual if they are not counterbalanced with more or less liquid assets.

An individual may enhance his independence in the free market. By contrast, when government intervenes to regulate, control, and use the market for its ends, the individual can lose his independence in the market. As already indicated, government intervention intertwines everyone's business with everybody else's. Transactions tend to lose their limited character and to draw those who engage in them into a continuum of effects that extend on and on. Rather than augmenting his independence in the market, the individual is drawn into a web of dependence and interdependence. In these circumstances, the more the individual depends upon the market the less his control over his affairs.

Controlling the Individual

There is another facet to government activity in the market. Governments use the market primarily as their means of controlling and using the individual. They collect most of their taxes there. (In the United States, the income tax is collected, where possible, by the employer, and that is in the market too.) They depend upon the market for prices on the basis of which taxes are levied. Beyond that, in gradualist countries, most controls are exercised through the medium of the market.

At the present time there are two ways to loosen the grip of the state
on the individual. One is by the concerted action of peoples to place constitutional restraints and limits on governments. My belief is that this will only be likely to occur when the idea that now has the world in its grip has lost its hold. That does not have to occur on a worldwide scale, of course, and if it happens it will most likely do so country by country. I know of no country in the world where such an event appears imminent. But when the time is right, those with a will to do so can discover readily the principles on which government should be limited.

But people will be ready for limited government and a free market only when they are ready to assume responsibility for themselves and their own. Silk purses cannot be made from pig's ears, and freedom cannot be imposed upon a people. Only a people who believe that man is a value will have freedom. Only those who have a high estimate of man and his potentialities can conceive of it as desirable for him to be free.

The greater our dependence upon others, the further are we removed from freedom. People do not revolt and establish freedom when oppression surpasses tolerable limits. They limit governments only when oppression becomes something they are unwilling to tolerate. Oppression is not a preparation for freedom but rather for greater oppression. The way for freedom is prepared by the successful practice of individual responsibility. The man who assumes responsibility for himself and his own is on his way to freedom, regardless of what others may be.

**Penalties on Market Activity**

The other way to loosen the grip of the state, establish individual independence and responsibility, does not require concerted actions of people. Where there is private property, it can be done by individuals and families. The way is to rely less and less on the market and more and more on the household. The household economy is the basic—even the "real"—economy; the market is only an extension of it. It is becoming increasingly expensive to use the market to supply the wants of the household. Social Security taxes, income taxes, sales taxes, import duties, excises, utility companies with monopoly privileges, international cartels, extortions by organized labor, and so on almost endlessly place heavy penalties on market activity. The division of labor loses much of its advantage as the cost of transport mounts. Moreover, the more the market is regulated the less able it is to serve the wants of the individual.

What I am suggesting is already occurring as a trend in the United
States. More and more people are learning to do-it-themselves, to maintain and repair their automobiles, to do their plumbing and electrical work, to grow some portion of their food, to make their clothes, to cut hair, and to do a thousand and one other useful things. The more they do for themselves the less they are taxed in providing for their wants. The more closely they come to a household economy the less is the control of others over them.

The potentially valuable impact of this turn toward a household economy is the impact it can have on loosening the grip of the idea, too. The idea that has the world in its grasp is a grandiose idea. It is one that casts thought in the framework of groups, classes, races, nations, and the world. Those who think in terms of the household economy have already to some extent loosened the grip of the idea. They are thinking in terms of producing their own goods with the least expenditure of the means of production. That is what economy is about. When the market is an adjunct to their economy, they will no doubt use it.

**Fulfill Yourself**

The final lesson from the lily is this: Fulfill yourself. We know what that means for a lily. It means to develop a sturdy stem which can support its flowering and production of seeds. But under the sway of the idea that has the world in its grip we are losing our grasp of what it means for a man to fulfill himself. We have well-nigh perfected the science of making machines, but we are on the way to losing the art of developing men. This is so because we are under the sway of an idea which childrenizes the race. It views man as a reflex of class, race, nation, and the people. Its thrust is to devise a scheme which will provide for them as if they were infants and control them as if they were irresponsible children. Beyond that, it is to concert their efforts to provide for the needs of everyone. It is a plan of human sacrifice. It makes of individual man only a means.

Man fulfills himself by becoming an adult, by developing his faculties, by exercising his skills, by becoming responsible for himself and his own, by making choices, and by realizing his potential. Man does not naturally fulfill himself as does the lily of the field. He must be nurtured as an infant, trained as a child, educated as an adolescent, and held responsible for his acts as he grows toward maturity. The surrounding society may aid and sustain him throughout life. Government has for its task to protect his life and property.

It is not in derogation of society, of organizations, or of whatever other groups there may be that it is ob-
served that they are all adjuncts to the individual; they are servants not masters. Man too is a servant at his best, but he is at his best only when he is serving at his own good will and in ways that he decides.

The Road to Tyranny

It is idle, vain, and potent with destruction for men to take thought for the morrow of the human race. It is from such thought that ideologies are constructed. Such schemes are but plans for subordinating and subduing other men to the will of those who conceive them. Coordinating economies is an activity beyond the capacity of any man, and a task for which there is no warrant or commission. Control over others is a thing to be shunned, not sought. The good parent finds joy in seeing his child taking over the management of his own affairs. The successful parent is humbled by the accomplishments of his offspring, for he sees in them much that could not have come from him. The effective teacher is one whose students surpass his limited conceptions. Any plan that entails the use of others without their individual consent is a presumption. He who puts such a plan into effect is a tyrant.

The idea that has the world in its grip is a promise of eternal springtime. It is a vision of arriving at that special moment of spring and remaining there forever. It is delusion. The idea brings destruction in its wake, not the euphoria of springtime. It brings discord, hatred, war, terror, and the massed force of the state. That is its record. The only element of springtime in the applied idea is, figuratively, storms, tornadoes, floods, and violent winds. Amidst these, it offers not shelter but insoluble problems of ever greater dimension.

When storm clouds descend, the traveler upon the road longs for the security of home. It is a sound instinct. Confronted with elements beyond his power to control, he longs for a mansized place which he can order and manage. Home has ever been the sign and symbol of that place of refuge. To return to it is a return to basics, a return to fundamentals, a return to what life is about. The storm recedes in importance as the returned traveler enters the familiar household.

Such joys of springtime as man can have come from minding his own business, providing for himself and his own, and fulfilling himself. But what will become of us if we make these things our primary concern? How will we get all the goods that we need or want? Will we not be drowned in a mass of humanity resulting from over-population? How will the hungry be fed? Will we not use up our limited resources? "O ye of little faith." "Consider the lilies of the field, how they grow; they toil
not, neither do they spin: And yet I say unto you, That even Solomon in all his glory was not arrayed like one of these."

It is for man to put his own house in order, not to order the world. "But seek ye first the kingdom of God and his righteousness; and all these things shall be added unto you."

Let it be so.

—FOOTNOTES—

4Ibid., p. 172.
5Huxley, op. cit., p. 28.

This concludes the series. An Arlington House version of World in the Grip of an Idea is in the works, and will be duly announced in The Freeman and in Notes from FEE just as soon as publication date and price are known.
Almost everybody wants peace and prosperity. Certainly government officials profess a desire to promote peaceful cooperation among peoples and they devote much time and energy to "international relations." Yet almost daily the press, radio and TV report international tensions—in southeast Asia, southern Africa, the Middle East, Latin America or the Orient. As human beings are not perfect, possibilities will always exist for mistakes, misunderstandings, disagreements and disputes that could grow into widespread conflicts. So the task of those concerned with foreign policy is twofold—(1) to contain local quarrels and (2) to minimize the possibility of such conflicts in the future.

It is natural for people to trade with one another. No doubt men came to understand the advantages of voluntary transactions long before the dawn of written history. Persuading others to part voluntarily with some good or service, by offering them something in exchange, was usually easier than doing battle for it. Certainly it was far less dangerous. Barring force, fraud or human error, both parties to any transaction expect to gain something they value more than what they are giving in exchange. Otherwise they would not trade. This is equally true of trades among friends or strangers, fellow countrymen or foreigners, small enter-
prises or large—whether located next door to one another or separated by many miles or national borders. Trades may be complex, if intermediate transactions or different national currencies are involved, but the principle remains the same. Both parties expect to gain from a voluntary transaction. So people who trade with one another have both good reason to remain friendly and just cause to resent interferences that hamper or prohibit their trading.

Most consumers care more about the availability, quality and price of what they buy than they do about who makes it or where it comes from. If a particular gasoline works well in their cars, they don’t care whether the oil came from Arabia, Alaska, Venezuela or Algeria. Consumers will buy Taiwanese shirts, Hong Kong sweaters, Brazilian shoes, German cars, Japanese radios, or any other foreign good, if price and quality suit them. And satisfied customers promote good will.

**Economic Nationalism**

It is governments, not consumers, that make national boundaries important. It is governments, not consumers, that create national distinctions and promote economic nationalism, often without intending to do so. A tax on U.S. citizens, not required for protecting lives and property or defending the country, increases production costs unnecessarily. Regulations and controls to “protect” consumers, workers, manufacturers, farmers, miners, truckers, the environment, or any other special interest also raise domestic production costs. Benefits to special groups—the unemployed, elderly, handicapped, minority enterprisers, or those awarded lucrative government contracts—must be paid for by others, in taxes or through increases in the quantity of money which in time hurt everyone. All these programs increase costs and make voluntary transactions more difficult and expensive.

As production costs increase, some producers find their sales dropping so they must curtail production and reduce their work force. Many persons then believe it even more important to enact special legislation, erect trade barriers or grant government subsidies, to support the injured firms and protect them and their workers from foreign competition. But such programs only increase domestic production costs still more. This further hampers the ability of would-be traders to carry out voluntary transactions.

The goal of economic nationalism is to protect domestic producers from foreign competition. Its proponents want to preserve a specific pattern of production. They do not understand the mutuality of trade. They do not
realize that both parties gain from a successful voluntary transaction. Nor do they recognize the inevitability of change.

Nothing in this world stands still. People move. The wishes of consumers change. Their knowledge is continually shifting. Changes also take place in stocks of available resources and the most economical places in which to produce particular items. Producers, investors and workers should be free to move about and adjust to these many changes as best they can.

Any attempt to maintain, for political reasons, some rigid pattern of production is bound to fail. Insofar as production is guided by political, rather than economic, motives, it becomes more expensive and wasteful. When government seeks to reduce dependence on imports and increase national self-sufficiency, consumers must get along with fewer goods and services of lower quality; and their standards of living will decline.

Foreign Policy Repercussions

Restricting imports by government fiat reduces exports also. How can foreigners continue to buy as much from us, if our government restricts their opportunities to earn dollars by selling goods in this country? The mutual gains that come from trading turn traders into friends. But when trading is hindered, ill will has a chance to develop. Frustrated would-be traders look for someone or something to blame. Officials of foreign governments become antagonistic to the U.S. government, for they realize their producers' sales to this country are hampered by our government's interference. However, few U.S. citizens blame their government for imposing trade restrictions. Many even consider the federal government a benefactor. For when imports and exports decline the federal government often tries to make up for lost trading opportunities by offering those who are hurt direct or indirect assistance—subsidies, relief, new protective regulations, and so on. But such government programs can never compensate would-be traders fully for opportunities for-gone, reduced production, and the loss of individual self-respect.

The advocates of free trade pointed out more than a century ago that "if goods do not cross borders, soldiers will." As fewer exchanges take place across national borders, individuals have fewer opportunities to know and respect one another. Antagonism, animosity and enmity among nationals may arise. We have seen this happen in recent years—in India and Pakistan, Southeast Asia, the Middle East, southern Africa, and elsewhere. Obstacles to the path of trade made transactions across national boundaries more and more difficult,
expensive and infrequent. The common bond which could have turned their international traders into friends was weakened. Those who could have helped each other through voluntary transactions had no cause to come together. They remained strangers and, in time, were even led to consider one another enemies.

Government intervention, which begins by distinguishing between domestic and foreign goods and producers, leads in time to a policy of economic nationalism which actively discriminates in favor of domestic products to the disadvantage of imported goods. This hurts not only foreign producers, whose goods are excluded from the domestic market. It also harms domestic consumers and producers. Production costs rise so that fewer goods can be produced and sold. With fewer goods and services available for everyone, living standards decline.

Localizing Conflicts

The sure way to turn local disputes into widespread conflicts is for outsiders to interfere. The first step in that direction often springs from a sincere sympathy on the part of the strong for the weak, the "rich" for the "poor," the "haves" for the "have nots." Officials of one nation offer to help defend a weaker country against the threats of stronger neighboring states. But by taking sides in this way, neutrality is abandoned. No matter how well-intentioned, such government-to-government economic aid and mutual defense agreements show favoritism which can lead in time to military actions and wars. Through U.S. commitments such as NATO, SEATO and SALT, as well as various treaties, pacts and executive agreements—relating to the Middle East, China, Russia, Panama, Japan, various African nations, and more—we could well become embroiled in local violence or border disputes, at almost any instant, almost anywhere in the world.

U.S. involvement in the Middle East undoubtedly began with a sincere sympathy for Jewish refugees who wanted to establish a homeland in Israel. Our involvement in Vietnam has been traced by some to a desire to help relieve France, when she was economically and financially strained by military operations in her colonial Indochinese territories, so as to persuade her to join NATO. "We do not plan our wars; we blunder into them" as history professor Henry Steele Commager has pointed out.

George Washington's advice in his Farewell Address (September 17, 1796) is still sound: "... nothing is more essential than that permanent inveterate antipathies against particular nations, and passionate
attachments for others should be excluded, and that in place of them just and amicable feelings toward all should be cultivated . . . The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations, to have with them as little political connection as possible.” And similarly, Thomas Jefferson urged “peace, commerce, and honest friendship with all nations, entangling alliances with none” (First Inaugural Address, March 4, 1801).

U.S. involvement in this century in two World Wars as well as Korea and Vietnam is due to the fact that U.S. foreign policy has been guided by precisely the opposite ideas from those Washington and Jefferson advocated. To contain local violence, a nation should avoid taking the first step toward abandoning neutrality and playing favorites. Thus, we should refuse to add to the many international commitments our country is now duty bound to honor. Then we should move toward the foreign policy recommended by our third President—“peace, commerce, and honest friendship with all nations, entangling alliances with none.”

Minimizing Future Conflicts Through Free Trade

To minimize conflicts in the future we should aim to create a world in which people are free to buy what they want, live and work where they choose, and invest and produce where conditions seem most propitious. There should be unlimited freedom for individuals to trade within and across national borders, widespread international division of labor, and worldwide economic interdependence. Would-be traders should encounter no restrictions or barriers to trade, enacted out of a misguided belief in economic nationalism and the supposed advantages of economic self-sufficiency. Friendships among individuals living in different parts of the world would then be reinforced daily

WHEN the baker provides the dentist with bread and the dentist relieves the baker’s toothache, neither the baker nor the dentist is harmed. It is wrong to consider such an exchange of services and the pillage of the baker’s shop by armed gangsters as two manifestations of the same thing. Foreign trade differs from domestic trade only in so far as goods and services are exchanged beyond the borderlines separating the territories of two sovereign nations.

LUDWIG VON MISES, Human Action
through the benefits they reap from buying and selling with one another. Thus a sound basis for peaceful international relations would be encouraged.

Individuals should have the right of national self-determination and even to shift national political boundaries, if they so voted in a plebiscite. For practical and economic reasons, a single administrative unit would be sovereign within the political borders so established. But this administrative unit would have to be responsive to the wishes of the people or face being ousted in the next election. It would have to do its best to protect equally the private property of every inhabitant and to respect the rights of all individuals within its borders, irrespective of race, religion or language. In such a world, members of racial, religious or linguistic minorities need have no fear of political oppression for being different. Any nation which adopted these policies at home and in its relations with other nations would help to reduce international tensions and so contribute to minimizing future conflicts. But once it began to play favorites again—to grant privileges to some to the disadvantage of others, to introduce restrictive controls and regulations—it would be reembarking on the path that leads to friction and conflicts among individuals, groups and nations.

World Peace

To maintain peace throughout the world, the grounds for conflict should be reduced as much as possible. The first step in this direction must be to respect and protect private property throughout the world. The ideal would also include complete freedom of trade and freedom of movement. Political boundaries would no longer be determined under threat of military conquest or aggressive economic nationalism, but rather by legal plebiscite, i.e., by vote of the individuals concerned.

War is never a handy remedy, which can be taken up and applied by routine rule. No war which can be avoided is just to the people who have to carry it on, to say nothing of the enemy. . . . In the forum of reason and deliberation war never can be anything but a makeshift, to be regretted; it is the task of the statesman to find rational means to the same end.

WILLIAM GRAHAM SUMNER, an essay on "War" from The Conquest of the United States by Spain and other Essays
In such a world, the national sovereignty under which one lived or worked would be relatively immaterial.

Daily news reports certainly indicate that we are a long, long way from approaching this ideal. Programs intended to promote world peace often lead in the opposite direction. The various intergovernmental institutions—the United Nations and the several regional political and economic communities—do little or nothing to reject economic nationalism. The debates and proposals of their representatives reveal little understanding of the mutual advantages private traders gain from voluntary transactions. They do not even appear to consider the possibility of leaving trade to private individuals and enterprises to arrange as they see fit. Rather they continue to delegate important powers to various governmental authorities to regulate and control quantities and qualities of imports and/or exports, sometimes even to set minimum or maximum prices at which certain commodities may be traded. In their desire to protect various fields of production within their newly erected borders, they foster economic nationalism over geographical areas larger than a single nation. Thus, although the spokesmen for these multinational organizations sometimes talk of “freer trade,” their actions lead to less free trade.

The foreign policy that would minimize future conflicts would promote an economic climate in which voluntary trades among private individuals would flourish because private property was protected worldwide. To create such a climate calls for widespread economic understanding. To maintain it would require eternal vigilance.

—Bibliography—


If George Will has deemed us "Inmates of the Twentieth Century," and Eric Hoffer has decried our time as "hectic, soaked with the blood of innocents, irrational and absurd," then it is most fortuitous that we have the writings of F. A. Hayek as a refreshing oasis of sanity. Now in his 80th season, this 3-letter scholar (Ph.D's in law, political science and economics) has risen to his most commanding position of influence, topped by his receipt of the Nobel Prize in Economics (awarded jointly with Gunnar Myrdal) in 1974. Symbolically, it is cause for great hope that when the London Times carried Professor Hayek's picture in its May 18, 1978 issue, they chose to caption it: "F. A. Hayek: the greatest economic philosopher of the age."

It wasn't always so. Least of all in the eyes of the London Times. As Patrick Cosgrave wrote in the article adjacent to the photo:

He [Hayek] has lived long enough to see the twin assumptions he has spent his career attacking begin seriously to fail in their power of convincing. The first assumption was that greater and greater intervention by the state in, and greater and greater control by the state over, the economic process, was a necessary concomitant of progress, efficiency and equality. The second was—central planning having failed to be efficient—that greater and greater regulation by the state of income and rewards was compatible with individual freedom.
His Star Ascends

It is in the swirling winds of a turbulent political climate, a climate turning cold to socialism, that Hayek’s stock is perking up. And as his star ascends, much credit is extended to his iconoclastic observations from less friendly times. “The engine of Hayek’s return to favor,” comments Cosgrave, “was inflation, which he had always predicted would be the inevitable consequence of the infiltration of Socialist ideas about social engineering into modern democratic government. It remains to be seen whether his second prediction—that the failures of Socialism and socialistically inclined governments lead inevitably to tyranny—will be allowed to come true.”

Yet it is coming true—before our eyes, not to mention our wallets. Bureaucrats in centralized government offices are today charged with the authority to dictate who may be promoted in their jobs according to certified racial quotas, where children may attend school, what political discussions are engaged in by (private) radio and television stations, what prices companies may charge and what wages laborers may receive, which artists and social scientists may receive tax subsidies, what parts of the country may receive energy supplies made short by federal price controls, what safety equipment consumers must add to the cost of their automobile, what medicines a heart patient may use in an attempt to save his life, what artificial sweeteners a weight-watcher may add to his diet cola, ad infinitum. What could be more redundant today than a complaint against arbitrary, unreachable bureaucrats? Citizens increasingly cry out against “unresponsive administrators”—always in a tone of helplessness. But, demagogues excluded, who might tell us why it is that “you can’t fight city hall”?

In his 1944 best-seller, The Road to Serfdom, Hayek forewarns precisely why:

When the government has to decide how many pigs are to be raised or how many busses are to be run, which coal mines are to operate, or at what prices shoes are to be sold, these decisions cannot be deduced from formal principles or settled for long periods in advance. They depend inevitably on the circumstances of the moment, and, in making such decisions, it will always be necessary to balance one against the other the interests of various persons and groups. In the end somebody’s views will have to decide whose interests are more important; and these views must become part of the law of the land, a new distinction of rank which the coercive apparatus of government imposes upon the people. (p. 74)

Hayek has inhabited the ivory tower for better than 60 years, yet,
since he gave up on socialism in his early twenties, has never been taken by collectivism’s press releases. In quoting Tocqueville in *The Road to Serfdom*, Hayek shares with us the classic analysis of government control:

“Democracy extends the sphere of individual freedom,” he said in 1848, “socialism restricts it. Democracy attaches all possible value to each man; socialism makes each man a mere agent, a mere number. Democracy and socialism have nothing in common but one word: equality. But notice the difference: while democracy seeks equality in liberty, socialism seeks equality in restraint and servitude.” (p. 25)

While Western nations have, for all intents and purposes, left the idea of “hot socialism,” as Hayek calls it, they still dance with the seductive political notion of state control in “high priority” social problem areas, thus creating a convoluted political compromise perplexing to socialists and capitalists alike, and leading us into slavery.

Although we have been warned by some of the greatest political thinkers of the nineteenth century, by De Tocqueville and Lord Acton, that socialism means slavery, we have steadily moved in the direction of socialism. And now that we have seen a new form of slavery arise before our eyes, we have so completely forgotten the warning that it scarcely occurs to us that the two things may be connected. (p. 13)

And for the “used-to-be-liberals” who have come to realize that good intentions are not sufficient to secure good results, Hayek’s most important service may be as an advance warning system alerting us to what may happen when the heart is in the right place but pumping a bit too fast. “Only if we understand,” Hayek explains, “why and how certain kinds of economic controls tend to paralyze the driving forces of a free society, and which kinds of measures are particularly dangerous in this respect, can we hope that social experimentation will not lead us into situations none of us want.” (Foreword)

What we should want, in Hayek’s estimation, is a renewed determination to set free the unpredictable creative juices of individuals. This requires not anarchy, but rather an extension of the Liberal Order, that tradition of government well-defined and clearly limited by the Rule of Law. To Hayek, the chief victory of Western Man has been the removal of much of government’s coercive power from the realm of arbitrary whimsical “public servants,” and the subsequent ensuring of a healthy, secure area of social activity in which all may take whatever actions they will so long as they are willing to shoulder the associated costs. In our ascension from a society of status to one of contract, Hayek observes the essential
ingredient of the “rule of law” as opposed to “the rule of man”:

The true contrast to a reign of status is the reign of general and equal laws, of the rules which are the same for all, or, we might say, the rules of leges in the original meaning of the Latin word for laws—leges, that is, as opposed to privi­leges.

Hence, the legacy of classical liberalism survives with Hayek.

Hayek and Keynes

“When the definitive history of economic analysis during the nineteen thirties comes to be written, a leading character in the drama (it was quite a drama) will be Professor Hayek. . . . It is hardly remembered that there was a time when the new theories of Hayek were the principal rival of the new theories of Keynes. Which was right, Keynes or Hayek?”


The 1930s were troublesome, momentous times. For economic thought, they were also a watershed. It was then that the negative connotation which had always shrouded the term “government spending” dissolved, to be replaced by an aroma of high-minded civic virtue. While in 1932 Franklin Roosevelt could swing key precincts by blaming the Depression on Presi­dent Hoover’s profligate federal spending policies, all the successful political job-seekers of a very few years hence were boastfully promising deficit budgets, government employment and “stimulatory” policies. This was the Keynesian Revolution.

The academic alibi for the Keynesian Revolution was Lord John Maynard Keynes. In his 1936 treatise, The General Theory of Interest, Employment and Money, he offered theoretical explanations for the idea that depressions were spawned by insufficient consumer demand, and vice versa. That is to say, unemployment is caused by a fall in “aggregate demand” and “aggregate demand” falls as un­employment increases. All of which leads to a vicious circle of poverty and joblessness.

It was easy for the masses to believe in vicious circles in 1936. Of course, it had always been easy for the governing class to believe in vicious circles (or anything else) that called for them to administer heavy doses of public sector rem­edies. Such, as coincidence would have it, was just the Keynesian bromide. The lasting impact of The General Theory may be viewed as a prescription from the desk of Dr. Keynes, written permission from the economic establishment to sup­port the addiction which the political community had been so long try-
ing to acquire. *The General Theory* turned a bad habit into "medicine."

The treatment? When consumers "demanded" too little, the government should demand more. Translated into political jive: tax, tax, tax, spend, spend, spend, elect, elect, elect.

"**The New Economics**"

The governing class received Keynes’ doctrine with an enthusiasm reserved for great wars and holy crusades. So completely was the Keynes "solution" to unemployment embraced by the academic and political worlds that their master, Lord Keynes himself, was unable to deter the march. As Professor Axel Leijonhufvud has recently demonstrated, much of what passed for "Keynesianism" was in conflict with the actual economics of Keynes.

Yet Hayek kept his head while all about were gasping over the New Economics. Where magical Keynesian potions guaranteed prosperity by paying a million workers to dig trenches and another million to fill them back in, Hayek never flinched. The world had not been turned on its head by Lord Keynes or the traumatic 1930s, there remained a world of scarcity, there was no free lunch. If Hayek appeared crazy to the point of irrelevance in maintaining these beliefs thirty years ago, he seems quite the prophet to have had such a track record today. For in our post-New Economics era, where are those martyrs who will still boast of government mega-spending to bring us economic bliss?

As the fashionable designer labels have fallen from the Keynesian emperor, those disillusioned with the panaceas of "fine-tuning," "pump-priming," and "government stabilization policy" have discovered Hayek anew. The simultaneous appearance of inflation and unemployment—which the crude Keynesian model specifically ruled out—has turned virgin utopianism into pregnant reality. Today people are ready to listen when Hayek says, as he wrote in 1975:

> The present unemployment is the direct result of the short-sighted "full-employment policies" we have been pursuing during the last 25 years. This is the sad truth we must grasp if we are not to be led into measures that would make matters only worse. The sooner we can tear ourselves out of the fool's paradise in which we have been living the better will be the chance that we can keep the period of suffering short. (*Full Employment at Any Price?*, p. 11)

Hayek does not, moreover, simply dispense competing panaceas:

I find myself in an unpleasant situation. I had preached for forty years that the time to prevent the coming of a depression was in the boom. During the

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2Transatlantic Arts, Inc., N. Village Green, Levittown, N.Y. 11756.
boom nobody listened to me. Now people again turn to me and ask how the consequences of a policy of which I had constantly warned can be avoided. I must witness the heads of the governments of all the Western industrial countries promising their people that they will stop the inflation and preserve full employment. But I know that they cannot do this. (p. 15).

The Hayek solution, not in favor with advisors to political candidates, is straightforward:

What we must now be clear about is that our aim must be, not the maximum of employment which can be achieved in the short run, but a "high and stable" (i.e. continuing) level of employment, as one of the wartime British White Papers phrased it. This however we can achieve only through the re-establishment of a properly functioning market which, by the free play of prices and wages, establishes for each sector the correspondence of supply and demand.

Though it must remain one of the chief tasks of monetary policy to prevent wide fluctuations in the quantity of money or the volume of the income stream, the effect on employment must not be the dominating consideration guiding it. The primary aim must again become the stability of the value of money. (p. 27)

**Hayek vs. Pseudo-Science**

Any discussion of Hayek must include his brilliant attack on the methods of social scientists in general. As a witness to the mushrooming arrogance of fellow economists, sociologists, and psychologists to direct human behavior and to control personal choices and relationships, Hayek has emerged (along with his close friend and convert Sir Karl Popper) as a superb critic of the academic prejudice known as "scientism."

As an unparalleled student of history, the evolution of political ideas and the emergence of social institutions, a fully-armed Hayek has gone to battle for the free will of individuals in their struggle against the tyranny of today's white-coated totalitarians. While B. F. Skinner may talk about a world "beyond freedom and dignity," where all is planned to be "rational" and "optimal" by those who know what those words really mean, Hayek understands that nothing can be known to be either of these things outside of the context of free human behavior. "Rational" and "optimal" are no less subjective to Hayek than is "happiness"; and all attempts to make the human experience an objective problem of mere technical equation-solving is at once an intellectual error and a moral crime.

The crux is that contemporary social thinkers often tend to see liberty as a nuisance. It foils their calculations and botches their experiments. Hayek is relentless in his appreciation of human liberty as the inimitable innovator which creates the very progress which social scientists seek to duplicate and supplant.
Freedom to Hayek is far from an unmanageable, intractable, troublesome variable, but the pervasive determinant for advancement in each and every compartment of our social life.

**Freedom and the Spontaneous Order of Society**

So it is that Hayek champions "the spontaneous order." This stands in contradistinction to the human laboratory of B. F. Skinner and his numerous accomplices. The spontaneous order is what motivates the development of the common law, of language, of manners and customs, of liberal constitutional government, of the competitive market economy. In short, it is the unplanned, unplannable genius of men and women just getting along. It is the fabled "invisible hand" of social progress; it is not reproducible in the social alchemist's test tube, no matter the contempt with which he might regard individual enterprise, creativity and adaptability.

As Arthur Shenfield elaborates:

"Scientism is the uncritical application of the methods, or of the supposed methods, of the natural sciences to problems for which they are not apt. In the present context it is their application to problems of human society. Thus it is in its very nature unscientific—an idolatry, not an understanding, of science. As Hayek says, "The scientific as distinguished from the scientific view is not an unprejudiced but a very prejudiced approach which, before it has considered its subject, claims to know what is the most appropriate way of investigating it." And what is claimed to be the most appropriate way turns out to be inappropriate. (Essays on Hayek, p. 63)"³

Hayek's intimate contact with this part of society that "is the product of human action but not of human design" led him to his greatest insights in theoretical economics. Take the idea of a market, for instance. A market sets a price equating supply and demand for a commodity, and thereby tells the whole system how much that particular good is worth relative to other scarce resources. This allows everyone to make their plans accordingly. They can determine how important it is to economize on this good, or to produce it, or to switch to substitute goods. By looking at the price—determined by the market—the allocation problem of any good, be it gold, hockey games or Gatorade, is solved. Every single person may discover how much he should produce, and how much he should consume. That, unquestionably, is a paramount advance for society.

But the astonishing fact is that no one invented a market. Markets are not made, they just happen.

They are the spontaneous organic result when individuals who, acting only in their narrow self-interest, cooperate with each other to satisfy their diverse needs and aspirations. Freedom allows trial and error to test whatever plans innovators are willing to chance; self-interest pushes all the rest to imitate the innovations that work. In precisely the same manner does the institution of language spring up from the free flow of individuals just trying to communicate for their own purposes; nobody "builds" a language. The "macro" conclusion of this "micro" process is an innovation enormously beneficial to all social creatures.

Of similar shock value is the realization that this key institution runs on its own energy source. No one creates a market, and no one administers it after creation. No central agency takes responsibility for issuing orders to make sure that prices equate supply and demand; no one tells consumers or producers what their buying and spending plans should be. From spare parts to watermelons, the irrepressible forces of supply and demand set prices that automatically create the proper incentives so that the amount demanded will approximate the amount supplied—without any one person knowing the whole reason (or anything close to the whole reason) why.

The Socialist Controversy

In thus digging to the roots of our institutions, economic and otherwise, Hayek extracted his most consequential theoretical discovery: "The Use of Knowledge in Society." In his famous 1945 paper by this title, he demonstrated that the basic economic problem in society was to make the best use of all the information available for satisfying our wants. The unique, over-riding feature of this economic information, however, is that "the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess." (Individualism and Economic Order, p. 77)⁴

While people are accustomed to thinking of "information" in a technical sense, like how to get oil out of the ground or how to manufacture steel, such scientific knowledge is actually closer to background music for purposes of enhancing our material well-being. If prosperity simply required proper engineering, after all, Soviet Russia (or the U.S. Post Office) would work. Hayek showed that the most essential economic "facts" are tiny bits of information "of time and place."

⁴Gateway Editions, Ltd. Box 207, South Bend, Ind. 46624.
Central administration of economic activity must lose its specialization. In doing so, it must lose the special, individualized information. Bureaucratic offices have tremendous resources to obtain general information such as statistics, opinion polls, and econometric models as well as technical, scientific data. But bureaucrats are helpless to capture the best use of all this information because they have no way to make the best use of all this information. As a result, if central planners make economic decisions from above, they lose the incredible sum of knowledge. The attempt to control economic affairs by central planning ends up creating a less knowledgeable system, precisely the opposite of what we had planned. Centralized direction, in addition to transferring power from individuals to bureaucrats, creates a loss of efficiency and thereby a wealth reduction for the society as a whole.

Hayek details:

Today it is almost heresy to suggest that scientific knowledge is not the sum of all knowledge. But a little reflection will show that there is some advantage over all others to possess knowledge of general rules: the knowledge of time and place. It is with respect to this that practically every individual has an advantage over all others because he possesses unique information which he can make use of, but only if the decisions depending on it are left to him. We need to remember how much we have to learn in any occupation after we have completed our theoretical training, how big a part of our working life we spend learning particular jobs, and how valuable an asset in all walks of life is knowledge of people, or local conditions, and of special circumstances. To know of and put to use a surplus stock which can be drawn upon during an interruption of supplies, is socially quite as useful as the knowledge of better alternative techniques. The shipper who earns his living from using otherwise empty or half-filled tramp steamers, the estate agent whose whole knowledge is almost exclusively one of temporary opportunities, or the arbitrageur who gains from local differences of commodity prices—are all performing eminently useful functions.

And so we see the ultimate wisdom of human beings acting freely with no direction save self-interest in what might naively appear as useless, wasteful activities. This brings us full circle on the Hayek idea of knowledge of general rules: the knowledge of time and place.
globe, for in understanding the value of individual knowledge and enterprise in the economic sphere, Hayek is able to blend the interests of both our material wants and spiritual yearnings. Liberty doesn’t trade for prosperity. On the contrary: Freedom works. This became Hayek’s enduring contribution, still in effect, to the so-called “Socialist Controversy.”

**Social Philosophy at Its Best**

What remains to be reported, happily, is that there is more to Hayek than brilliant scholarship and an admirable attachment to human freedom. Here is a moving, delightful expositor of the tide of man’s affairs; a writer who may burst an explosive social theory without the simultaneous bursting of your patience. Hayek’s forte is clarity. His gift is an awesome grasp of logic. So powerfully does he thrust his reader from premise to conclusion that the inevitable destination is accompanied with an irrepressible passion for ideas. It is the way social philosophy should be done.

Arthur Shenfield writes of his reaction to three of Hayek’s articles in *Economica* (1942-44) introducing him to the author by way of the dry topic of “Scientism and the Study of Society.”

When I read them I became stout Cortez (or Balboa) on his peak in Darien. To this day I remember the tingling excitement which they evoked in me. Since then, the roll call of Hayek’s works on the fundamental problems of society arouses in those who grasp their message a peak of admiration which is now familiar.

This striking sort of impression is witnessed in scores of cases. Lord Keynes was “deeply moved” by Hayek’s *Road to Serfdom*. And Patrick Cosgrave couldn’t avoid noting that “there is an Arctic ruthlessness about his brilliant logic which seems, most of the time, to refuse household to the . . . warm-hearted schemes for human improvement by government action which have paraded themselves in dazzling succession before our bewildered eyes.”

**A Scholar in Many Fields of Knowledge**

Hayek’s tremendous breadth as a scholar is surely a factor in his persuasiveness. He has indeed lived up to his impersonal observation that “he who is only an economist cannot be a good economist.” His academic writings grace every topic from law to sociology to philosophy, not to mention economics, history, or politics. One of his great thrills, he claims, was to recently learn that a well regarded college in Pennsylvania was assigning his 1950 *The Sensory Order* in a psychology class. When he taught at the University of Chicago (1950-1962) one of his duties as Professor of Social and
Moral Science was to conduct a weekly seminar of "staggering catholicity," according to Shirley Robin Letwin. The group included two nuclear physicists, one a Nobel Prize winner; "an Irish classicist, completely master of Shakespeare, Gibbon or Tolstoy, as of Sophocles, Plato and Thucydides;" a French Thomist; the two most eminent Chicago School economists, both world-famous; "a classical ar­cheologist . . . the author of The Gothic Cathedral and the author of The Lonely Crowd as well as the inventor of the 'folk society.'"

As Dr. Letwin describes:

Hayek presided over this remarkable company with a gentle rectitude that made his seminar an exercise in the liberal virtues. Every remark, however fatuous, no matter how obscure or young the speaker, was heard to the very end with a respect that the weaker members found maddening. The general subject was liberalism and no one was in any doubt about Hayek's convictions. But students who hoped to shine by discovering apostasy to an official creed learned to seek other paths to glory. Hunting for the holy grail was definitely out of order. The seminar was a conversation with the living and the dead, ancient and modern; the only obligation was to enter into the thoughts of others with fidelity and to accept questions and dissent gracefully. (Essays on Hayek, p. 148)

As history remembers Hayek it will be told that his great quest was to ask why liberty is so slippery to our grasp. While other current social scientists have devoted their research to discovering programs to replace free and spontaneous human interactions by imposed "scientific" solutions, Hayek has prowled about to find why classical liberalism, which has given Western Man so very much, is being cashed in for a statism which promises neither peace nor freedom. Nor, most obviously, prosperity. In fact, socialist, real-world experience has been so bitterly painful that those contemporary reformers who clamor for increased state intervention have given up the pretense that such controls can give us more than free markets and free men. Instead they argue that material well-being and economic improvement are memories gone by and that the future holds a more modest portfolio. That the government will be in charge of choosing this portfolio helps to guarantee the claim, so that the confident prophecy is self-fulfilling and recyclable.

Yet, for those who would rather look to a future which offers liberty for the oppressed and progress for the poor, there can be no better resource guide than the writings of F. A. Hayek. His fine and sensitive touch with the subtlest workings of human (and humane) civilization will sprinkle us with understanding for millennia to come.

It is, of course, juvenile to debate
any scholar's place in history's archives, particularly when we are still blessed to have him among us. Yet, what can safely be claimed is that if the generations to follow are lucky—very lucky—it will come to pass that our Twentieth Century was not the age of the Hitlers, the Stalins and Mao Tse-tungs; but rather the time of the Einsteins, the Solzhenitsyns, and the Friedrich von Hayeks.

WHAT is threatened by our present political trends is not just economic prosperity, not just our comfort, or the rate of economic growth. It is very much more. It is what I mean by the phrase "our civilization." Modern man prides himself that he has built that civilization as if in doing so he had carried out a plan which he had before formed in his mind. The fact is, of course, that if at any point of the past man had mapped out his future on the basis of the then-existing knowledge and then followed this plan, we would not be where we are. We would not only be much poorer, we would not only be less wise, but we would also be less gentle, less moral; in fact we would still have brutally to fight each other for our very lives. We owe the fact that not only our knowledge has grown, but also our morals have improved—and I think they have improved, and especially that the concern for our neighbor has increased—not to anybody planning for such a development, but to the fact that in an essentially free society certain trends have prevailed because they made for a peaceful, orderly, and progressive society.

This process of growth to which we owe the emergence of what we now most value, including the growth of the very values we now hold, is today often presented as if it were something not worthy of a reasonable being, because it was not guided by a clear design of what men were aiming at. But our civilization is indeed largely an unforeseen and unintended outcome of our submitting to moral and legal rules which were never "invented" with such a result in mind, but which grew because those societies which developed them piecemeal prevailed at every step over other groups which followed different rules, less conducive to the growth of civilization.

The Tiller, the Van, and the Typewriter

Ruth B. Alford

When the union moved into the university where I worked (moved in, may I say, by hook and by crook), I looked down the road and foresaw a collision course. So, on the side, I made plans.

I had already bought and joyfully used a genuine six-horsepower electric-start Troy-bilt rototiller with excellent results in my own garden. Could I, at my age, till gardens for others for money? I could try.

But how to get the tiller from here to there?

I studied the problem of trailers versus vans versus pickup trucks from front to back and back to front and sideways to see what was best for me. I decided, in the end, on a van. It would transport the tiller and anything else I wanted, plus providing me with a camper for traveling. You can get from front seat to rear, or vice versa, in a van, without ever stepping outdoors, a prudent thought if you should land in rough company and need to get away.

Further, if the economy should continue its downward plunge, the van could even provide desperation housing.

I invested in a van. Just about the time it came, so did the first strike. Not in favor, yet in sympathy with my friends, I did not picket but I respected the lines and stayed out. I put an ad in the paper and got out there and tilled gardens.

There was usually a look of apprehension as a gray-haired grandmother wheeled up and unloaded her tiller. But as the earth pul-
verized to a remarkably workable consistency, and no heart attacks seemed imminent, the customers relaxed and were delighted. Most paid in cash. One person paid an equivalent amount in meat from her freezer—most welcome.

The strike was settled. Work resumed. Then I was told that I must either join the union and pay dues or not join and pay dues anyway (due to an agency agreement). In my ignorance, before then I had not even heard of “agency shop.” What! I was outraged. Pay to keep the job I loved and had essentially created! Pay for a service I neither needed nor wanted! Pay protection money!

No! I set my grandmotherly heels and said, “O.K. Do your worst.”

Time passed. I made a third investment, a typewriter—a sturdy, upright model that could be used anywhere, electricity or not. Off and on over the years I had been writing, occasionally selling. I hoped to do a lot more of both.

So, when the union cracked the whip, I was ready.

Let me diverge here, to say just why I opposed the union’s demands. I’ll try not to go on too long about it, but if you are to understand why I took such a strong stand, I have to explain the situation.

Many people join the union, not thinking too much about it, as it seems the only reasonable thing to do at the time. I read the pledge card, all the fine print, and was not about to sign that—to pledge my honor equally to the union and to the United States of America; to sign over to the union the sole right to represent me in any and all matters relating to my employment; to swear not to divulge any of the secret proceedings of the union (what if I were a member and had a disagreement with union policies?); to agree that, should I resign from the union I would automatically lose my job. Not only did I refuse to join, I refused to pay to the support of an organization which exacted such a pledge.

Union promoters say over and over again that those who share in the benefits should share in the cost—hence “agency shop” agreements. What if the union does not bring benefits? Money is not everything on a job. It had been my observation that when a union comes in, strikes inevitably follow. I don’t like the method. My way of getting ahead on a job, which has certainly always been effective, has been to consider that I am there to get the work done. The result of strikes is disruption of necessary work, polarization of employer and employees, antagonism between employees, regimentation and virtual loss of merit pay, and loss of income both to individuals and to the community at large.

It is my strong contention that
anyone should be able to join a union, even to strike if they so wish, but not be able to force others to do the same. The right to join must be balanced by the right not to join—or to pay.

There. That sums up my position.

The crisis came in the fall. I had been receiving epistles from the union which I mentally, if not actually, threw in the wastebasket. I assumed I was working for the university. On September 15 I was called to the personnel office and told to pay up or be "terminated" on September 21. Six days' notice!

I was stunned. Six days to phase down a complex operation!

My work was as curator (a sort of librarian) of preserved plant and insect collections. These specimens had been assembled over the years, some being a hundred years old, and were a most valuable record of the plants and insects of different areas. There they were, not just a picture or description of a given plant or insect, subject to the artist or author's error, but the actual organism, always capable of being taken out and restudied. The specimens were used in teaching, in research, and as historical vouchers. Because it was a relatively small collection (about 20,000 plants), and I was the only worker, I did a variety of tasks—collecting, pressing plants, pinning insects, mounting, cataloguing, making up special teaching mounts, assembling displays for classes on request.

All that, clubbed down in six days, solely because I could not in conscience pay to an organization which intervened between me and my employer!

Well, I had been terminated. What now?

Back to my three allies, the tiller, the van, and the typewriter. I tilled gardens. I baby-sat. I typed furiously, completing a book and some shorter works. I balanced through the winter on half-time employment elsewhere—that bitter winter of 1976-1977. I acquired another responsibility: My eighty-nine-year-old mother came to live with me, I being the only child who was at home enough to have her. While I was at it, I completed the requirements for my M.S. in biology.

Came the spring. Time for decision.

I had one more security, a major one. Several years earlier I had seized the opportunity to buy a small farmhouse and farm in Michigan's Upper Peninsula. I had always planned to move north one day, after giving adequate notice to the university (six months to a year) and turning the work over to a successor in orderly fashion.

I weighed all the factors: my mother, who needed increasing care; my ambition to write; my refusal to
work any place where I must join a
union; the rising cost of living in
Ann Arbor, where half-time work
was not enough to keep my head
above water; my love for the north
country. On the negative side: mov­
ing away from friends and family
(but they could come to visit); the
hazards of no certain income. The
answer, I decided, was to move
north, to take my chances on my
writing, to consolidate everything in
one grand effort.

Then followed the exhaustion of
packing and sorting, of selling off, of
breaking the myriad threads—
getting change of address cards from
the post office; phoning the gas com­
pany, the telephone company, the
Edison. Saying goodbye to friends.
Be sure to write. Yes, of course, I'll
write.

When I moved to the farm, I went
in faith and hope and terror. There I
would be, launching into the un­
known. I alone would be responsible
for plumbing, repairs, getting
around in the severe winters. No
family nor close friends would live
near.

We came on Memorial Day
weekend, by U-Haul. Two sons
drove the truck up and unpacked
everything, while I drove more
slowly, bringing my mother. Small
granddaughter came along for the
ride. A week before the move I was
sure of only one person to help with
the loading. On the day, eleven peo-
ple appeared and packed and loaded
me out of there.

It has been like that all the way. I
would set my sights on something
and work toward it and somehow,
incredibly, it would work out. I've
forgotten who said it: “The steps of
faith fall on the seeming void and
find the rock beneath.”

There we were.

Chaos.

As soon as I had a narrow channel
cleared from sink to stove to re­
frigerator, I set up the typewriter in
my bedroom/office, and tilled and
planted the garden. Life was going
to be frugal, and every carrot would
count.

There was, to begin with, a com­
mission to write a booklet on plant
collecting and preservation for a
biological supply company—a good
solid commission. That was first
writing priority. Every day I put in
at least four hours at the type­
writer. The rest of the day I un­
packed, sorted, cooked, cleaned, gar­
dened, made repairs.

At first the electric pump did not
work, so I pumped and carried from
the hand-operated one in the
yard—marvelous for exercise. We
have excellent fall-back systems
here. If the electric pump (now in­
stalled) does not work, I just take a
bucket and go out and get water.
The kitchen range burns wood in
one end but also has electric burn­
ers. The main heat comes from an
oil space-heater. If that goes out, the kitchen range will hold off the cold. If the drains freeze or otherwise stop up, there is a wooden privy beyond the windbreak. The electric water heater did freeze last winter, but we heat water on top of the stove or else use the sauna—the most efficient, warmest, most civilized way ever devised to take a bath in a cold climate.

Repair of the electric pump and of a crumbling foundation neatly cleaned out the savings account. Since then I have existed on a series of fortuitous money sources: the sale of the plant-collecting booklet; a few days' work back at the university, instructing my successor; a completely unexpected gift from my sister; repayment of a long-standing loan.

The garden was not the greatest, but I utilized every vegetable that reared its head, and canned and froze vegetables and fruit from there, from gifts from visiting friends, and from purchases. I have studied the gardens of my neighbors, learning much, so that next year that department should show improvement. Perennial fruits and vegetables already started are asparagus, strawberries, red and black raspberries, rhubarb, multiplier onions, Hansen bush cherries, and apples.

To improve the garden soil, every drop of dishwater, with its phosphates and bits of refuse, as well as the wood ashes and every scrap of garbage, go on the garden. Also two lovely loads of manure were applied. The tiller will churn the soil deeper and deeper as time goes on, making the garden better each year.

Just living, day by day, has been a rich experience. The air here is fresh and sharp, the sky a brilliant blue, with white clouds like great puffs of steam moving in off Lake Superior. Clouds of birds utilize the evergreen windbreak for nesting in summer. One day I counted twenty-eight swallows, mixed barn and tree swallows, on the electric wires. My yard, in May, is starred with blue forget-me-nots. The roadsides are a riot of wildflowers all summer—ox-eye daisies, yellow buttercups, orange hawkweed, pink and white mallows, white everlastingings and yarrow. Later goldenrod and tansy and the varied blues of asters signal the approach of fall. The cooler season transfigures the landscape in late September and early October, and even after the peak of the red maples against yellow poplar and green conifers passes, there is a muted succession of smaller splashes of color. In mid November (rather late this year) the snow began to fall, a beautiful, clean snow, piling to drifts a foot deep the first snowfall. Since then it has snowed nearly every day. The place looks like a Christmas card, with
the little farmhouse set against the forest green of spruce and pine.

Each day I go out and use my ingenious Finnish snow scoop. Imagine a squarish, galvanized metal scoop, on runners which extend upward to form handles. You never lift the snow; you push it, dumping it off the scoop in some un-walked spot. I can make paths all over the yard and never puff.

My new neighbors have been unbelievably kind, helping me with all sorts of problems, from lifting heavy things (like the new oil heater), to selling me good cord wood at a modest price, to giving me precious practical advice. "There's going to be a frost tonight [mid-August], better cover the garden."

Out came odd tubs, bedspreads, rugs, even cardboard, to cover the tender tomatoes, squash, beans, and cucumbers for that night and six subsequent nights, after which the weather warmed up again and all was saved.

Snowshoes were a going-away present. I've tried them and they work! No particular effort. Just don't try to turn too rapidly, and think like a duck. Some women near here go on showshoe hikes. I'll try that some day, when I have a companion to stay with my mother.

My mother finds the country beautiful, exclaiming over the number of trees, the blue of the sky, the cloud formations, the length of the icicles pendant from the roof, and the depth of the snow.

Of course there have been problems. Lawnmowers which won't start. Leaky plumbing. Storm windows to putty and put up. Getting stuck in the heavy red clay soil, which my neighbor describes as being like wet soap. The howling wind storm in early winter, following unseasonably warm weather, when the power went off for an hour and an half, which gave me a chance to assess the performance of my systems under stress, and to make changes before the weather got colder.

The van carts everything: storm windows, a used oil tank from a salvage place, groceries, junk, straw. In time I hope to build a handy in-and-out-going cart so I can haul dirt and manure.

There have been rejections of my writing. Oh, my, yes, there have been rejections. Back and back have come the fat envelopes, returning my manuscripts. "We are sorry but this does not meet our present needs." "Our refusal in no way implies criticism of its merits." "We wish you success in placing it elsewhere." I have even begun to study the variations in the form of the rejections, with an eye to their courtesy and ingenuity. Perhaps there should be an award, "The Rejection Slip of the Year."

Doggedly I keep on writing and
sending out. The post office knows me well. I buy sheets of stamps, which disappear alarmingly. (Some day, somewhere, my work will catch.) Each day, the eighth-of-a-mile walk to the mailbox brings a feeling of suspense. Will today be the day of a sale?

Today I sit at my typewriter, looking out over the top of the parked van to the snow falling softly down on the pointed conifers, the fields beyond. I think of the tiller, parked snugly in the shed, waiting to do its turn, come spring. I feel content, confident that I will survive, taking pleasure in my day-to-day life and in my work.

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**Power Politics**

With government controlling more and more of our economy, the fact that crooks have to go where the money is causes more and more of them to turn to government employment.

However, there is probably an even stronger reason for individuals to become politicians.

That is the _power_ which accompanies political office.

Many idealists think they know better than the ordinary person what is good for that person. They consider themselves a cut above the ordinary individual who just isn't smart enough to know what he or she should do.

Idealists seek government power to impose their ideas upon the rest of us. They may be personally honest insofar as not thinking of lining their own pockets with money but have little compunction about bolstering their egos with government power.

This attitude explains the environmentalists, the do-gooders, and others whose ego causes them to seek government power to impose their ideas upon those of us who just want to make our way in a free market in open competition with everyone else. They don't believe in a free market or voluntary actions. They do believe in controlling others by means of government power.

HARRY HOILES, editorial from _The Register_, Santa Ana, California, June 2, 1979
To meet Henry Regnery, one would never suspect him of being a revolutionary. He is self-contained, even placid. He does not raise his voice. He is not a sleeve-plucker. But, working out of a small publisher's office in Chicago with little support from the book sellers and only sporadic encouragement from reviewers, he has been one of the more potent movers and shakers in the American conservative movement.

He tells the story of his publishing ventures in an engagingly modest autobiography, *Memoirs of a Dissident Publisher* (Harcourt Brace Jovanovich, 757 Third Avenue, New York, N.Y. 10017, 260 pp., $12.95), that is in thorough keeping with his character. Always honest with himself, he had an affinity for honest men who are finding it difficult to get a forum in a world dominated by the quasi-collectivists who had appropriated the word "liberal" to describe their illiberal philosophy. He had some money from his father's business, he had the support of his Quaker-bred wife, Eleanor, who believed in his inner light as well as her own, and he retained enough business sense to keep clear of bankruptcy even while doing good for its own sake. With these quiet advantages he picked up authors who, though they scarcely realized it themselves, were just on the verge of capturing new audiences for which the Establishment publishing authorities had no feeling and no use.

The list of conservative and libertarian writers who were either floated or rescued by the Regnery imprint now makes a "Who's Who" of a movement that is coming of age. Regnery published Bill Buckley's *God and Man at Yale* on a tip from Frank Hanighen of *Human Events*, he accepted Russell Kirk's epochal *The Conservative Mind* in its im-

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Dissident

*Memoirs of a Publisher*
pressive entirety after Knopf had demanded that it be cut to a quarter of its length, and he gave many a dissident in the field of foreign affairs (Freda Utley, William Henry Chamberlin, Charles C. Tansill, George Crocker) his or her head. In between times he did not neglect poetry, belles lettres and religion, publishing books of consequence and taste even though they did not anticipate the apocalypse.

Studies in Germany

In his diffident way Henry Regnery would have you believe that he became a publisher because he was not fit to be anything else. His own record belies his modesty. He decided against an engineering career after two years at Armour Tech, but he continued to pursue a mathematics major at M.I.T. At M.I.T. he met students and teachers who deflected him from the "dull winter of mathematics and physics" to more exciting pursuits in music, art, languages and philosophy. At the behest of a young German friend he spent two years in the German Rhineland, studying at Bonn and listening to all the music that he could absorb. Regnery's forebears, on both his father's and mother's side, had come from the Mosel region near Trier, so Rhineland Germany seemed home to the young student. Hitler had not yet succeeded in Nazifying the region, and the genocidal purge of the Jews was still a few years away.

The German experience taught Henry Regnery that not all Germans are Prussians, and gave him a special feeling for the opposition to Hitler whose plottings might have ended the war at an early stage if Roosevelt had not insisted on unconditional surrender. Returning home to New Deal America, Regnery studied economics at Harvard under Schumpeter, learning something of "the realities of the world." He began to distrust the fashionable intellectuals who had illusions of their own importance, but he retained enough faith in the New Deal to spend a summer working for Rexford Tugwell's Resettlement Administration.

Quaker Influence

After qualifying for an M.A. at Harvard he took a job with an American Friends Service Committee community project in western Pennsylvania which offered a voluntaristic version of the Tugwell theories. Using funds raised by the Quakers from private foundations, the so-called Penn-Craft community hoped to establish an industry to sustain homesteaders who could no longer find work in the mines or at the abandoned coke ovens. The most advantageous event to come out of Henry Regnery's brief association with Penn-Craft was his meeting
with Eleanor Scattergood, the daughter of a prominent Quaker family. After their marriage, they spent a short time working with the Penn-Craft pioneers, but the time had come, so the young couple felt, for something more permanent. Henry Regnery tried to return to his father's textile business, but soon, as he says, he found himself sliding into publishing "almost imperceptibly."

The young Henry began with pamphlets, an offshoot of his connection with *Human Events*, a publication started in Washington toward the end of the war by Frank Hanighen and Regnery's Quaker friend Felix Morley. One thing led to another, and a collection of Communist documents assembled by Raymond Murphy of the State Department, too voluminous for pamphlet issue, inevitably became a book, *Blueprint for World Conquest*, with an introduction by William Henry Chamberlin. The *Human Events* pamphleteering introduced Regnery to more and more people who did not conform to what he perceived to be the "dominant opinion" of the times, which was all in favor of accommodation with Stalin abroad and an extension of welfarist collectivism at home.

The "dominant opinion" included Henry Morgenthau's plan for turning the German Rhineland and Ruhr into a permanent industrial waste. Henry Regnery, remembering his own German experience, revolted against that. So the first imprints of a newly formed Henry Regnery Company went on two books by the humanitarian English publisher Victor Gollancz, *In Darkest Germany* and *Our Threatened Values*, and one by the philosopher Max Picard, *Hitler in Our Selves*. A first Regnery catalogue included Hans Rothfel's *The German Opposition to Hitler* and Ernst Juenger's *The Peace*.

**The Flag of Unorthodoxy**

Having raised the flag of unorthodoxy, Henry Regnery began to discover that Gollancz's phrase, "our threatened values," applied all over the lot. Pursuing this anti-Morgenthau interests, Regnery published Montgomery Belgion's *Victor's Justice* and Freda Utley's *The High Cost of Vengeance*. Later he issued Utley's *The China Story*, but not in time to save mainland China from the Communists. Mortimer Smith's *And Madly Teach*, a book on the dominant educational theories that had inflicted the faulty "looksay" reading methods on a generation of unsuspecting children, became a Regnery best-seller after *Time* magazine had devoted a three-column article to it.

It was only natural that Regnery should take the lead in publishing early World War II "revisionist
books.” There was William Henry Chamberlin’s *America’s Second Crusade*, Charles Tansill’s *Back Door to War*, Husband Kimmel’s *Admiral Kimmel’s Story* and George Crocker’s *Roosevelt’s Road to Russia*. Regnery says he doubts that publishing the true story of Pearl Harbor or Yalta “will prevent such occurrences in the future.” But the truth, he says, “is worthwhile for its own sake.” If we can’t know what our leaders have done and agreed to in our name, the alternative is “the society described in George Orwell’s 1984.”

Regnery anticipated Solzhenitsyn by many years with his publication of Elinor Lipper’s *Eleven Years in Soviet Prison Camps*. He outraged the Zionists by publishing Alfred M. Lilienthal’s *What Price Israel*, even though Lilienthal made plain his “obvious devotion to his Jewish faith.”

It was not with a movement in mind that Regnery accepted Russell Kirk’s *The Conservative Mind* and Bill Buckley’s *God and Man at Yale*, but a movement it became, as the many Regnery titles mentioned in George Nash’s *The Conservative Intellectual Movement in America Since 1945* attest. In a period of less than two years Regnery issued James J. Kilpatrick’s *The Sovereign States*, Felix Morley’s *Freedom and Federalism* and James Burnham’s *Congress and the American Tradi-

**ECONOMICS OF PUBLIC POLICY: THE MICRO VIEW**

by John C. Goodman and Edwin G. Dolan

(West Publishing Company, 50 W. Kellogg Blvd., P.O. Box 3526, St. Paul, Minnesota 55165) 1979

211 pages • $6.95 paperback

Reviewed by Lawrence W. Reed, Assistant Professor of Economics, Northwood Institute, Midland, Michigan

How refreshing it is to come upon a textbook on public policies which holds those policies up to the light of liberty as a standard for judging their desirability. At a time when many economists cast this yardstick aside with a “Mussolini at least kept the trains running” attitude, two
authors have produced a magnificent volume which is at once sound economics and a defense of liberty.

The primary purpose of John C. Goodman's and Edwin G. Dolan's *Economics of Public Policy: The Micro View* is "to help students understand how economic theory applies to the real world . . . by showing how some of our most important (and often controversial) public policies reflect economic principles in action." If the response of students at my college, Northwood Institute, is any indication, Goodman and Dolan deserve an "A+" for success in this endeavor.

In Chapter 1, "Thinking About Public Issues and Policies," Goodman and Dolan map out for the reader the course they will take in the succeeding fifteen chapters. They explain that *positive economics*—the scientific study of economic institutions, policies, and actions—will be utilized through examination and application of such concepts as scarcity, opportunity cost, the production-possibility frontier, supply and demand analysis, and consumer choice. From there, the authors propose to enter the risky field of *normative economics*—"the application of ethics or philosophy to economic issues."

It is this latter emphasis that makes Goodman's and Dolan's book so intriguing to the freedom believer. The authors readily acknowledg knowledge that "not everyone agrees on which normative standards are valid or on which ethical principles are more important than others" but they are quick to proclaim that "such disagreements are no excuse for the failure to think and express ourselves clearly" in this realm.

The first standard which they use in evaluating public policies is that of *efficiency*, defined by the authors as "the property of producing or acting with a minimum of expense, waste, and effort." A policy or a change in policy is judged "efficient" by this standard if its benefits exceed its costs.

A second standard, *equality*, focuses on the distribution of income and wealth. If there is anything in the book which might touch off a libertarian's warning siren, it would be this point. Goodman and Dolan state that "By this standard, a policy that causes income and wealth to be more equally divided would be judged to be a good policy . . . ."

Inclusion of this standard, however, does not lead the authors to endorse coercive, egalitarian measures. They consistently favor the unfettered price system for rationing economic goods and oppose nonmarket forms of rationing put forth as programs to "help the poor." They champion the sanctity of contract and rebuff schemes for the forcible redistribution of wealth. They
clearly show that recognition of “value trade-offs” is important—that complete equality of income, for instance, could only be achieved with disastrous effects on both efficiency and their third criterion, liberty.

As applied to the evaluation of public policy, Goodman’s and Dolan’s standard of liberty holds that “any policy is bad if it violates the individual’s civil and economic liberties.” Such liberties include freedom of speech, freedom of the press, freedom of religion, the right to own property, the right to produce goods and services, and the right to engage in voluntary exchange with others. As a professor of economics, I am at a loss to name another textbook which rigorously evaluates the public policies of today against such noble principles.

Look to the Individual

Another great strength of this book is the policy-by-policy scrutiny of the “politics” of the issues. Here, the authors tackle the job of “trying to explain why we have the particular policies we do have.” As Ludwig von Mises and the praxeological economists have stressed repeatedly, the basic economic unit of society is the individual. All actions and their consequences must be traced back to their point of origin—particular individuals with particular interests and ideas. Only in this manner can we see why an act or policy has come about, and then assign responsibility.

Once their methods of analysis are unfolded, the authors take on such varied topics as the military draft, gasoline rationing, product safety, farm policy, the postal service, illegal aliens, the minimum wage, the environment, and social security.

Chapter 10, “Competition and Monopoly in the Market for Oil,” is one of the best. It covers a brief history of government and the oil business, a look at the OPEC cartel, the politics of oil, and a summary of several alternative energy policies. These range from adopting a free market to breaking up oil companies to nationalizing the oil industry. In their evaluation, Goodman and Dolan endorse the free market as the only alternative consistent with the standards of efficiency and liberty, even though it does not promise greater equality of income:

By this standard [liberty] there should be no restrictions on the buying and selling of oil and no restrictions on the production of oil and oil products. Nor should government be able to tax “windfall” profits or subsidize “windfall” losses. Nor should government impose arbitrary restrictions on our behavior or use the tax system to reduce our consumption of oil. The production, distribution, and use of oil should be left totally to the free choices of individuals who are participating in the free market.

In other chapters, the reader will
find such interesting tidbits as a contrast between private and government mail delivery in American history, a defense of free immigration, a suggestion of applying the property rights concept to eliminate pollution, and an endorsement of innovative, free market pricing in the distribution of electric power. In every chapter, the authors write in a lively and lucid style that makes this study of public policy an absolute delight.

Economics of Public Policy: The Micro View is exciting and exceedingly useful in the classroom. And, in this reviewer's opinion, it's just great reading for anybody.
Two Ways of Life
Robert G. Anderson 579
Capitalism or socialism? The nature of property ownership makes the difference.

The Fight for Free Enterprise
Kenneth McDonald 590
In the contest against intervention, industrial capitalism should win on material, spiritual and ethical grounds.

This Is Mine
Robert LeFevre 593
How the concept of ownership might have emerged to undergird production and trade and civilization.

"The King is Dead"
Leonard Franckowiak 603
Government licensing curbs capitalism and freedom.

The Hidden Fallacies Behind Intervention
Clarence B. Carson 606
Man and the market economy are of a nature that cannot be improved or repaired by coercive measures.

Mass Transit Mess
John Semmens 618
Let taxpayers beware of the claims that mass transit affords a solution to the "energy crisis."

Table Fable
Russell Shannon 625
How Tom Smith drew upon his resources to cope with competition in a changing market.

In Defense of Freedom—Frédéric Bastiat
Robert G. Bearce 628
In our current age of intervention and crisis, let us heed Bastiat's call: Try liberty.

Book Reviews:
"Forty Centuries of Wage and Price Controls: How NOT to Fight Inflation" by Robert L. Schuettinger and Eamonn F. Butler
"Inventory of the Private Papers of Ludwig von Mises" compiled by L. John Van Til

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.
In his 1859 classic, On Liberty, John Stuart Mill observed that, "The only freedom which deserves the name, is that of pursuing our own good in our own way, so long as we do not attempt to deprive others of theirs, or impede their efforts to obtain it."

The application of this philosophy of freedom to economic affairs simply means freedom of choice in the marketplace. It means the freedom, in our dual role as producer and consumer, to conduct our own daily affairs without interference from others.

Throughout the world it may be observed that individuals do not have this kind of freedom of choice. Not only communist nations regulate and control the lives of the citizens, but even in noncommunist countries these freedoms once enjoyed are being rapidly lost. Nowhere, it seems, is freedom defended as a philosophical absolute. At best, it is tolerated as a pragmatic necessity rather than upheld as a sovereign principle.

The structure of society is all-important in its impact on individual freedom. The institutions of society may be designed to maximize individual liberty, or society may be designed to give a ruling elite power over the citizenry. To put the matter more simply—a society may be structured for freedom and production, or it may be structured for slavery and plunder.

The extent to which individual behavior is influenced by external forces is far more profound than may first be realized. The so-called "way of life" in India, Russia, Argentina,
or the United States dramatically affects human action. How the individual lives and acts is ultimately dependent upon values learned from the society in which he lives. While all individuals have a common source in their Creator, our formulation of values radically differs as each of us is exposed to different living experiences.

This uniqueness of each individual possessing values different from all other individuals can be the source of a free society based on peace and harmony. Unfortunately, this condition of differing values can also lead to the structuring of a totalitarian society based on conflict and violence. The great question is why this latter structuring of society has been the most prevalent one throughout human history.

Axioms of Economics

While it is true that men can impose artificial structures upon society, nevertheless, there exist certain universal laws which operate irrespective of these structures. Certain economic axioms can be observed from our very nature. They have guided mankind from the beginning, and will continue to do so as long as man’s nature is unchanged. Four of these axioms need to be mentioned.

Axiom number one: we live in a world of scarcity. It is true that the general well-being of individuals is better today than in the past. But this improvement has in no way eliminated scarcity. It merely reflects a reduction in the degree of scarcity, and could be transient, depending on the decisions we make in the present and future. As long as man exists, the problem of scarce resources exists.

The condition of perpetual scarcity follows from axiom number two: man’s insatiable appetite. No matter how many of man’s wants are satisfied, there always remain additional wants to be fulfilled. There are never enough resources to supply all of our wants: Unlimited wants, but only limited means for satisfying them.

This combination of insatiable wants and scarce resources is a universal condition of man’s existence. It has always been true, it is true today, and it will remain true as long as man lives. And it is in terms of this condition that the economic questions of production, distribution, and consumption must be resolved.

The reality of our basic economic problem leads to axiom number three: we must constantly make choices. The determination of what to produce, by whom, when, where and how much must be made. In addition, these same questions must be answered regarding distribution and consumption. Who gets what, and when, where, and how much.
What is certainly clear is that not everyone can have everything, now.

One final observation about man's nature should also be made. Axiom number four is that we all want more for less. This trait can lead to either good or evil. Perhaps above all else it explains why the path taken by man in the structuring of society has been so consistently authoritarian. The acquisition of more through plunder under socialism rather than more through production under capitalism has always marked the difference between these two systems of social organization. The present-oriented mentality of individuals has too often concluded that plunder is the better way because it seems the quicker way to obtain more for less.

The Role of Private Property

No type of society established by man can in any way avoid these universal economic axioms, though the nature of the system determines how these universal laws will manifest themselves. The basic problem of allocating scarce economic resources toward the satisfaction of human wants must be faced in every society.

The rapid decline or total loss of individual freedom throughout the world today may be traced to one major cause. Furthermore, this same cause can also be seen in the rapid growth of socialist societies and the destruction of capitalist societies. The cause of our lost freedoms has been the destruction of the institution of private property. Quite simply, the nature of property ownership determines whether man will be free or enslaved.

In order to understand why this is true, an examination and comparison of socialism and capitalism is required. In our world neither capitalism nor socialism exists in its perfect theoretical form. Today's societies are variations of capitalism or socialism. The relationship of property ownership to individual freedom, however, is best understood by a contrasting of the pure socialist society with the pure capitalist society. Very quickly, it will be seen that these two forms of social organization are diametrically opposed in both philosophy and structure.

The first problem we encounter here is that the socialist ideal has never been defined, even by the very people who advanced it. It is true that Marx and other socialists, at various times, did offer glimpses of the socialist fantasy as it would work in some never-never world. The romantic pronouncement: "From each according to his abilities, to each according to his needs," has frequently been heralded as the banner of the ultimate socialist state. The socialist dreams of a wonderland in which
scarcity no longer exists and all of our wants can be readily fulfilled.

**The Socialist Fantasy**

No better glimpse is available into this fantasy world than Karl Marx's observation of that future socialist state, "a society where each one does not have a circumscribed sphere of activity but can train himself in any branch he chooses, society by regulating the common production makes it possible for me to do this today and that tomorrow, to hunt in the morning, to fish in the afternoon, to carry on cattle-breeding in the evening; also to criticize the food—just as I please—without becoming either hunter, fisherman, shepherd or critic." And it could well be added to such fantasizing, "but if wishes were horses, beggars could ride."

To analyze socialism by defining it as some imaginary fantasy of a romantic idealist is meaningless. The only definition of socialism that is relevant is the social structure that is in reality advanced. The main characteristic that identifies socialism is the common ownership of the means of production, distribution, and exchange. Or, as Karl Marx states it in a single phrase, socialism means "the abolition of private property."

Socialism, as a structure of social organization, is therefore recognizable by the nature of property ownership. Under socialism the resources of the society are collectivized and centrally administered by some form of political bureaucracy. This arrangement of common property ownership inevitably forms a vertically structured society; a political elite establishes itself as the sovereign power over the whole society.

**The Problem of Production**

No society, socialist or otherwise, can escape the necessity of productive effort. Under socialism, it is the State, as the owner of all economic resources, that determines how the factors of production will be employed. Establishing a socialist society does not nullify the basic economic problems of scarcity and insatiable human wants. The when, where, how, who, and what to produce problems must be resolved. By the same token, the problems of distribution and consumption are also present. What is different about the socialist society is the manner in which these economic problems are handled.

The socialist theoretician has two complications in his theory: the first is the absurdity of advancing a concept of common ownership for consumer goods. It is ludicrous to imagine the whole of society owning the food about to be eaten by some individual or the toothpaste to clean his teeth. In this respect, even the
The most extreme socialist recognizes that the concept of common ownership of property cannot be universally applied.

The second complication in the collectivization of property ownership is the realization that not everyone can own everything nor can everything be controlled by everyone. The concept of socialism, the common ownership of property, necessarily requires that someone be in charge. And modern socialism, without exception, has named "the State" as this absolute authority.

It is this second point that invariably makes the socialist society authoritarian. The socialist likes to speak of the state as the agency of society, but in reality the State is the sovereign force dominating the society. Property under socialism is not owned in common—it is owned by the State. It cannot be that everyone is in charge. The State is in charge. The State becomes the owner and the controller of all productive property.

**The State as Owner**

State ownership means absolute ownership. That is, the State is not only the legal owner of all productive property but the economic owner as well. All decisions relating to property use are the total prerogative of the State. The State establishes a plan for the structuring of society, and as sole property owner, directs all economic activity toward the implementation of its plan. Under such a concept of State ownership of productive property the practice of individual freedom is impossible. There is no private property for use in production, and therefore no economic activity that can be performed privately.

Many individuals have a partial understanding of this aspect of socialism. They recognize that at least one factor of production, capital, will be owned by the State under socialism. The machines to build cars and tractors no longer will be owned by individuals, but instead will be owned by the socialist State. Others have recognized that the factor of production, land, will also be owned by the State under socialism. The land used for growing crops or raising beef will no longer be owned by the farmers, but instead will be State owned.

But many individuals need to be reminded that there are three factors of production and that all three are owned by the socialist State. And it is the State ownership of this third factor of production that absolutely assures the loss of individual freedom. That third factor of production is labor, the labor of individuals, including you and me. Under socialism the individual is denied a proprietary interest in his own person. Like the factors of production, capital and land, the labor of each
individual is owned and controlled by the State. This State ownership and control of labor precludes freedom of choice to the individual in the directing of his own life.

**Enslaving the Individual**

The collective ownership of labor under the central direction of the socialist State results in the regimentation of human beings according to the structural plans of the State. Rarely, if ever, do the central plans of the socialist State correspond to the plans and interests of the individual. Ultimately, the State must resort to the use of force against those individuals whose values are in conflict with the socialist plan. The State ownership of labor is merely a disguised way of subordinating the individual to the sovereign will of the State. The very essence of socialism assures, therefore, the destruction of individual freedom of choice—the freedom of each individual to choose for himself how he will direct his own life.

The growth of socialism throughout this century has demonstrated this lesson without exception. Wherever the State has replaced the market in the allocation of economic resources, the freedom of individuals in the employment of their labor has been infringed. This has not been a development just within the Iron Curtain countries; it even occurred under Labor Party rule in England after World War II. When the State owns your labor, the State controls you.

The socialist society can also be critically analyzed from the point of view of economic inefficiency. The absence of a market makes economic calculation impossible. Without a price system there is no way to determine either the costs of production or the economic value from the output of production. Neither efficiency nor inefficiency—neither profit nor loss—from productive effort can ever be known under socialism. The destruction and waste of scarce economic resources inevitably follows from this dilemma.

In addition, the collective ownership of property destroys individual motivation. The care and accumulation of property is directly related to personal possession. It is in our nature to value our own property more highly than property belonging to others. And the socialist concept of collective property is always the property of others to any one individual. The incentive to produce for others can never match the incentive to produce for self.

While such criticisms of socialism are a major indictment against this structure of social organization, they relate primarily to economic improvement and our material well-being. The far more overwhelming case against socialism
concerns the loss of individual freedom that inexorably follows from the State ownership of property.

**Individual Ownership**

In contrast to socialism as a structure of social organization, the capitalist society advances the concept of private ownership of economic resources. Both social orders recognize the necessity for property ownership and its control. They differ totally, however, as to who will own and control property. Socialism centralizes all ownership in a sovereign State. Capitalism is based on private ownership.

The ownership and control of property by individuals, rather than by the State, leads to a drastically different society than that which develops under socialism. Perhaps the most obvious and immediate result is the vast decentralization of ownership and control of property. Instead of a single State owner under socialism, the capitalist society is characterized by millions of individual owners.

It is certainly true that under capitalism some individuals own more property than others. It is equally true that some types of property are far more valuable than other types of property. Under capitalism, this inequality of property ownership is accepted for what it is—a given condition of man and his nature. Invariably, the statement that inequality is a part of man's nature creates resentment. Inequality of property ownership is particularly offensive to many. But whether we approve or not, it is a reality that persists in every social structure, including socialism.

While certain individuals do possess more property than others under capitalism, it must be recognized that even the poorest member of the society at least has a proprietary interest in himself—he owns his own life. Under socialism the ownership of self is denied to the individual. All productive property, including labor, is owned by the State.

Attacks against inequality of property ownership center largely upon land and capital. Even if equality could be attained with respect to the ownership of land and capital—and it cannot be—what about inequality of labor ownership? Inborn traits of intelligence and physical abilities differ significantly among individuals, and to deny these inequalities among individuals is to deny our very being.

The important point is that under capitalism the individual ownership of property exploits inequality or differences among individuals in a way that advances freedom and material well-being. Inequality is a condition of our nature; it cannot be eliminated by any social system. And whereas socialism aggravates this inequality, capitalism creates the
beneficent division-of-labor society out of these natural inequalities.

The capitalist social structure places total sovereignty over property in the hands of the individual who owns it. What each person does with his land, labor, and capital is exclusively his own decision. Each individual owner is free to pursue his own good in his own way. He becomes totally responsible for himself and his possessions. His values, and his plans, are the primary force in the directing of his life and the employment of his property.

**Government's Role**

The philosophical framework of the capitalist society requires a system of laws—a government—to assure that the life and property of individuals are safeguarded. The role of government in a capitalist society is to establish and execute laws designed to keep the peace. As Mill observed, attempts by any to deprive others of their freedom must be prevented, and the force of law is essential to this end. Government in the capitalist society is symbolized by the blindfolded goddess of justice. The rule of law equally protecting life and property is fundamental to the development of a capitalist society.

When individual life and property are secure, a spirit of social cooperation will materialize. Individuals quickly discover the personal advantages of specialization and exchange. A nation of traders transforms itself into a free market economy. With market prices as their guide, and motivated by the potential of profit, individuals bring their resources into production for the benefit of consumers.

It is the development of this pattern under capitalism that has led to such descriptive synonyms as the free market economy, the private property order, the competitive enterprise system, the consumer sovereign society. All these descriptions are valid, for each recognizes some important attribute of the society. Undergirding it all, however, is the central point that property ownership must be a sovereign, absolute right of the individual.

Socialist planning is built upon a common social goal executed through the central direction of the State. It represents total planning of societal objectives by political action, and the implementation of these objectives by a bureaucratic corps within the socialist State. Under capitalism, however, the planning is done by individuals pursuing their personal goals. Through the signal of market prices, consumers direct production toward the satisfaction of their individual wants.

Once again the socialist society radically differs from the capitalist society. The structure of socialism is
a product of State planning with a politically established central goal. The structure of capitalism is market determined by the actions of millions of individual consumers. Under socialism the State decides what society needs, but under capitalism the consumer decides his own needs and acts accordingly.

**Who Makes the Decision?**

In any society, it is the nature of property ownership that determines who wields power. Proclamations declaring a right to individual freedom are empty unless the individual is allowed to acquire and possess property and thereby is empowered to exercise his freedom. The sustenance of life is property, and the loss of this sustenance by the individual to the State assures the loss of his personal freedom as well. The ownership of self, denied by the socialist State, is fundamental to human freedom. Only under capitalism, where the institution of private property is guarded as a sovereign right, can the individual own himself and be free.

The extent to which individual freedom has been lost throughout the world today can be gauged by the corresponding loss of private property rights. The encroachment by government over the control of property has literally destroyed any concept of absolute private property rights. The use of property has increasingly come under the direction of government, even though nominal ownership may still be retained by the individual.

In the United States today it is impossible to find a single example of productive property that is not in some way controlled by government. Such interference by government has but a single purpose—to obstruct consumer and producer freedom of choice and substitute therefor the will of the State. The sole end of all such activity is to shift power over the structuring of society away from the individual and into the hands of the State. Loss of control over one's property to the State is nothing less than a direct assault on individual freedom.

The perplexing question that continually faces the devotee of individual liberty and private property rights is why socialism is so alluring while capitalism generates such hostility? The freedom and prosperity experienced under capitalism has been a demonstrated fact that is in stark contrast to the enslavement and inefficiency of the socialist society. Yet the intellectual allure of socialism dominates social thought throughout the world today. Unless a firm philosophical framework is formulated on spiritual and moral absolutes conducive to a free society, man can quickly succumb to the allure of socialism through the pursuit of base motives.
The Critics of Capitalism

No better example of the allure of socialism can be observed than by witnessing the intolerance expressed against the structure of the capitalist society. Critics of capitalism refer continually to the misallocation of productive resources under capitalism, and the need to alter the allocation of resources to meet "noble" objectives. These critics invariably call upon government power as the means of forcibly altering the structure of society to achieve their aims.

The problem, as they see it, is that the structure of the capitalist society is determined by the behavior of consumers in the marketplace. Productive resources are employed to create the goods and services that individual consumers desire. Under capitalism the structure of society is determined by market forces in such a way as to provide what everybody wants. The profit or loss from market activities directs privately owned productive resources toward the satisfaction of consumer demands.

Capitalism, therefore, responds to what everybody wants; but herein lies its dilemma. Nobody wants what everybody wants! Our differing individual values will never conform to the values of all consumers. In the absence of tolerance for the values of others as expressed in the marketplace, it is extremely tempting to impose the State's design upon society. As Friedrich Hayek so aptly observed in The Road to Serfdom, every socialist sees his plan prevailing over society; he sees himself as planner and not as one of the planned. To the intellectual, the attraction of socialism is in this belief that he will be the planner of society; that he, rather than the decisions being made by millions of consumers through the marketplace, will determine its structure.

The hostility to the capitalist society as it responds to what everybody wants, rather than to what someone thinks everyone should want, is a primary reason why many find the socialist society so appealing. Under socialism, the socialist, rather than the consumers, will plan society.

While the capitalist system rewards the productive and thrifty individual and motivates everyone to imitate these virtues, such a system generates an inequality of possessions that can create base feelings of greed, guilt, and envy. Once again, a firm philosophical framework is necessary to temper the urge to follow such base instincts. Temptations to use the State to seize another's property out of greed and envy assures destruction of the capitalist society as the law is transformed from an instrument of justice into a device for legal plunder. By the same token, feelings of guilt from possessing more property than
others must be replaced with a feeling of responsibility and stewardship toward the employment of that property for the benefit of consumers.

And finally, what is perhaps the most difficult characteristic to accept about the capitalist society is the inevitable change brought about by competition in the marketplace. No one likes change. Yet the only certainty of a free society is that it will be a society of change. Such change is mandated by the consumers as they act out their preferences in the market. Productive resources are constantly bidding against one another as the successful displace the unsuccessful in response to the demands of the consumer.

These ever-changing values of the consumers keep the market in a constant state of flux. The competition of producers responding to such ever-changing values assures that some will profit while others risk loss. The demise of old goods and services from the competitive thrust of new goods and services demands continual adjustment on the part of consumers and producers. This adjustment, brought about by competition in a consumer sovereign capitalist society can be overwhelming to many, as the old and familiar is displaced with the new.

The socialist society is seen as a way out for such people. While an escape from change is an illusion, the static nature of the socialist society holds appeal. The tragedy, however, is what is not seen. Out of the static structure of the socialist State has come a “graveyard” society of death, slavery, and human misery. A society that promised good, has delivered evil. In the words of Ludwig von Mises, the twentieth century’s most outstanding free market economist, “good intentions aren’t enough.”

The future of civilization, of man’s material progress, and especially his freedom are dependent upon the structuring of a society based on the institution of private property. In the final analysis, the man who is not permitted to own property becomes the property of someone else; man either owns or is owned.

IDEAS ON

LIBERTY
William Graham Sumner

The accumulation of property is no guarantee of the development of character, but the development of character, or of any other good whatever, is impossible without property.
Decades of governmental intervention in, and regulation of, the market economy have all but obscured a fundamental truth: that an economy which encourages competitive free enterprise is the most productive both of material wealth and of individual freedom.

The case for industrial capitalism rests not only upon material grounds but upon spiritual and ethical grounds as well. When people are free to apply their creative energies to better ways of doing things, when they are free to contract their labor to enterprises that take their fancy and to put something aside from the fruits of that relationship, they add to the country’s material wealth and to the capital stock from which the means to create more wealth is drawn.

The independence that follows from these undertakings enables the people who engage in them to pursue, at other times, whatever activities appeal to their talents and inclinations.

It needs only to observe the condition of people in countries where they are not free to do those things to be reminded of what is at stake. The multitudes that greeted the Pope during his remarkable and courageous progress through Poland bore witness to a yearning for the freedom which totalitarian communism is at pains to suppress.

One of the contradictions of industrial capitalism in a liberal democracy is that the freedom it sustains opens the field to freedom’s oppo-
ponents. Mouthing slogans—social justice, equality, war on poverty—that cloak their designs in a mantle of morality, they would use the state to limit the economic freedom upon which the other freedoms depend.

Yet the failure of state intervention to achieve any of their professed aims—in fact its success in achieving precisely the opposite—is self-evident. Moreover, the prophet under whose banner the collectivists march saw this himself.

In _The Road to Serfdom_, Friedrich Hayek wrote: "It is pathetic, yet at the same time encouraging, to find as prominent an old communist as Max Eastman rediscovering this truth: 'It seems obvious to me now—though I have been slow, I must say, in coming to the conclusion—that the institution of private property is one of the main things that have given man that limited amount of free and equal-ness that Marx hoped to render infinite by abolishing this institution. Strangely enough Marx was the first to see this. He is the one who informed us, looking backwards, that the evolution of private capitalism with its free market had been a precondition for the evolution of all our democratic freedoms. It never occurred to him, looking forward, that if this was so, these other freedoms might disappear with the abolition of the free market.'"

In the West today the current of opinion is running against big government. Swimming with the current, political leaders protest their devotion to thrift and good housekeeping.

**Entrenched Bureaucracies**

However welcome this change of political direction may be, the task cannot be left to politicians alone. Both they and the businessmen whose affairs have suffered most from governmental intrusion are opposed by forces highly resistant to change.

Regulatory boards and commissions and agencies that have exercised their mandates for years past will not relinquish power without a struggle. Nor do they lack allies. The products, in press, politics and academe, of decades of collectivist teaching will not be slow to defend its tenets. Attempts to dismantle the state’s apparatus will be attacked from all sides.

Is it not apparent that repulsing those attacks must fall in the main to the businessmen who are the targets for the state’s intrusion? Not only is it in their interest to do so but also in the public interest.

Championing the system that enlarges the freedom of individuals is a worthwhile endeavor by any measurement. That it should coincide with the interests of private business and of the private individuals who, working in and for private
business, make up the great majority of citizens would appear to be doubly fortunate.

Despite that coincidence, who can doubt that the forces of intervention, the forces that oppose freedom, are still winning?

In numbers a small minority, they have access to a substantial armory: the inertia that protects all bureaucracies, the publicity commanded by a sympathetic press and by academic opinion-makers, above all a fragmented opposition.

Brought up in the tradition of democratic government, businessmen are accustomed to respecting its agencies. It is against their instincts to question the actions, much less the authority, of the officials who staff them. They have been slow to realize, in short, that the government they had looked upon as friend and protector has become their enemy and that they are in a fight.

Creativity and Achievement

Arming themselves for it, is not their strongest weapon the knowledge that their cause is just? Governments and the bureaucracies they spawn claim to be dedicated to “the people’s welfare.” The claim is false. Government’s power is coercive. By forcing people to act in certain ways, or by preventing them from acting as they would choose to act in others, government restricts freedom. When its social programs seduce people into a condition of dependency, government robs them of a precious gift—Independence.

By contrast, businessmen are concerned not with “the people” in the abstract but with people as individuals. Throughout the working day it is not governments, not bureaucrats, that are involved with people, but businessmen. Providing employment and training that build up skills, they strengthen independence. Recognizing that employees are their most valuable resource, they supply the foundations on which to build full and happy lives.

The contest is between the forces of reaction that suppress freedom and those of creativity and achievement that enlarge it. It is between reactionaries who would force their discredited ideas on others and the true progressives who prize the self-reliance that brings new ideas forward.

In that contest, businessmen constitute a prime source of leadership. Against the fanciful plans of their opponents they can set lifetimes of experience.
THE PURPOSE of economic study is to predict. The reason so many turn to the economist for assistance does not relate to his ability to explain what has happened but to an assumption that he can foretell what will happen.

In general, it is presumed that the individual who can best explain why things interacted as they did in the past will be best able to foresee how things will interact in the future.

In consequence of market demand for a preview of coming events, most economists rely heavily on what is called the empirical method. That is to say they gather relevant data from what has transpired year by year. They take into consideration other factors which appear to bear upon the area in question. The data assembled, the economists now chart a curve into the future, setting down the probabilities relating to tomorrow, next week, month and year.

There is merit in this procedure. While a probability is not a principle, one must have respect for it none the less. It is far better to rely on probabilities than to stare into a vacuum.

It is at this juncture that the Austrian school of economics emerges as the single exception to the general rule of economic forecasting. The Austrian disciplinarians were among the first to remind us that mathematics does not govern the lives and times of man. What has happened in the past does not control the future. While statistical data may very well assist us in understanding what has transpired, it is wholly unreliable when it comes to foretelling future events. Thus, the Austrian economist seeks to discern the principles of human action.

Mr. LeFevre founded and for years presided over the Freedom School in Colorado and has lectured and written extensively in behalf of freedom and the market.

Robert LeFevre

THIS IS MINE
and to express them, not in mathematical terms, but in terms of fundamental, ultimate given as to the nature of man, the nature of the world man lives in, and how the two must and do interrelate.

This procedure has tended to obscure the importance of Austrian theory and practice.

**How Many Toothpicks?**

The public, and most notably that part of the public engaged in what we popularly refer to as the "public sector," dislikes being reminded of the laws of reality. Public and politicians alike clamor for information as to how many toothpicks should be manufactured next year as opposed to last year. The Austrian economist shrugs and explains the laws of pricing, supply and demand.

Meanwhile the empirical economist performs his calculations and announces that there will be a demand for 2,729,453,000 toothpicks, according to the laws of probability. With these assurances the makers of toothpicks find great comfort. Somewhere between the probabilities of the forecasters and the ears of the producers there arises an assumption of certainty.

The number in the prediction is, of course, incorrect. However, it is frequently close enough to the truth, so that the error is in the low percentage figures. Year by year this practice of forecasting empirically will come close enough to the bull’s-eye to gain credibility and acceptance. And then, one year, for reasons which did not exist earlier, so far as can be known, a massive change occurs. Either a new and unimagined market for toothpicks arises, or, for unexplained reasons which remain invisible, the public turns away from toothpicks and either uses something else or abandons the habit of picking their teeth.

In years such as these, the empiricists beat a hasty retreat and belatedly explain that random factors unknown to them at the time caused an error. None the less, they will insist, their figures were correctly determined, as, indeed, they were. It’s just that the answer was wrong.

We happen to be passing through such a time right now. Enormous changes are occurring. These changes disclose that many of our forecasting economists have a great deal to be modest for.

I have set down the foregoing, not as censure of the empiricists, but rather to remind those of us who are fundamentally Austrian in orientation that despite weaknesses there is none the less merit in probability. While principles cannot be demonstrated mathematically, this does not mean that we should abandon mathematics. Where uncertainties exist, probabilities are enormously significant, provided we recall that
our answers deal with likelihoods rather than absolutes.

In the final analysis all knowledge is based on axioms and an axiom is no more than a straight line statement of evidence which is not susceptible of proof.

While the purpose of economic study is to predict, I am not attempting a forecast in this essay, save only in the most general way. Therefore, I am not engaged in an economic study as such. Rather, I am seeking to examine the nature of man and the nature of the world man lives in so as to comprehend that most fundamental of all relationships, that of individual man to the earth, and the things of the earth. That relationship at the present time is generally called private ownership of property.

The origins of ownership are lost in antiquity. It is doubtful that we will ever know where the concept of private ownership first appeared or who the individuals were first practicing it.

The ignorance to which we must admit, in this case, should not discourage us. We are ignorant of so much that one more blank page in the human record should make us feel right at home.

Since we cannot read about subjects where no written records exist, we have no way of basing our calculations on relevant data. No such data are available. Currently throughout the world, we find differing customs and practices respecting the ownership of property. It appears that reality does not demand any particular practice or belief respecting property. Instead, what appears is that there is a cause-effect relationship emerging from whatever the property customs may be in a given situation. Thus, when certain kinds of beliefs emerge, the cultures which, in general, hold to them appear to improve their standards of living. When the beliefs change, and property customs are altered, standards of living decline. But we have no absolute evidence. Indeed, we are left only with probabilities. Perhaps we can have respect for these probabilities, even though hard evidence is lacking. Let me begin with the nature of man.

Survival in a World of Scarce Resources

Man is a consuming, sensitive, complex organism. As a newly born infant he is among the world's most helpless creatures. It is immediately apparent that for man to survive, he must obtain sustenance from a source or sources outside himself. Man is not equipped at birth with a power pack to drive him through life. This oversight means that if he is to survive, he must learn to dominate his immediate surroundings to some degree and in his own personal interest, or perish. It is at once evi-
dent that whatever he ingests in the way of food or fluids becomes peculiarly his own. Private ownership of property begins at this point.

If Descartes was correct in stating: “I think, therefore I am,” each of us is equally correct in saying: “I eat, therefore I own.”

It is doubtful that primitive man, in recognizing his dependence upon things outside himself, thought of so sophisticated a concept as most of us now think when we use the word, “own.” Rather, it is probable that early man, to the degree that he used his mind for reasoning, translated his craving for food and beverage into little more than justification for action where his abilities made it possible for him to take what he wanted. This is a far cry from what the concept of ownership often includes today.

Thus, early man probably thought in terms of possession rather than in terms of ownership. To possess is to have a property under one’s physical control. In cultures which had not yet evolved beyond the foraging and hunting stages, ownership, as we think of it, may not have appeared at all. In such a culture the question of right and wrong is not raised. There is no question of control of a property during the absence of the possessor. The only logical questions are these: (1) Do I have the ability to get my hands on something I want; and after that, (2) Do I have the ability to keep others from taking it from me as long as I happen to want it?

**Evolving Man**

What kind of human behavior evolved? There are at least two distinct schools of thought emerging respecting man’s basic reaction to the realities he faced. Some argue that man is only a step removed from a killer ape and that his behavior in early days was violent and aggressive against others of his kind. This is entirely possible.

Others argue that man was more reasonable and tractable and imbued with a natural instinct to interrelate harmoniously with members of his own species. This is also entirely possible.

Indeed, it is possible, and even likely, that human beings vacillated between peaceful and violent behavior in earliest times. If so, they are still acting out their basic nature today which, by turns, is both harmonious and hostile.

It seems to me that when an individual member of the genus *homo* became imbued with fear that others might take away something which he craved, he would then become hostile and violent toward the individual or group that threatened him. At the same time, if he sensed in himself a feeling of confidence in his own ability, *vis à vis* the ability of others—or, on the other hand,
sensed a willingness in others to work in cooperation with him—then he would be tractable and cooperative.

This apparent duality made human conduct unpredictable and, hence, dangerous. It is only when our knowledge of reality can reasonably predict the consequences of our own actions that we have the necessary confidence in ourselves to behave reasonably and at peace with one another. Gradually, and I suspect over long years, generations or even centuries of human experience, the first great economic lesson was driven home.

When a man thinks only of himself and lives in fear of what others might do to him (the fear of loss of one's possessions) then he will be driven into isolation. When he is isolated the likelihood of his survival is reduced.

The Division of Labor

It turns out that human beings, by their natures, need each other. Not one of us has enough brains, muscles, energy or time to achieve all that must be achieved if we are to stay alive. Even though we may fear each other and distrust one another by reason of our natural nonpredictability, to have a reasonable expectation of survival requires more than one human being can provide. The economic lesson which necessity compelled us to learn is called "division of labor." I use the term here in the broadest possible sense. Not only in respect to sharing chores and in trading with others, but in the dawning realization that no one can do it alone.

Thus, long, long ago, humankind began to live in groups, and the duality in our natures was acted out. We must possess (own) certain things as individuals or perish. But in order to possess ourselves of these things, we need each other. Thus we had to learn to overcome our fear of how others might behave. Indeed, in our own personal self-interest, we found it necessary to become interested in the well-being of others. While we feared others, we also learned to fear not having them around. What was best so others could survive had to be equated with our own survival. Caught between the proverbial "rock and a hard place," we survived as suspicious, distrustful, dissatisfied, avaricious groups. The groups made it. Those who persisted in living in isolated safety did not have descendants.

Whenever we think of possession or ownership, we must also think in terms of the property involved. What is it we wanted to possess? In order to cope with the question of ownership we must sooner or later deal with what it is human beings wish to own.

It is entirely likely that the first items viewed as property, and hence
the first objects of our drive to possess, were those items for which we had natural (instinctive) urges.

**Basic Drives**

The very first objects which created the necessity for a division of labor unquestionably were food and water. There are two other drives, however, that are nearly as primary and must have occupied human attention from the earliest of times. They are the drive for territory and the drive to mate. Again we have two schools of thought as to which comes first. Some argue that a territorial imperative takes primacy over sex. Others put it in reverse. I frankly admit that I do not know. Both are in evidence.

What does appear probable, however, is that the drive to mate was acted out by individuals, much as the drive for food and drink. It is also probable that the drive for territory was equally individualized at the beginning, though this would have been less likely of fulfillment. It is far more difficult to control a territory according to one's own wishes than to control another human being. After all, human beings can glimpse that it is in their own best interest to pair off with a mate of their choosing and to repel a mate not of their choosing.

The land makes no decisions and it does not act in favor of its own highest utility or preference.

I choose to deal with mating first, but such choosing does not endorse any specific chronology.

All of us have mental images of the cave man selecting a bride by belting her over the head with some handy object and dragging her off. I suspect that in early times it was the woman who most frequently made the choice, although I do not mean to gloss over male aggressiveness. What appears likely is that the woman looked over the males available to her and, having chosen, began to make herself as alluring as possible to the male of her choosing. Instead of attacking him physically, she probably sought to awaken in him certain latent yearnings.

It appears that under primitive conditions, man's sex drive was far less assertive than it presently is in what we often inaccurately call "civilized" times. Men were probably preoccupied with getting food, after which they were exhausted. Beating up an exhausted male isn't calculated to stimulate affectionate behavior. Not that the woman was incapable of physical conquest over a man. A cave woman could probably have given as good an account of herself in a rough and tumble bout as any man.

Perhaps the woman was guided by an inner sense, an instinct, of the long period of pregnancy and its corresponding reduction in her physical abilities. It is certain that
she usually envisioned more than a mere romantic dalliance. She was looking for a mate to sire her child and, in addition, to serve as a provider who would stand by and help her when she could not help herself. So it is likely that the woman thought of "her" man as a possession. He "belonged" to her. And she would seek to influence him to her advantage when she was not capable of knocking him down. I do not seek to discount the probability that primitive women had far less difficulty with child delivery than modern mothers. The travail was intense enough to cause prearranging—planning.

**Woman’s Role**

When the infant was born, there was no question any longer. The infant belonged to the mother. If any man doubted it, the mother could hand over the infant to the father with instructions to feed it and keep it quiet. Following a few episodes of this nature it is doubtful that many males proclaimed ownership over very small children, at least in early times. It is equally doubtful that the male let the woman get away with such an assertion without challenge. Feeling a bit as though he had been used, the man probably agreed that she owned the child, but that his ownership was now transferred to her. I suspect a trade-off. The child was hers. But she was his. That evened it up. He would support her, but she had to support the new-born.

Women were probably the first of our species to deal successfully with abstract reasoning. With a show of submission and sweetness she was probably far from feeling, the woman smiled her Mona Lisa mystery and accepted the deal. She well understood that if her mate owned and possessed her, the child would benefit. She would continue to possess her mate but would let him think otherwise. Besides, at the moment she probably didn’t want a physical contest.

Thus it appears probable that food, water and women were among the first properties—the first items possessed by males. In process, it appears that the woman possessed the child and with that kind of ownership established, obtained managerial status over the domestic scene including management of her mate. The woman was probably the first of our species to comprehend that guile, indirection and the use of reason are superior and more practical devices than brute force.

The first acquisition of territory probably occurred in conjunction with pregnancy. Like any nesting sparrow, the woman desired a place of safety for the delivery and rearing of her young. So it seems to me that our diverse views as to the primacy of sex as opposed to territory come together and are not opposed.
Man, the hunter, follows the game trails, the flights of birds, the schools of fish swimming in the sea. Man, the forager, follows the seasons, shifting from place to place as leaves and grasses green and fruits bud and ripen.

But man, the father, returns to his mate and inadvertently to his child to see that they are cared for during many weeks, months and even years.

I have no idea how long the idea lay dormant, gestating, as it were, in the minds of hundreds of our kind. But presently there emerged the concept of a hunting, foraging territory which would also contain the place of safety for women and children. With the formation of tribes and tribal territory, the concept of public or collective ownership or possession emerged.

Rules Concerning Possession and Use of Land

Our natures demanded private control of certain assets on a personal level. But since we all wanted territory it must have seemed sensible and logical for the humans in a given area to pool their abilities (again, division of labor) when it came to land. A single male or family unit might be able to defend (possess) a relatively tiny patch of ground. But more than a tiny patch seemed desirable. If the families in a given region would pool their abilities they might defend a much larger and more useful piece of land.

Up to this time I have used the terms possession and ownership either jointly or as synonyms. I wish to make it clear, however, that ideas of ownership as we presently use the concept had not yet surfaced. What any individual owned was only that item or those items which he could physically control and defend, personally or as a tribal unit. Possession is based on force.

I have no doubt that the weakness of this practice was apparent for long years before anything occurred to bring about revision. In simple terms it meant the survival of the fittest on a direct, combative basis. Man had not yet learned to produce in any systematic way. While he may have manufactured some rough hand axes made of stone, and possibly a few other hand tools, these were relatively easy to keep on one's person or near enough at hand so that any potential thief could be driven off at once.

Thus, the lion's share of the food and water, and even the women, went to the most powerful and aggressive male. And indirectly to the sharpest and most cunning female. It meant that the biggest bully in the territory got first (and even second) pick. The rest of the living humans got what was left, undoubtedly in descending order relating to their strength and cunning.
At last another characteristic of human development became visible. Men began to specialize, either as hunters or foragers, or as makers of tools. It turned out, eventually, that the brute force necessary to win a fight didn’t necessarily single out the most valuable person in the tribe. I have no idea how it actually occurred, but let me hypothecate a situation predicated upon the appearance of an old man, with outstanding ability as a toolmaker. As a hunter he was too slow. As a forager he tired too easily. But as a toolmaker he was unsurpassed. It is entirely conceivable that at the outset, every time he finished an axe, someone grabbed it and he was incapable of preventing that theft. Theft invariably discourages production.

**Protecting the Specialist**

At the outset, it is likely that the tribal interest in the old man’s tools was sufficient so that they hunted and foraged for him and rushed to his defense whenever he was attacked. He was viewed as a public asset, like the territory they all occupied and defended. However, a major distinction was finally observed. The occasional thieves, who appeared in force to threaten their territory, were outsiders. But the thieves who threatened the old man’s axe production were insiders, members of his own tribe. A different form of protection was needed if the old man’s production was to be made safe.

I have little evidence to support what I am about to say. I follow a hunch. I think the shaman or witch doctor first appeared about this time. This meant the formation of the first religion. The individual who set himself up as the first theologian was also, in all probability, the first psychiatrist. He offered an abstract concept which was far too complex for most of the tribal members to comprehend.

In order to be understood, he elevated his own status among his familiares by claiming that he was in touch with forces and embodiments which he could communicate with, but which were invisible to the average fellow. It was far easier to instruct his peers with the idea of obedience than with the complicated economic reasoning leading to the desirability of leaving the toolmaker unmolested.

It was the wish (he must have explained) of the great invisible deities who inhabited everything and who controlled life and death, that the toolmaker be left unmolested. But it was also the wish of these divinities that the necessity of dropping everything they were doing to rush to the toolmaker’s defense be overcome. Instead (he must have suggested) the deities wanted the old man unharmed and, there-
fore, if anyone harmed him, the deities would deal with that person in frightful and terrifying ways. Rescuing him constantly from themselves was impractical. Other chores had to be done or they would all die.

What the old man was working on was his, even if the old man wasn't strong enough to defend it. Therefore, deity would defend the old man's possessions. Out of this, the concept of right and wrong emerged and, with it, the concept of ownership as opposed to possession. No longer would a person's ability to act be the single criterion of what he ought to do. Rather, the wishes of divinity provided the criterion. Even though a man had the ability to take away the production of the toolmaker, such an act would not be tolerated. It was wrong. To do right was to act within one's ability but, in addition, to act in accordance with divine dictates, regardless of ability.

Clearly, the strongest and most ferocious could always take what he wanted. But the tribe was dependent now, not only on the strong but on the skillful. And the skilled artisan must be able to predict peaceful and orderly respect for his abilities or he would become discouraged and would no longer employ his skills.

It is probable that the high level of sensitivity of the olfactory nerve at this remote period aided and abetted the wisdom of the shaman. Any person could tell who possessed any object. All one had to do was smell it. The odor of the owner was easily detected. Man has a most distinguishing scent. Thus, if you picked up a tool your first task was to sniff to find out who, in fact, possessed it. Ownership became a matter of odor as opposed to force. Gradually this concept was extended to include all members of the tribe, not merely the old toolmaker.

It must have taken many years, but the idea of owning by prior possession, rather than by might, gradually gained ascendancy among those humans who were most thoughtful and most advanced.

No major culture has ever emerged that was built upon possession and force exclusively. For production to occur, there must be long periods of time in which peaceful non-molestation is the order of the day. Force is a poor tool with which to obtain lasting calm and serenity. Production and trade, the devices which build what we call civilizations, are erected on ideas of ownership rather than ideas of possession. It is in this sense that human society is constructed upon a moral base: a recognition of the difference between right and wrong. There must be an understanding of the sanctity of boundary, and a broad adherence to support of such sanctity, for a culture to endure or advance.
"The King Is Dead"

Jean and I and our two daughters, Cindy, age 9, and Gretchen, age 4, spent a delightful four days camping along the Illinois River.

It was a most peaceful and rewarding trip: no telephones, no television—just nature and family and our modern-day camper. And just as was predicted, after the hiking and the cook-outs and the marshmallows and a game or two of Old Maid or Mickey Mouse, Cindy and Gretchen were ready for bed, and Jean and I spent the late hours of the night in quiet enjoyment and reading. Well, without television, what can one do? Might as well read a book. Reading is a good habit to return to and, besides, who knows? We might even learn something! Anyway, Jean was reading a novel and I was reading Professor Ben Rogge’s new book, Can Capitalism Survive?—which brings me to the point of all this.

Cindy saw the book and said, “Daddy, what is ‘capitalism’ or whatever that word is?” And, well, I was called. (Don’t you see? Somebody—even though she’s nine years old—somebody wanted to know what capitalism is.) And I was thrilled to answer. Four hours later, with Cindy sound asleep, I was still talking about capitalism. Well, that’s not true either, but there I was, on the spot—my daughter wanted to know what capitalism is, and I had to come up with a simple answer which hopefully would make sense and satisfy her curiosity. What should I say? Finally: “Capitalism,” I said, “is where you’re free to do anything you want as long as you don’t hurt anybody; you can do things without a license from government.” Well, with a little discussion about drivers’ licenses and building permits, Cindy was satisfied, but by then I had been set to thinking.

I started thinking about all of the licenses and permits required by our government, and I came to a stark realization. “Why,” I thought

Mr. Franckowiak is a businessman in Chicago. His business includes a weekly radio program in behalf of freedom, entitled We Still Have 55 Per Cent (referring to the portion of personal earnings not taken by taxes). "The King Is Dead" is from the script of a recent broadcast.
to myself, "the king is dead!" One by one I began to review those occupations which now require a government license: beauty operator, barber, doctor, lawyer. . . . The government is becoming the great Controller . . . plumber, real estate salesman, insurance broker, bus driver. . . . In the name of public good we all work or don't work in our chosen professions at the convenience of the state . . . certified public accountants, engineers, architects, and taxicab drivers. . . . Why, the state has absolute control over our very means of livelihood . . . pharmacists, nurses, teachers. . . . We need permits to operate a bank, a liquor store, a restaurant or a grocery store. There isn't a profession or business in America that isn't under the control of government—not one place, in all of America, the land of the free. I even needed a permit to camp at Starved Rock. Capitalism, the king, is dead! I didn't have the heart to tell my daughter Cindy.

My mind began to swirl. I called to mind the case of a man in Shelby, Michigan. He was going to build a new house for himself to replace his old broken-down shack. He was going to build a house, that is, until the county building inspector came along. You see, the owner hadn't taken out a building permit to build his house.

"No," the inspector said, "there wasn't anything wrong with the way the house was being built." The owner was doing good work and "yes, the new house would be a lot nicer for the neighborhood" and "yes, the owner was building the house on his own land," and "no, the neighbors were not complaining." As a matter of fact, the neighbors were helping.

Well, then, what was wrong, Mr. Inspector?

"Well," said Mr. Inspector, "for one thing, you must have a set of stamped approved plans, and yes, by all means, you must have a permit. You can't do any building without a permit."

And so the owner was hauled off to court.

"No," said the judge, "you cannot keep the building inspector off your property." "Yes," said the judge, "it is your property—but you cannot keep the inspector away. Government has a right to inspect. You are wrong, you cannot build a house on your own property without a permit; and because you have continued to build your house in violation of the law, I sentence you to jail—to jail, Mr. Property Owner." And the king is dead.

And so is the tree house in Hackensack, New Jersey. You see, some nice people there wanted to build a tree house in their backyard, and they know about permits. They
know the law: You can’t do any building without a government permit—so they went to the building department for a permit.

But the inspector told them there was no tree house listed in the building code, so, no, they couldn’t get a permit. “If it ain’t listed in the code, you can’t build it.”

But, my goodness, other people in town have tree houses; why can’t we? thought Mr. and Mrs. Owner. So they had carpenters build the little tree house. It cost $400.

“No,” the inspector said, he didn’t think it was a safety hazard but “it’s not listed in the building code, and, well, the tree house was built without a permit.”

“Guilty,” said the judge, and he fined Mr. and Mrs. Owner $20 plus $10 in court costs, but “That’s not all,” said the judge—“You have illegally built your little tree house and therefore you are hereby ordered to tear it down. If you fail to do so you will be held in contempt of court, and yes, I will send you to jail. Don’t you know you can’t build anything without a government permit?” in the United States of America, the land of the free.

And the roofers and the carpenters need licenses to operate and so do the truck drivers and the morticians. No, you can’t bury the dead without a license.

What is capitalism, Cindy? Capitalism was a system, Cindy. It was a system practiced in a country called America—the sweet land of liberty; it was a system where every man, woman and child were free to follow their own special star; it was a system where people were free to do anything peaceful so long as they did no harm to their fellow man. Capitalism was a system which gave the people of our country the highest standard of living on earth and in the process allowed them to enjoy the blessings of liberty and the dignity of human existence, free from the intervention of the state.

Can you go work when you’re a teenager, Cindy? Well, I suppose so—if you get a work permit. Can we have a tree house in our backyard, Gretchen? Well, yes, we do have an OSHA-approved stepladder for you to use, and we could get a licensed contractor to build it for us, but you see, we need a government-issued building permit. What’s a permit, Daddy? Daddy, what is capitalism? The king is dead, and we still have 55 per cent.

Editor’s Note: Can Capitalism Survive? by Dr. Benjamin A. Rogge is available from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533. (329 pages. $9.00 cloth; $3.50 paperback.)
The necessity for government to intervene in the economic realm is widely accepted today. The media of communication frequently report interventionist measures in much the same manner as they do natural occurrences. Television anchor men announce the latest intervention in the same tones that weathermen predict the winds tomorrow will be westerly and blowing from 5 to 15 miles per hour. Presidents usually have an assortment of economic experts to guide them in meting out intervention. Congress passed a full employment resolution in 1946, and it has come widely to be assumed that this aim can be achieved by a variety of government measures. The chairman of the Federal Reserve Board is generally recognized as a crucial figure in government's interventionist activity. Government subsidizes, penalizes, breaks up, restrains, limits, compels, regulates, protects, initiates, and controls economic activity in myriad ways.

Government intervention is not new to our era, of course. As far back as we have records of such activities, there are indications of the practice. It is probably safe to say, however, that never have so many different sorts of interventions been carried out simultaneously with such thoroughness and tenacity. Earlier interventions were mostly hit or miss affairs, often crude and unwieldy. Nowadays, interventionists operate with an arsenal of statistics, surveys, computers, and the technology in which we are most proficient.

What makes all this so remarkable is that prior to the last two hundred years or so, economic inter-
vention could be ascribed mostly to ignorance. That explanation does not go down so well in our era. Great strides in economic thinking have taken place. Thinkers have focused attention upon it and as might be expected have made many important discoveries. Economics has been shaped as a precise intellectual discipline over the past two centuries. Every sort of intervention has been subjected to rigorous analysis and its consequences explored.

**Economists Divided**

I am not suggesting, of course, that all economists are in agreement with one another. That is decidedly not the case. Nor is it likely that in so broad and comprehensive a field they ever will be. What is strange, however, is that their deepest disagreement lies in that very area and concerns the most fundamental question with which economics has to deal. Namely, they are divided over the feasibility and workability of government intervention in economy. It is not simply that they disagree over how much intervention is wanted, which we might expect, but they disagree fundamentally over whether there should be intervention or not.

For example, here is a statement from a recent textbook on economics describing the necessity for intervention:

In this chapter and the next we turn from economic analysis to economic policy. Our concern will be with government measures that promote full employment, encourage growth, and prevent inflation or deflation. We have seen that an economic system like ours, when left to itself, sooner or later either becomes overstimulated... or loses some of its momentum... How to prevent an enterprise economy from "slipping off the track" is perhaps the most important problem in applied economics today.¹

One of the ways that government may effectively intervene, he says, is by monetary policy:

Monetary policy is the course of action pursued by the central bank authority. In the United States it consists mainly of the way the Federal Reserve uses its three main controls... If used skillfully this set of controls can be very helpful in keeping the economy on an even keel. The difficult thing is to learn the art of using them skillfully—the art of monetary policy.²

By contrast, here are statements by other economists on the impact of intervention. In a classic work on the subject, the late Ludwig von Mises put it this way:

However, all the methods of interventionism are doomed to failure. This means: the interventionist measures must needs result in conditions which from the point of view of their own advocates are more unsatisfactory than the previous state of affairs they were designed to alter. These policies are therefore contrary to purpose.³
Milton Friedman has these comments on various interventionist measures in the United States:

Is it an accident that so many of the governmental reforms of recent decades have gone awry, that the bright hopes have turned to ashes?

I believe the answer is clearly in the negative. The central defect of these measures is that they seek through government to force people to act against their own immediate interests. . . .

In even stronger terms, Murray Rothbard declares that "government intervention" leads "inexorably to hegemony, conflict, exploitation of man by man, inefficiency, poverty, and chaos." In short, there are interventionists and non-interventionists. It is as if physicians were divided between the position of Christian Scientists, for example, and that which the medical profession in general holds toward disease. Such clear-cut differences suggest differences in premises. It is well, then, to turn to the tacit premises of interventionists.

The idea that government can intervene to good effect in the market is based on analogy. In the first quotation above analogy was twice used to suggest what was being done. The first referred to economy as if it were a train that could be kept from "slipping off the track." The next compares it to a boat which must be somehow kept on an "even keel." A paragraph or so further on the same writer likens what the Federal Reserve is supposed to do to depressing the accelerator or brakes in an automobile. It may be best, however, to abandon these analogies drawn from transportation, to which this writer appears to have a bent, and get to the fundamental conception.

Outside Guidance

The basic idea from which intervention derives its animus is that the market and economy require the action of an outside agent in order to function well. Experience is replete with analogues for this belief. The basic idea is one of effecting cures or making repairs by intervening in systems. It is the idea that when things are out of kilter you fix them by making alterations. It is one of man's basic ways of fronting and dealing with the world about him.

The root idea of intervention can be simply illustrated from medical practice. Physicians and surgeons perform their services most often by intervening in the human system. They intervene in order to kill some infecting agent, to remove some obstruction, to correct some defect, and the like. Surgeons intervene by performing operations: setting bones, cutting out diseased tissues or organs, or repairing something. Physicians introduce foreign substances into the system, usually or-
ally or by injection. While all these interventions are more or less dangerous and potentially harmful, they are for the purpose of healing. Similar practices in veterinary medicine further reinforce the concept of remedial intervention.

Mechanics perform analogously on machines. They do not intervene so drastically as doctors do—machines being often constructed so that they can be worked on easily—but the conception of the good intervention receives support from their work. They may remove engines to work on them or take whole machines apart. Only rarely are "foreign" substances introduced into machines during repair, but if they are they are usually removed before the repair is complete.

Indeed, the intervention to improve or correct is so commonplace that examples abound. Most servicemen are interventionists: plumbers, electricians, television repairmen, tree "surgeons," landscapers, house remodelers, and so on. Auditors intervene in accounting systems in quest of weaknesses or chicanery. Efficiency experts intervene in the productive process to save time and energy. Tailors alter clothes; cooks add seasoning to their dishes; authors rewrite their scripts; and farmers mend their fences.

Indeed, there are universal truths which make expedient these interventions to heal, repair, mend, and correct. All physical things decay; bodies become diseased; parts wear out; and human beings are imperfect. Intervention in bodies, systems, organizations, and products is man's way of ameliorating, for a time, the universal decay and imperfection. Although we do not ordinarily think of most of these efforts as intervention they nonetheless undergird the general concept and provide examples of the worthwhile and useful intervention.

There is an important result that is essential to what I shall call the good intervention. Indeed, when phrased as a question it is the definitive test of the good intervention. As a result of the intervention, is independence of the intervenor reestablished? The purpose of medical intervention is to heal the patient. It is to get him back on his feet, to get him functioning normally, to have him able to look after himself, to make him as nearly independent as possible given his circumstances. The purpose of mechanical intervention is to restore the machine to working order. The norm for the good intervention is that there comes a point when the intervenor is no longer needed. The doctor dismisses his patient. The mechanic announces that the automobile is ready to go. The plumber declares that the pipes are unclogged and that the water system now works. Inde-
dependence of the intervenor has been accomplished. (Not all "good" interventions have these happy results, but that is the norm for them and the end for which they were undertaken.)

**Fixing the Economy**

The idea of government intervention in the market and economy derives its motive force from this character of part of the universe and man's way of dealing with it. The notion that it is good and desirable arises from the known types of good interventions. Underlying this is the notion the market and economy suffer from some defect, infelicity, disharmony, or harmful tendency which stand in need of correction.

Many supposed defects have been highlighted over the years. Some have held that private property in land introduced fundamental injustices in the economy. Others have held that workers do not receive their proper share of the fruits of production in the market. Unemployment has been ascribed to a defect in economy. The disparity between farm and industrial income has been attributed to market weaknesses. Here are some of the difficulties arising from the market and economy as described in a recent textbook. The author refers to them as problems:

What are these problems? For capitalism, we have but to refer to the micro and macro sections of this text. Disequilibrium, instability, misallocation of resources, and inequality of incomes are results of the economic process in every society in which there is private ownership of property and a market determination of prices. Whether we look to Japan or Sweden, the Union of South Africa or the United States, we see similar tendencies toward too much or too little growth, inflation or unemployment, a struggle between the private and public sector, and a highly uneven division of incomes between the property-owning and the working classes. These are problems as specific to capitalism as the problems of guild life were specific to feudalism.6

It is such problems, then, that government intervention is supposed to solve. Such economies are, so to speak, sick, broken down, not working properly, in need of healing, repairing, mending, altering, or what have you. They need, we might suppose, to be restored to proper working order according to prescription administered by government. They need, we might further suppose, to be got back on their feet, to be made to work well independently of the intervenor once again.

But is that how government intervention in economies works? Does it straighten out what is wrong so that economy will work well on its own? There is no evidence to that effect. On the contrary, intervention neither corrects the alleged defects nor restores the independence of
anything. Mises described the matter succinctly some years ago:

What these people fail to realize is that the various measures they suggest are not capable of bringing about the beneficial results aimed at. . . . If the government, faced with this failure of its first intervention, is not prepared to undo it . . ., it must add to its first measure more and more regulations and restrictions.7

Perpetual Dependency

This pattern has been amply demonstrated in American history. The railroad industry is a striking example of how such intervention leads to perpetual dependency on government. When the Federal government first began to regulate the railroads by the Interstate Commerce Act in 1887 its aim was to prevent monopolistic abuses and promote competition among the lines. After the passage of the Esch-Cummins act in 1920 about the only competition permitted between railroads was in service. But rates became so closely tied to profits that before long railroads were vying with one another in reducing services. Since profits were, in effect, restricted, the railroads sought to perform only those services with the least risk and effort entailed. This tendency was further aggravated by the fact that government subsidized or supported alternative modes of transportation.

The railroads became increasingly dependent on government. They depended on government for rate increases, for opening new lines, for closing old ones, for dropping or adding service, and for the rules under which they could operate. They have become almost entirely dependent for the operation of passenger trains, since most passenger service is now provided by AMTRAK. CONRAIL is in the freight business, and several eastern lines have lost most of what remained of their independence. Innovations can be made usually only after lengthy and widespread hearings. Even new types of cars must be subjected to examination to determine what impact their use would have on alternative types of transportation.

Another example of government intervention which established dependency on government was the Social Security Act of 1935, and later changes in it. The main purpose of the act was through special taxes to build up a fund through which benefits could be obtained on retirement. In theory, the individual might be relatively independent with this income. In fact, the individual relying on Social Security payments is entirely dependent upon government for what he gets. He has no claim on what he has paid in. He will only receive such payments as Congress decides from time to time he may have.
But everyone is drawn into a circle of dependency on government by the intervention in the money supply. Although there were earlier and have been other interventions, the crucial one in the twentieth century has stemmed from the Federal Reserve Act of 1913. The Pujo Committee Report (from the House Committee on Banking and Currency), issued in February of 1913, detailed a concentrated control over money in the United States by a few New York banks. This concentration, the Committee alleged, had come about as a result of bank consolidation, interlocking directorates, and bank control of insurance companies, railroads, and utilities. The Report provided the most immediate thrust for the passage of the Federal Reserve Act a little later in the year.

The Federal Reserve in Theory and Practice

The Federal Reserve system was supposed to break up this alleged concentrated control of money and the dependence of the country on a few New York banks. Twelve Federal Reserve banks were set up, each to cover a different region of the country. They were authorized to issue bank notes and discount commercial paper, among other things. In short, they were given power to increase and decrease the money supply. Since the notes of these banks were legal tender, and since the banks have greatly increased the amount of their issues over the years, they became the currency of the United States, and even silver coins were eventually driven out of circulation. (Bad money drives out good when it is supported by tender laws.)

Whatever the case may have been for the dependence of the country on a few large banks, there can be no doubt that the people of the United States are now dependent on the actions of Federal Reserve banks. When they increase the money supply, the value of everyone’s money declines. Many institutions and organizations have become dependent on the surges of inflation in order to operate. Labor unions depend on increases in the money supply to get continual money raises for their members. Inflation fuels the expansion of industries. Since money no longer serves effectively as a store of value people cast about in many directions in the quest for something that will be. The “Fed” cannot control the economy with any precision, but it can, and does, take away the stability of prices by which people might manage their own affairs.

The persistent belief in the efficacy of government intervention—in the face of all the reason and evidence to the contrary—rests on two false analogies. The first is a misconception of the nature of government. The second is a misconcep-
tion of the nature of the market and economy. Let us turn first to the false analogy about government.

**Government Is Force**

Government is not analogous to a physician, a surgeon, a veterinarian, a mechanic, a plumber, a tailor, or a repairman. It has no healing in its wings. It cannot heal, mend, repair, alter, or otherwise fix things. It is that organization with the monopoly of the use of force in a given jurisdiction. It can only be effectively used in the ways that force can be used.

If we must conceive of government on analogy with some job or function, we had best choose one that fits it. Analogous figures by which government may be personified are: soldier, policeman, jailer, judge, tax collector, law maker, foreign diplomat, and executioner. Although opinions will differ as to which is the best for personifying government, my preference is jailer. Jailer captures the essence of government for me. He locks up, confines, obstructs, prohibits, restrains, and orders around those in his keeping. That is essentially what government can do by the use of force. His instruments are guns, blackjacks, handcuffs, straitjackets, cells, and bars. Compulsion is his mode of operation. The jailer is government in the final analysis; those who would know a particular government should learn of it first of all by visiting its jails and prisons, if they can do so.

None of this is said in derogation of government. Government is necessary because in every jurisdiction there will either be a monopoly of the use of force or a contest over it. The contest over it is undesirable because the appeals to arms toward which it tends is civil war. More, government's task is an honorable one. It is to keep the peace. It does so by monopolizing the use of force, punishing violators, and settling disputes. It is well that men should stand in awe of those who govern, that they should be fitted with such trappings of office as will command respect, and that contests with government authorities be verbal and carried on within a framework of ritual. But it will never do to forget that beneath the velvet glove of government is the mailed fist. That mailed fist cannot heal or mend; it can only be used to force people to some course of action against their will.

**The Body Politic**

The other fallacy arises by conceiving of the market or economy as analogous to the human body, to machines, to organizations, to physical objects, or to manmade devices. The market and economy do not belong to that order of being which breaks down, wears out, rusts, corrodes, is diseased, decays, warps,
gets stopped up, gets out of kilter, or what have you. They do not stand in need of medication, surgery, oiling, greasing, stimulating, dilating, altering, adjusting, repairing, auditing, or even the ministrations of efficiency experts.

The market and economy belong to the natural order. They are analogous to gravity, the speed of sound and light, buoyancy, action and reaction, and molecular structure. But they are different from these in one highly significant way. There is an order for things and an order for man. The law of gravity, for example, is a part of the order for things. The market and economy belong to the order for man. Man as a physical object is, of course, subject to the law of gravity, but he is not an active participant in it. By contrast, man is an acting participant in the market and economy by way of his reason, volition, morality, and the use of his faculties. Man cannot alter the nature of the market and economy, but he can disrupt, distort, and obstruct their operation. He can use them or abuse them. They are a part of the moral framework within which he lives, and he may choose his course but not the consequences of it. That is the order for man.

The essential feature of the market is this. It consists of those exchanges which take place when willing buyers and willing sellers meet. The essential feature of economy is this. It is what takes place when men in the pursuit of their own interests employ their resources so as to produce those goods that are most wanted with the least use of scarce land, labor, and capital. Economy is the reasonable means available to man to deal with the condition of scarcity which he confronts. The market is the social way for man to dispose of his surplus and acquire what he most wants from others.

**Voluntary Exchange**

Force is anathema to the market. There is no market without a willing buyer and willing seller. The law of contract recognizes this character of exchanges. If either the buyer or seller uses force, i.e., violence, intimidation, or fraud, there is no agreement, and no valid exchange has taken place. One of the primary functions of government is to exclude force from the market and to provide recourse for those on whom it has been used.

Force is either irrelevant to or disruptive of economy. Man is naturally bent to pursue his own interest by using as little as possible of what he has to get the most of what he wants. If he cannot employ force in doing this, there is no alternative to economy. Government is as irrelevant to economy as it is to the working of the law of gravity. Water will run down hill whether there is posi-
tive law to that effect or not. So will
men behave economically.

None of this is meant to imply that government cannot act upon the market or economy or that its acts will not have impact. Clearly, the opposite is the case. Government can act, and its actions will have consequences. There are three broad ways in which government can act on the market and economy.

First, it can act in order to exclude force from the market and to settle disputes arising there. As already noted, this is a primary function of government and essential to the market. When government acts in this way it is acting profoundly in accord with its nature as a monopolist of force. The use of force by private parties is a challenge to government's monopoly. By settling disputes government is acting to maintain the peace. Government action to provide access to markets is an extension of the above functions.

Second, government can prohibit certain kinds or classes of exchanges. Examples with which Americans have been familiar from time to time and place to place would be prostitution, prohibition of the sale of alcoholic beverages, gambling, drugs, the showing of Sunday movies, and so on. If such prohibitions succeed, the effect would be that there would be no market for what is prohibited. That is rarely the result, however. If what is prohibited is wanted very strongly a market is developed and exchanges are made. It is not a free market, of course. It is sometimes called a black market, but it would be much more precise to call it a criminal market.

Legally, government cannot perform its normal function in this market. It cannot exclude the private use of force. It cannot maintain the peace. It cannot settle disputes. At law, no market exists; in its stead, there is criminal activity. Two things are characteristic of this market. Prices are much higher than in a free market because the supply may have been artificially reduced by the prohibition and because the dangers (both from the private use of force and from government punishment) must be compensated by the potentiality of high profits. The other is that force—crime—is rampant in this market: extortion, violence, bribery, and even gang warfare. When government prohibits exchanges in goods that are in considerable demand it necessarily excludes itself from performing its primary functions in any market that may develop. The rule of crime replaces the rule of law in such markets.

Third, the government can act upon the market and economy by intervention. Government intervention occurs when the government becomes an active participant in the
market. There are thousands of ways to go about such intervention. The government may sell goods in competition with private sellers, be the only seller (have a monopoly), set minimum or maximum prices, establish quality controls, increase or diminish the money supply, levy taxes, limit access, empower certain groups, lay down rules as to when and where various types of exchanges may take place, give subsidies or pay bounties for production, penalize the buying of some goods, offer goods below the market price, require licenses, compel service, regulate, restrict, inhibit, control, and attempt to manage the economy.

**Consequences of Intervention**

What happens when government intervenes in the economy? A great many things, obviously. Force is intruded into the activities. Government becomes a participant, is an interested party, and is no longer qualified to perform its function of settling disputes. Quite often, it has great difficulty in maintaining the peace because it has become a party to disturbing the peace. All sorts of distortions, disruptions, and obstructions occur; generally, the more intensive and extensive the interventions the greater these are.

Government intervention is a kind of self-fulfilling prophecy. It is premised on the notion that the market and economy are out of kilter and require the ministrations of a benevolent government. As soon as government begins to intervene, they do get out of kilter; it does introduce defects into whatever market or economy it intrudes. Each intervention sets the stage for an endless round of further interventions in the futile effort to bring the whole back into balance. Mises gives us an example of how this would work if government attempted to lower the price of milk for children. If the price is fixed below the market level, he says, there will be less milk available because many producers would lose money at that price. The government would then be faced with this alternative: either to refrain from any endeavours to control prices, or to add to its first measure a second one, i.e., to fix the prices of the factors of production necessary for the production of milk. Then the same story repeats itself on a remoter plane: the government has again to fix the prices of the factors of production necessary for the production of those factors of production which are needed for the production of milk. Thus the government has to go further and further, fixing the prices of all the factors of production—both human (labour) and material—and forcing every entrepreneur and every worker to continue work at these prices and wages.8

When looked at this way, we can see why what may be called the dependency syndrome arises from
government intervention. When government intervention has proceeded very far, everyone involved in the market and economy becomes dependent upon government intervention on their behalf. If not, they will suffer from the imbalance thus produced. But since balance is never achieved, there must be continual adjustments.

It is as if one went to a physician seeking a cure and instead was given drugs which were habit forming and the dosage had to be continually adjusted and increased. It is as if one took an automobile to a mechanic and instead of fixing it he added parts which had to be continually adjusted by an expert in order for the vehicle to run. It is as if I called a plumber and instead of removing the obstruction from the pipes he declared that the difficulty lay in the fact that my system depended upon water running down hill. He might then introduce an extensive plumbing system to pump my waste upward out of the house. But that one would come into conflict with the direction of the fresh water supply, so that adjustment after adjustment would have to be made, all to no avail.

These are, of course, but poor analogies. The market and economy are not like unto human bodies, automobiles, plumbing systems, or organizations. They are the natural order by which production and trade can lead to prosperity. They are people producing and trading peacefully. Any attempt to alter it can only be done by attempting to change people. There is no body of evidence that shows this can be done to good effect where the natural order for man is involved.

Intervention, then, proceeds on the basis of two fallacies. One is a misconception of the nature of government. The other is a misconception of the nature of the market and economy. No one is likely to make these errors when he keeps clearly in mind that government can be personified as a jailer, that the market consists of that order within which willing exchanges are made, and that economy is simply using as little of one's scarce materials to get the most of what is wanted.

---FOOTNOTES---

2 Ibid., p. 396.
7 Mises, op. cit., pp. 532-33.
8 Ibid., p. 533.
By virtually any measure, public transit is clearly a declining industry. In 1945 one third of the total urban passenger miles were accounted for by public transit. By 1973 public transit’s share was under three per cent. In terms of income on passenger trips, urban bus line revenues declined by 24 per cent in the 1960-70 period. Of the 33 largest Standard Metropolitan Statistical Areas, every one of them showed a drop in the proportion of urban work trips made via public transit. At the end of World War II there were 33 billion urban transit trips taken per year. This had dwindled to 5 billion such trips by 1972.

All of this decline in public transit has been accomplished in the face of enormous economic growth in other sectors of the economy, a great increase in travel in general, and in spite of massive doses of government financial aid. The message seems to be that, as has been practiced and is being practiced, public transit is not meeting consumer needs for transportation. Yet, despite this message, more money, time and effort is continually being poured into staid and traditional transit systems in the pitiful hope that shiny new vehicles or more frequent empty route miles will turn the tide.

There are important economic reasons why traditional public transit has consistently failed in city after city. There is less of an explanation as to how or why these

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Mr. Semmens is an economist for the Arizona Department of Transportation and is studying for an advanced degree in business administration at Arizona State University.
economic realities can have been ignored in the making of public transit policy.

**Unnatural Monopoly**

The policy implications of the "natural monopoly" concept are that since it appears that the economics of the situation can only efficiently support one firm, then only one firm should be permitted to exist under law. In this way, territories are established within which only one firm will be legally allowed to operate. Thus, it is believed that public policy can enforce efficiency and hold down the final price to the consumer by excluding all but one firm.

This policy has been applied to the provision of transit services. Throughout America, in city after city, single firms have been granted exclusive rights to specified territories or routes, in implementation of the "natural monopoly" theory. The only problem with the enforcement of monopoly in transit is that it is completely inappropriate.

The evolution of the motor vehicle and the development of an extensive road system must dispel any claim to "natural monopoly" status in transit. Whereas rail transit must rely upon a highly specialized roadbed, which can be amortized only by a limited number of users, motor vehicle transit is entirely liberated from the fixed cost of roadways. Streets, which must be constructed anyway, as the sole means of access to most businesses and residences, serve as the nonspecialized fixed assets of a broad spectrum of users. Consequently, the fixed costs of motor vehicle transit are very low.

Despite the potential for a wide degree of flexibility in routing and scheduling based upon the extensive publicly financed road system, most motor vehicle transit is operated as if it were confined to rail beds. This practice appears to have survived as an imitation of fixed rail services. The first public transit in many cities was performed by street cars. As technology produced alternative modes these were either outlawed (jitneys), severely restricted (taxis), or molded to mimic street cars (buses).

Just as the street cars enjoyed monopoly franchises to specified roadbeds, the practice was continued even after buses largely supplanted this fixed rail system. Since the heavy fixed investment argument on behalf of transit monopolies became rather ludicrous with the change to publicly owned roadways, a new justification for monopoly had to be devised. Thus was invented the theory of the inherent superiority of the "comprehensive integrated system." True, there were no fixed costs in terms of roadbed, but there was a perceived need for uniformity of ser-
vice, the need for ease of transfer between vehicles and routes, and the belief that only if given a captive ridership via the banning of all competition would a transit operator have the incentive to develop the market.

The error implicit in the monopoly policy toward transit has been effectively demonstrated over time. Transit is not best served by monopolistic franchises. The operational characteristics do not impel a market structure of monopoly. The attempt to force such a structure has shaped the development of urban transportation for the worse. It is as if, King Canute style, public law has commanded the tide of transit technology to recede. The command has, predictably, failed. Instead of strengthening the public transportation system, enforced monopoly has played a significant role in destroying the prospects for public transit. The insistence on monopoly when monopoly was not appropriate has resulted not in channeling riders toward the only legally permitted service, but rather, has induced people to opt out of the system entirely in favor of privately owned automobiles.

**Price Controls**

If price controls worked we could all live like kings. But, alas, they don’t work. In fact, the enforcement of price controls has a much greater probability of enabling us all to live like beggars. Unfortunately, this sad fact has not proven much of a deterrent to the recurrence of such controls.

Early in this century it was perceived that in order to maintain “reasonable” prices in public transit, the supply would have to be limited. In exchange for the elimination of competition, the favored transit operators were made subject to rate regulation by a state or local agency. This seemed a good deal for the protected firms, since the initial impact was to outlaw price-cutting competitors. As the years passed, though, the price controls became more constraining. Today, the more typical situation in transit price control is one in which the decreed selling price is less than the real cost of providing service. Predictably, shortages developed as operators sought to shuck unprofitable routes or territories, cannibalized their operation through neglect of maintenance or nonreplacement of worn out equipment, and, in general, proceeded to go out of business.

The fact that public transportation may be viewed by many people as a necessity, or even declared a necessity by prominent public figures, does nothing to reduce the real cost of providing that service. Regardless of who may claim that public transportation is too important to be left to the free market, the
amount of service that can and will be provided is still subject to the same economic incentives and disincentives as those enterprises blessed by the relative inattention of public policy makers.

The transformation of many urban transit systems into publicly owned and operated concerns has done nothing by way of controlling the cost of providing service. On the contrary, the transformation has more often ushered in higher costs and greater deficits. Real costs of providing service soar to new heights, but the fares charged can remain low as the required financial resources are extracted from the taxpayers. While this arrangement may temporarily hold down the prices charged to the transit rider, it also tends to create unrealistic attitudes that will carry substantial potential for bankrupting the whole system.

**Perverse Federal Intervention**

With public transit, many people hoped that the appearance on the scene of the federal government would bring urgently needed medicine to the dying patient. Instead, the ministrations of federal nostrums have been akin to dosing the patient with poison while opening up his veins to let the "bad blood" out.

The "Feds," it seems, possess a kind of magical power—call it an inverted Midas touch—that ends up destroying nearly everything it comes into contact with. They can't even give money away without attaching conditions that assure failure. The federal government's role in "assisting" public transit has been variously described as inconsistent and ill-conceived, self-defeating, ineffective, a total failure. To be sure, these are only opinions of some of those who have critically examined the various federal aid programs. The record, however, does little to dispel these negative assessments.

The rationale for federal aid to public transit is that in some undefinable way the services to be provided are needed, but unprofitable for any private firm to supply. Two major themes in this line of argument are (1) that those persons needing the service the most are least able to pay for it and (2) that while the financial results of public transit may be portrayed in red ink, in terms of social benefit and total social costs, public transit is solidly in the black.

The standard rationalizations for the traditional approach to public transportation range from the cavalier disdain for the consumer preferences of those who "need" the service to the incredibly dense notion that there is no other way of doing things. One must suppose that it is only natural that an attitude of
“beggars can’t be choosers” would tend to develop among those who take a paternalistic view of the government’s role in transit. Transportation is not the only thing that the low income person may not be able to afford. The specific provision of transportation of a particular kind is the embodiment of the belief that in-kind benefits must be supplied by government experts because the recipients are incapable of wisely choosing on their own. There is some logic to this position. After all, if low income individuals were as capable as the bureaucrats who determine what manner of in-kind services must be provided, there’d be no need for the whole government aid program.

**Marked to Fail**

Whatever the motivation behind the choice of what type of service will be provided, the fact remains that the government has been bolstering very traditional types of transit systems. Many times, the program of federal aid is kicked-off by the purchase of a bankrupt or failing transit operation. This procedure alone makes for an inauspicious beginning. If a private bus line with substantial incentives to operate efficiently goes bust, what can we expect from a government-owned operation?

At the outset, we are faced with a suboptimal investment prospect. The calculus of consumer choice has already indicated the inappropriate nature of the service offered, otherwise the firm would not be failing. Add to this the tendency for the government to pay outrageously high prices for the assets of the defunct private line, and the potential for reasonably cost-effective performance is exposed as hopelessly wishful thinking. These salvage jobs on failing transit operations are expensive ways of perpetuating the types of services and practices that encourage patrons to abandon public transportation.

That the intervention of government has driven up the cost of providing “essential” service can be illustrated in two ways. Nationally, the financial burden of public transit on government resources has increased by 17,000 per cent since 1965. Proponents of the service supplied are wont to cite the “turnaround” in ridership under various municipally operated bus systems. However, each new rider is added at increasingly higher levels of marginal cost. The expenses incurred in order to attract each new passenger exceed the revenues generated by that passenger. It is a real life reenactment of the old joke about the shopkeeper who lost money on every sale, but hoped to make it up on the volume.

Even the sorry record portrayed above overstates the “success” of the
bus system. The officially admitted losses are based only on operating expenses. No provision is made for capital expenses—neither interest cost nor capital consumption allowances are factored into the reported financial results. What this means, of course, is that the losses are grossly underreported. The capital equipment is accounted for as if it were a free good. Such a distortion results in misallocation of scarce resources and real social losses to the general welfare. Local administrators of public transit operations are induced to follow this course by the generous federal subsidies to transit. The federal government will pay up to 50 per cent of operating costs, up to 80 per cent of capital costs, and in some special programs, will bear the entire cost of vehicle acquisition.

These “good deals” are nearly impossible to refuse. Even a fairly sensible local transit administrator will find it difficult not to join in the waste of funds, knowing, as he does, that any money not expended on his own local system will be given to someone else. Under contemporary standards, the local public transit official who disdains to take his allotted place at the trough would surely be accused of neglecting his responsibilities.

The most humiliating feature of the federal intervention is the utter lack of success in achieving the professed major aims of the program. As a method of enhancing the mobility of the urban poor, federal aid has been ineffective and is unlikely to become effective in the foreseeable future. As a method of reducing traffic congestion, federal aid has been a colossal flop. The massive outlays have not significantly altered urban travel patterns. Research has not been able to find a single example of a significant and permanent reduction in auto traffic resulting from the federal transit program. Of the new passengers attracted to the Dan Ryan Express in Chicago, for example, fewer than 8 per cent of them were previously transported by automobile.

Negative Results

The net effect of government involvement in transit has been negative. The infusion of funds, far from improving service, has more often helped to undermine the prospects for a sound urban transit system. The widespread “liberation” of transit networks from the milieu of “greed,” which has been held as a cause of the downfall of many private transit firms, has not led to improved operating results. Relieving transit operations from the necessity to earn a profit has, as might have been expected, opened the floodgates of perpetual deficits.

The absence of financial profit as a measure of the success of a transit
service severs the operations from any objective criteria with which to evaluate performance. Mere measures of seat-miles supplied, or even of ridership itself, reveals nothing of value if the costs to achieve these goals are ignored. How many seat-miles should be provided? What level of ridership is optimal? So far as can be ascertained, in the absence of a profit and loss gauge, not only do we lack any idea of the answers to these issues, but the federal transit program is carried out as if such issues didn’t exist.

The most egregious error of government intervention in transit, though, has been the reluctance to consider liberation of the private sector. The unleashing of private enterprise transit would reduce the degree of control over the supply of this form of transportation that can be exercised by the public sector. But control is not a proper end in itself. It is only desirable if it can serve to improve the final product, which is the transportation itself. The historical experience of government-run or government-controlled business is not one to inspire confidence in mandatory centralized planning for transit.

There are substantial and convincing reasons to expect that a liberation of the private sector would significantly improve public transit. Natural market responses to transit needs would very likely be superior to even lavishly subsidized “planned” transit in a number of respects. First, private solutions to consumer demands are less costly than their government-sponsored counterparts. Second, private solutions to transportation needs would be more quickly implemented. In the marketplace, speed in bringing a product to market is a matter of utmost importance. In contrast, the lethargic responsiveness of state owned and operated enterprise is legendary. The very legitimate requirements of due process and representative government are handicaps when it comes to meeting consumer demands. Finally, private enterprise is more adaptive to changing conditions. In fact, private enterprise is one of the sources of changing conditions, as firms invent new ways of gaining advantage over rivals. The public sector is, by nature, conservative. It has no mandate to create new products and diluted incentives to adapt to changing conditions.

Conclusion

There is a strong temptation to find someone to blame for the decrepit condition enjoyed by the transit industry. Conspiracy theories are all the rage these days. What’s more, it would be comforting to think that a traditional lynching of the guilty would solve the pervasive problems of the industry. Unfor-
Unfortunately, the situation is not conducive to such conveniently simplistic solutions.

The poor service and high cost of public transit is a consequence of bad institutions. This is not to deny that corrupt government officials, and the like, may play significant contributory roles in the debacle that is mass transit. What is to be emphasized is that even were all the ne'er-do-well villains to be replaced by honest regulators, competent managers, and efficacious government officials, the results would be only marginally better.

We need to change the public institutions that impinge on the Transit industry. Transportation in this country can do very well without price controls, barriers to entry, federal subsidies, and the like.

The public sector has enjoyed its greatest successes in establishing conditions of civilized conduct that have freed men to create material abundance. In so far as the public sector must become involved in transit, its most productive line of pursuit would appear to lie in the creation of conditions conducive to the private solution of transit needs. The comprehensive, multimodal, integrated planning will take care of itself. The same market forces which turn raw land and seed into the bread in our noontime repast are eminently qualified to make public transportation once more a viable commodity.

Russell Shanon

In the clutter and bustle of our daily lives, how often we overlook or ignore the underlying reality of current situations! In the sphere of economic policy, it may be helpful, then, to recall a famous old tale, the fable of "Tom the Table Maker."

Once upon a time, so the story goes, in a cozy little bungalow on the edge of the Forest there lived a table maker named Tom Smith, his wife Eve, and their three happy children. Their lives were good, fulfilling ones, for while Eve tended the house
and cared for the children, Tom worked in his shop making tables.

And what handsome, useful tables Tom's were! Tom carefully crafted them so they were sturdy and strong and then stained them with a deep, dark walnut finish whose glow reflected the young workman's pride.

Tom's tables were popular in the Neighborhood. People came from miles around to buy them and often returned for more, because the tables were useful in many ways and also made fine presents. People who received them as gifts were always glad to get something both practical and attractive.

Then one day, so the fable goes, something sad occurred. People stopped buying Tom's tables. They dropped in to Tom's shop from time to time for a friendly chat, but when they left, they were usually empty-handed.

Now Tom Smith was the jovial, optimistic sort. He enjoyed making his tables so much that he just kept at it. But gradually he began to realize that he was approaching the very brink of disaster. Unless he could sell his work, Eve would be unable to put food on their table. His optimism gave way to despair. "Alas and alack!" Tom thought. "What am I to do?"

One evening after giving all the children a kiss and bundling them off to bed, Eve sat down at the fireplace next to Tom. "I know you're worried," she said. "What's wrong?"

"No one wants my tables any more," Tom replied sadly.

Eve put her hand gently on his arm. "I know," she said; "I heard people talking in the Market today. Someone named Mot on the other side of the Forest is selling tables now. I hear they aren't as sturdy and beautiful as yours, but Mot sells them a lot cheaper and so our Neighbors are buying them."

"Whatever will I do?" Tom asked in dismay. "I just can't bear to compromise the quality of my tables." He sat rapt in thought for several minutes. Then his eyes lit up and he said to Eve, "Perhaps I should go to our Government in Dryington up on the Potogold River. The people there have power to stop the sale of tables from the other side of the Forest."

"True, you could do that," Eve replied, "but it would put Mot out of a job. I hear he's got a wife and children to feed, too. Besides that, our Neighbors seem happy to buy his tables, since now they have more money left over to buy other things." "Yes," Tom agreed, "you're right. But my tables are so handsome and so durable, it seems awful not to produce them. Maybe I could get our Government to buy some. They could be put in a museum somewhere for people to admire, and they sure would come in handy if Mot ever quit producing tables."

"But where will our Government
get money to buy your tables?” Eve asked. “You know, the Potogold is really only water. Our Government will have to raise taxes to get the funds, and then our Neighbors won’t be able to buy as many other things.”

“Once again, you’re right, Eve,” Tom admitted. “But now I have really exhausted all my resources. Our children will starve. We won’t be able to meet the mortgage payments on our cozy little bungalow.”

“You’re really not thinking about what your true resources are,” Eve said, patting Tom on the shoulder. “Think about our farmers. If people stop buying the wheat they grow, what will they do? They’ll grow corn, or oats, or tomatoes, or barley, or something else instead. People who weave cloth and make clothes can make something else people want, like buckets or bricks. Do as they do. Make chairs and benches instead.”

“It will take time,” Tom said, “to master the art of making chairs and benches. We’ll still have to tighten our belts.”

“We can stand that for a while,” Eve said cheerfully, for both she and Tom were actually just a bit stout anyway. “In the end, you’ll be making something people in the Neighborhood really want. That way, we’ll all be better off.”

And Eve was right. Of course, the Smiths did have to live on a leaner diet for a while, and once they almost missed the mortgage payment. Eventually, though, Tom was turning out such finely crafted chairs and benches of such admirable design that he could barely keep up with the orders. The Neighbors were proud of the wares they took home to their families and friends. In fact, even Mot bought some with his newly acquired Neighborhood money. And once again the Smiths had plenty to eat and mortgage money to boot.

One evening, while Tom was relaxing by the crackling fire, his wife sat down next to him. She was quiet at first, but after a few moments, she became philosophical. “It seems to many who’ve inquired into the subject,” she said, “that Government subsidies and trade restrictions almost always end up doing more harm than good.”

She went on: “Many people don’t seem to realize it, but it’s really through individual initiative, open competition, and free markets that we are most apt to achieve the greatest wealth for Neighbors—or even Nations.” And saying that, Eve Smith beamed proudly at her husband, who responded with a knowing nod.

Russell Shannon is a professor, Department of Economics, College of Industrial Management and Textile Science, Clemson University.

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June 1848 found Paris in turmoil as revolutionary mobs marched through the streets chanting an ominous: "We won’t be sent away! . . . We won’t be sent away! . . ." The French National Assembly had just abolished the National Workshops—the socialistic plan to "guarantee work for every citizen." The workshops had proven to be a social, political, and economic failure—just one of many idealistic schemes advocated by socialist demagogues. Now, armed members of the disbanded National Workshops were building barricades and preparing to fight for their lost "rights."

The June Revolution of 1848 was thwarted, but a year later France still faced the threat of socialism. The National Assembly echoed with impassioned speeches for the salvation of the French people. One of the Deputies to the Assembly who consistently and intelligently opposed the demagoguery of the social theoreticians was Frederic Bastiat—a modest, quiet-spoken Frenchman who was courageous in his defense of individual liberty.

Leaving the quiet life of a country gentleman for the feverish life of a legislator, Bastiat took with him an indomitable belief that individuals would work harmoniously together for the benefit of all so long as government intervention did not de-
stroys free choice and voluntary exchange. With great clarity of thought, he defined the rightful purpose of government authority (the law):

"What, then, is law? It is the collective organization of the individual right to lawful defense.

"Each of us has a natural right—from God—to defend his person, his liberty, and his property. These are the three basic requirements of life, and the preservation of any one of them is completely dependent upon the preservation of the other two. For what are our faculties but the extension of our individuality? And what is property but an extension of our faculties?

"If every person has the right to defend—even by force—his person, his liberty, and his property, then it follows that a group of men have the right to organize and support a common force to protect these rights constantly. Thus the principle of collective right—its reason for existing, its lawfulness—is based on individual right. And the common force that protects this collective right cannot logically have any other purpose or any other mission than that for which it acts as a substitute. Thus, since an individual cannot lawfully use force against the person, liberty, or property of another individual, then the common force—for the same reason—cannot lawfully be used to destroy the person, liberty, or property of individuals or groups."

Bastiat continually emphasized the proper relationship between individual rights and government authority:

"Individuals cannot possess any right collectively that does not pre-exist in every person as an individual. If, then, the use of force by an individual is justified only in self-defense, the fact that government action is always based on the use of force should lead us to conclude that the proper functions of government are necessarily limited to the preservation of order, security, and justice. All actions of government beyond this limit are by usurpation."

**Government Usurpation**

Bastiat comprehended why governments were allowed to usurp their powers. He was well-read in politics, history, philosophy, and religion—subjects which gave him profound insight into human nature. Human nature was the root of government usurpation. He saw how individuals have a tendency to reject personal responsibility and to look elsewhere for the necessities of life:

"Man recoils from effort, from suffering. Yet, he is condemned by nature to the suffering of privation if he does not make the effort to work. He has only a choice then, between these two: privation, and work. How can he manage to avoid both? He
always has and always will find, only one means: to enjoy the labor of others: to arrange it so that the effort and the satisfaction do not fall upon each in their natural proportion, but that some would bear all the effort while all the satisfaction would go to others . . ."

As Bastiat continues, he speaks to current attitudes in America:

“Today, as in the past, nearly everyone would like to profit by the labor of others. No one dares admit such a feeling; he even hides it from himself. So what does he do? He imagines an intermediary; he appeals to The State, and every class in its turn comes and says to it: ‘You who can do so justifiably and honestly, take from the public; and we will partake of the proceeds.’”

In other words: “The state is the great fictitious entity by which everyone seeks to live at the expense of everyone else.”

When individuals refuse to accept accountability and responsibility for their own welfare, they allow the State (the government) to corrupt the real purpose of the law:

“Under the pretense of organization, regulation, protection, or encouragement, the law takes property from one person and gives it to another; the law takes the wealth of all and gives it to a few—whether farmers, manufacturers, shipowners, artists, or comedians. Under these circumstances, then certainly every class will aspire to grasp the law, and logically so.”

**Human Nature**

While we suffer the consequences of government regulation and interference in our daily lives, Bastiat would ask us again to grasp the reality of human nature:

“Thus do all of us, by various claims and under one pretext or another, appeal to The State: ‘I am dissatisfied with the ratio between my labor and my pleasures. In order to establish the desired balance, I should like to take part of the possessions of others. But that is a dangerous thing. Couldn’t you facilitate it for me? Couldn’t you give me a good post? Or restrain my competitors’ business? Or perhaps lend me some interest-free capital, which you will have taken from its rightful owners? Or bring up my children at the taxpayers’ expense? Or grant me a subsidy? Or assure me a pension when I reach my fiftieth year? By this means I shall achieve my goal with an easy conscience, for the law will have acted for me. Thus I shall have all the advantages of plunder, without the risk or the disgrace!’

“All of us are petitioning The State in this manner, yet it has been proven that The State has no means of granting privileges to some without adding to the labor of others.”

The process of “plunder” by the State is easily seen in current
events. Bastiat asks us a question and provides us with a clear, precise answer:

"But how is this legal plunder to be identified? Quite simply. See if the law takes from some persons what belongs to them, and gives it to other persons to whom it does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime."

And, we are advised that "legal plunder can be committed in an infinite number of ways. Thus we have an infinite number of plans for organizing it: tariffs, protection, benefits, subsidies, encouragements, progressive taxation, public schools, guaranteed jobs, guaranteed profits, minimum wages, a right to relief, a right to the tools of labor, free credit, and so on, and so on. All these plans as a whole—with their common aim of legal plunder—constitute socialism."

While Bastiat was a Deputy in the National Assembly, he spoke forcefully against socialism and communism. Weakened by tuberculosis, he had to use his pen rather than his voice to carry on the fight for freedom. Using a style that was direct, vivid, and entertaining, he advocated sound monetary policies, limited government, a balanced budget, individual freedom, and free trade.

Throughout his comprehensive writings, he returned to the theme of law and liberty. "It is not true," he said, "that the function of law is to regulate our consciences, our ideas, our wills, our education, our opinions, our work, our trade, our talents, or our pleasures. The function of law is to protect the free exercise of these rights, and to prevent any person from interfering with the free exercise of these same rights by any other person."

**Individual Choice**

As to the matter of individual liberty, Bastiat believed that individuals had both the ability and responsibility to plan their own lives as they best saw fit . . . without government interference. He believed individuals were capable of making sound judgments and acting upon those judgments. At a time when the economy and consumerism occupy so much of our news commentary, Bastiat's view on individual choice, the free market, personal judgment, and the "public interest" should be well received.

"It is necessary to treat economics from the viewpoint of the consumer. All economic phenomena, whether their effects be good or bad, must be judged by the advantages and disadvantages they bring to consumers."

Bastiat always had individuals (consumers) in mind when he wrote about monetary policy, banking, transportation, exports and imports,
profits, labor, and wages. Whenever he approached these matters, he upheld individual liberty and opposed oppressive government interference. Above all, he kept one basic truth before him:

"In the economic sphere an act, a habit, an institution, a law produces not only one effect, but a series of effects. Of these effects, the first alone is immediate; it appears simultaneously with its cause; it is seen. The other effects emerge only subsequently; they are not seen; we are fortunate if we foresee them.

"There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen.

"Yet this difference is tremendous; for it almost always happens that when the immediate consequence is favorable, the later consequences are disastrous, and vice versa. Whence it follows that the bad economist pursues a small present good that will be followed by a great evil to come, while the good economist pursues a great good to come, at the risk of a small present evil."

Bastiat’s insight into what is seen and not seen contrasts sharply with much of the stodgy, ponderous writing on economics of his day. He had the ability to present serious economic principles in a way that was easily read and understood by the average citizen. Although he possessed a keen intellect and sense of concentration, he expressed himself in simple, frank language. Often, he combined his vigorous logic with humor, satire, irony, and wit.

Although he was an optimistic defender of liberty, he was fully aware of where his native France was heading—just as he knew where any nation was headed when politicians were allowed to create a centralized, all-powerful government to achieve social objectives. Witnessing the political demagogy in the National Assembly, he was prompted to write:

"This must be said: There are too many ‘great’ men in the world—legislators, organizers, do-gooders, leaders of the people, fathers of nations, and so on, and so on. Too many persons place themselves above mankind; they make a career of organizing it, patronizing it, and ruling it."

**Ideological Warfare**

Today, we have the same breed of legislators and leaders—individuals who are the cause of the political struggle that confronts all free people. Bastiat focuses our attention upon this ideological warfare, urging us to place liberty in perspective:

"Actually, what is the political struggle that we witness? It is the
instinctive struggle of all people toward liberty. And what is this liberty, whose very name makes the heart beat faster and shakes the world? Is it not the union of all liberties—liberty of conscience, of education, of association, of the press, of travel, of labor, of trade? In short, is not liberty the freedom of every person to make full use of his faculties, so long as he does not harm other persons while doing so? Is not liberty the destruction of all despotism—including, of course, legal despotism? Finally, is not liberty the restricting of the law only to its rational sphere of organizing the right of the individual to lawful self-defense; of punishing injustice?"

Yes, that is the true meaning of liberty, but now we are experiencing the perversion of the law—law which is supposed to defend individual freedom, not destroy it. Government—the law—has assumed an illusionary omnipotence, omnipresence, and omniscience in socio-economic matters.

"How," asks Bastiat, "did politicians ever come to believe this weird idea that the law could be made to produce what it does not contain—the wealth, science, and religion that, in a positive sense, constitute prosperity? Is it due to the influence of our modern writers on public affairs?

"Present-day writers—especially those of the socialist school of thought—base their various theories upon one common hypothesis: They divide mankind into two parts. People in general—with the exception of the writer himself—form the first group. The writer, all alone, forms the second and most important group. Surely this is the weirdest and most conceited notion that ever entered a human brain!

"In fact, these writers on public affairs begin by supposing that people have within themselves no means of discernment; no motivation to action. The writers assume that people are inert matter, passive
particles, motionless atoms, at best a kind of vegetation indifferent to its own manner of existence. They assume that people are susceptible to being shaped—by the will and hand of another person—into an infinite variety of forms, more or less symmetrical, artistic, and perfected.

Moreover, not one of these writers on governmental affairs, hesitates to imagine that he himself—under the title of organizer, discoverer, legislator, or founder—is this will and hand, this universal motivating force, this creative power whose sublime mission is to mold these scattered materials—persons—into a society."

The Law Perverted

Bastiat understood the motivation and mentality of social architects who corrupt the law. Although he did not question the good intentions held by many legislators, he stressed what happens to individuals when the law is perverted:

"It substitutes the will of the legislator for their own wills; the initiative of the legislator for their own initiatives. When this happens, the people no longer need to discuss, to compare, to plan ahead; the law does all this for them. Intelligence becomes a useless prop for the people; they cease to be men; they lose their personality, their liberty, their property."

Human degradation and misery will be the tragic result when self-appointed caretakers of society begin to regulate...inspect...tax...coerce...bride...control...organize...

"The claims of these organizers of humanity," said Bastiat, "raise another question which I have often asked them and which, so far as I know, they have never answered: If the natural tendencies of mankind are so bad that it is not safe to permit people to be free, how is it that the tendencies of these organizers are always good? Do not the legislators and their appointed agents also belong to the human race? Or do they believe that they themselves are made of a finer clay than the rest of mankind?"

We should be asking these same questions of our own politicians, government officials, members of the media, and educators—whoever would use government to further their particular beliefs for organizing our health, education, and daily welfare. To the extent that we depend upon government to direct our lives, we will see the deterioration of freedom.

"Away, then," says Bastiat, "with quacks and organizers! Away with their rings, chains, hooks, and pincers! Away with their artificial systems! Away with the whims of governmental administrators, their socialized projects, their centralization, their tariffs, their government
THE LAW is the organization of the natural right of lawful defense. It is the substitution of a common force for individual forces. And this common force is to do only what the individual forces have a natural and lawful right to do: to protect persons, liberties, and properties; to maintain the right of each, and to cause justice to reign over us all.

schools, their state religions, their free credit, their bank monopolies, their regulations, their restrictions, their equalization by taxation, and their pious moralizations!"

A Continuing Problem

Bastiat’s exhortation comes at a time when freedom is on the defense. Government continues to expand and become more oppressive. Legislative and Administrative commissions, boards, committees, departments, and agencies abuse their power—drawing us further into socialism.

In 1848, Bastiat had no illusions about the socialistic road France was taking. Although many of the politicians of his day honestly denied they were socialists, their beliefs and actions were, nevertheless, undermining freedom. Ideological and political labels aside, many of our own public officials and “opinion molders” are working against freedom, not realizing that their actions are basically socialistic. We need to stand firm for freedom as Bastiat did—exposing socialism and making certain that our individual lives are guided by personal responsibility, accountability, voluntary cooperation, and individual initiative.

As we accept the responsibilities of freedom, we can share Bastiat’s hope for the present and future: "And now that the legislators and do-gooders have so futilely inflicted so many systems upon society, may they finally end where they should have begun: May they reject all systems, and try liberty; for liberty is an acknowledgment of faith in God and His works.”

Editor’s Note: Unfortunately for all of us, Bastiat died of tuberculosis at the height of his battle for freedom in 1850. Those who would carry on the task might well begin with The Law by Bastiat ($1.00) and Frederic Bastiat: A Man Alone, a biography of the man and his times by George C. Roche III ($3.00). These, as well as other books by and about Bastiat, are available from The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533.
Presumably the ability to add, subtract, multiply and divide is one of those things that distinguishes men and women from the beasts. If this were universally the case even a fourth-grader should be able to understand that when the money supply is increased over and above the availability of goods, prices will rise. Two times one is always more than one times one. There is no mystery about inflation. The only mystery is that of human stupidity. There are always people who think that wage and price controls can be imposed by force, and there are always politicians to cater to them. The result, in history, has always been the same: a period of repressed inflation, followed by the breakdown of law and order and the disappearance of goods from the open market as the black marketeer takes over.

References have often been made to what happened to the Roman Empire when Diocletian, some time after his ascension to the throne in 284 A.D., tried to fix wages and prices in relation to an overvalued copper denarius. Strangely enough, however, there has been no available history of wage and price controls in any single volume. This deficiency impressed Robert L. Schuetttinger and Eamonn F. Butler when, after the failure in 1974 of President Richard Nixon's experiment in controls, they began looking into the subject.

The result has been a fruitful collaboration between Schuetttinger, an American historian, and Butler, a British economic analyst, with research help from Andrew Chalk, a Walker Fellow in Economics at the Heritage Foundation in Washington, D.C. The volume they have produced is called *Forty Centuries of*
Wage and Price Controls: How NOT to Fight Inflation, which comes with a discerning foreword by David I. Meiselman, who notes, somewhat despairingly, that the public opinion polls still show that a majority of U.S. citizens prefer mandatory controls to "guidelines." The book is published by the Heritage Foundation and distributed by Caroline House, Inc. (P.O. Box 161, Thornwood, N.Y. 10594, 186 pp., $9.95 cloth; $4.95 paperback).

The History of Controls

Mr. Schuettinger has been primarily responsible for the first half of the book, which accounts for thirty-nine out of the forty centuries of monkeying with natural market prices for goods, services and capital investment. It is a lamentable story that Schuettinger tells in rigorously condensed narrative. The Egyptians tried "planning" in their fifth dynasty (2830 B.C., or earlier), with an attempt to control the grain crop. Regulation of grain prices led to direction of planting and, eventually, to outright seizure of the fertile Nile acres by the monarch. With his "brass law," the monarch set control of wages that showed an early addiction to belief in the "iron law" that supposes that wages cannot be allowed to rise above the bare necessities for keeping workers alive. There was no Francis Amasa Walker or John Stuart Mill—or Henry Ford—to tell the Egyptians that wages can be upwardly adjusted to productivity (it is what a worker can turn out in a given hour that counts), so it is hardly surprising that the Egyptian economy should have collapsed along with the political stability of the State.

It was the same story in the lands watered by the Tigris and the Euphrates. Sumeria had its period of respite under King Urakagina of Lagash, a precursor of Ludwig Erhard (see Antony Fisher's Must History Repeat Itself?). Urakagina began his rule in 2350 B.C. by abolishing controls on wages and prices, and gave us a word for "freedom" for the first time in recorded history. (The word was "amargi," which means literally a "return to the mother.") But when Hammurabi promulgated his famous code in Babylon, it was filled with explicit economic directions. A field worker was to get eight "gur" of corn per annum; a herdsman was to get six. An experienced ass hired out for threshing should command ten "ga" of corn, but if the animal was young—a bestial apprentice—its hire should be one "ga." The pay for a potter was fixed at five grains of silver. And so it went. The historical records of "strong" government in Babylon show a decline in trade in the reign of Hammurabi and his successors, with the number of administrative documents—what we
today would call bureaucratic paper work—increasing at a precipitous rate.

**Lessons from China, Greece, and Rome**

In ancient China, the attempt to get around the law of supply and demand fared no better. Mr. Schuettinger tells us about two perceptive Chinese economists who anticipated the formulation of Gresham’s Law. “As soon as paper is employed,” so Yeh Shih wrote in the twelfth or thirteenth century A.D., “money becomes still less.” (Meaning, of course, hard money.) And Yuan Hsieh noted that “because the paper money was too much, the price of commodities was dear.”

The Greeks found it impossible to enforce laws set to control the grain trade, but the Romans didn’t learn anything from the Greek failure. Diocletian, when he took over, found himself victimized by the devaluations and the debasements of the coinage that had taken place under Claudius Victorinus. The trade of the Empire had been reduced to barter, the middle class was practically obliterated, and the proletariat was sinking into serfdom. Diocletian tried to “reform” it all by putting a stop to the production of debased gold and silver coins. But his new denarius, which was frankly of copper, was overvalued. To continue his “reform,” Diocletian tried fixing the prices of goods and services while simultaneously suspending the freedom of people to decide what the copper denarius was really worth. The penalty for evading the famous Diocletian Edict of 301 A.D. was death. But killing traders did not bring goods to market. Diocletian was forced to abdicate, and when the barbarians took over it was often with relief to both the poor and the rich.

Coming on down to relatively modern times, Schuettinger has only a repetitive tale to tell. Washington’s army at Valley Forge almost starved to death during the period in which the Continental Congress was trying to fix commodity prices. The Law of the Maximum worked only havoc in French Revolutionary times. When, at the end, they were carrying Robespierre through the streets of Paris to his execution, the mob jeered “There goes the dirty Maximum.” The Southern Confederacy tried to fix prices, but without effect until, in 1864, a currency reform reduced the money in the South by one third. It was then too late, for the Northern forces had already reduced the size of the Confederacy to rump proportions.

The research done on the German inflation by Andrew Chalk, with its quotations from Thomas Mann and Walter Eucken, is as shrewd as has ever been done. As Mann has writ-
ten, "A straight line runs from the madness of the German Inflation to the madness of the Third Reich. . . . It was during the inflation that the Germans forgot how to rely on themselves as individuals and learned to expect everything from ‘politics,’ from the ‘state,’ from ‘destiny.’ . . . The millions who were robbed of their wages and savings became the ‘masses’ with whom Dr. Goebbels was to operate. . . . Having been robbed, the Germans became a nation of robbers.”

The analytical chapters, largely the work of Eamonn Butler, make it undubitably plain that it is "the Federal Reserve rather than the coffee in Brazil, the freeze in Florida or even the Arab oil cartel which is the principal factor in the U.S. inflation story.” But will the politicos take note? They seldom have.

INVENTORY OF THE PRIVATE PAPERS OF LUDWIG VON MISES
Catalogued by L. John Van Til
(Public Relations Office, Grove City College, Grove City, Pennsylvania 16127)
1979
79 pages • $1.50 8½” × 11” paperback.

Reviewed by Bettina Bien Greaves

ANYONE seriously interested in the work and writings of the late Professor Ludwig von Mises will be glad to know that his papers have been preserved and are now available for research at Grove City College, Grove City, Pennsylvania.

When the Professor died in 1973, at the age of 92, his widow wanted to make sure that future generations of students would have access to the books and papers he had used when working on his own books and articles. His library of books was sold to Hillsdale College (Hillsdale, Michigan), but Mrs. Mises chose to retain his pamphlets, correspondence and other papers to dispose of separately. She spent a great deal of time and effort after his death sorting them out and arranging them to be easily viewed and analyzed. When this task was completed, she offered them to several large university libraries without finding a taker. Then Grove City College, a small liberal arts college in western Pennsylvania, made an offer she accepted.

A large part of the library Mises had assembled in Vienna, prior to his move to Switzerland in 1934, was destroyed when the Nazis marched into Austria in 1938. Fortunately, he had taken with him quite a few of his more important books and pamphlets. Thus, many pamphlets dating from his Vienna days were saved and are included here among these papers. He had very carefully filed them all by subject matter in suitably labeled pamphlet boxes and big brown envelopes. He kept the correspondence about his books in large cardboard
cartons. The letters from personal friends, students and admirers, sometimes with carbon copies of his usually very brief replies, were filed in cabinets and desk drawers. This is the material that Mrs. Mises sorted through and that Grove City College’s Professor L. John Van Til has now painstakingly gone over.

This inventory consists of two long lists—one of pamphlets, reprints and book reviews arranged by language, and the other of correspondence. Items on both lists are arranged alphabetically by author and keyed by number to their location on the college library’s shelves. Professor Van Til’s most exciting findings, mentioned only in his Preface, are “thousands of pages of unpublished manuscripts.” We presume these are in Mises’ own precise handwriting and are still to be gone over carefully before any decision may be made as to their disposition.

This inventory is preceded by a short biography of Mises, setting forth some of his more significant contributions and experiences. Students across the nation and the years interested in exploring Ludwig von Mises, the man, his ideas and his relationships with friends, students, admirers of his work and casual acquaintances, will be grateful to Mrs. Mises, Grove City College and Professor Van Til for making these materials available.

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Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.
There Is No Escape

The Carter energy plan contains a familiar ingredient: it takes money from the working taxpayers to give to the nonworking population. It proposes a windfall profits tax on oil producers and a fuel subsidy to poor consumers. When enacted, it may introduce “fuel stamps” just like “food stamps,” to enhance the lives of some 25 million people who are believed to be poor.

Transfer programs now comprise the lion’s share of the federal budget. During the past decade transfer payments grew by almost 300 per cent, while wages and salaries rose by 134 per cent. In 1970 these transfer payments amounted to $57 billion; in the federal budget for 1980 they are estimated to exceed $226 billion. How much longer can the transfers grow at twice the rate of the earnings that are supporting them?

Surely, the political transfer process cannot continue to grow indefinitely. There are limits of economic output as well as political power to seize an ever-larger share of income from the producers. But above all, the very nature of the transfer society, which is social and economic conflict, sets limits to the transfer process.

It is a strange twist of contemporary morality that political conduct is judged by far lower standards than are the acts of individuals. Men who would not think of stealing or pillaging the property of others—who would rather suffer deprivation
than to enrich themselves by such methods—believe that politics justifies all means. They engage in confiscatory taxation, devious inflation, and restrictive regulations in order to facilitate the transfer of income and wealth. Their political leaders, anxious to be the favorites of the transfer multitudes, yield to their prejudices, desire what they desire, and furnish the sophistry that will propagate and defend those desires.

**Social Conflict**

The transfer society is a conflict society in which the beneficiaries of transfer are ever eager for rapid progress while the victims bitterly oppose every step of the way. The transfer battle is fought in all media of communication and education and on the floors of the legislature, where, in a democratic manner, the majority of representatives decide the issue. But all decisions are just temporary as the political battle continues. In every session of the legislatures, whether they are national, state, or local, the transfer process needs to be fed by new appropriations and allocations, and new victims need to be found in order to bestow new benefits.

A great deal has been said and written about the psychological, social and economic consequences of the transfer. Most political discussions today hinge on this issue. The beneficiaries and their friends applaud the effects and laud the policies that facilitate the distribution. The victims, on the other hand, point at many deleterious effects not only upon themselves but also upon the beneficiaries. Both sides advance arguments of ethics, politics, economics, psychology, history, and many others, in order to sustain their position. Both talk about liberty and justice for all.

**The Rush to the Exits**

Whatever we may say about the consequences, there cannot be any doubt that the victims of the transfer system react by seeking to escape. They become refugees in their own country, dismayed and frightened, always on the run from agents of the transfer society. They spend countless hours searching for avenues of escape that promise relief and salvation. Many spend their time and effort pursuing the legal loopholes, no matter how narrow and awkward they may be. Others seek their escape on illegal bypaths that are mined by fines and imprisonment. A few get caught in an intricate net of rules and prohibitions which government is spinning continually around its intended victims.

The direction of escape is determined by the policy of expropriation conducted by the transfer government. It may seize income and wealth through confiscatory taxa-
tion, devious inflation, and restrictive rules and regulations. The victims seeking refuge from them all, rearrange their efforts to reduce their burdens. They seek to realize income that is tax exempt, or utilize additional tax exemptions, deductions and tax credits, shift incomes to various types taxed at lower rates, or simply postpone the tax for various periods of time. They shun savings and investments that are depreciated by inflation and seek refuge in investments that are said to be inflation proof. They buy real estate, precious metals or other tangible assets that hopefully appreciate in value. And finally, the businessman who faces regulatory inequity searches for loopholes or, if none can be found, may discontinue his production or otherwise readjust it in order to minimize the regulatory results.

Many refugees from the transfer system pride themselves on their prowess in all matters of escape. They attend "survival seminars," subscribe to advisory services specializing in survival behavior and investments, and otherwise prepare for the breakdown of the transfer order. Some escape artists may even amass sizable fortunes on their way to the social exits. But they are neither prudent nor bold, and surely no heroes in any sense of the word. They are running from the battlefield of ideas on which our future is decided. They are deserting, although the battle is still raging and there is no safe hiding place anywhere.

**Getting Your Share**

Many victims also try to get even by joining the class of beneficiaries. While chafing under the heavy load of progressive taxation and rampant inflation, they are getting in line for any and all favors the transfer government may extend. The businessman who is suffering from confiscatory taxation and restrictive regulation lobbies for government orders and contracts, for urban renewal or other HUD-subsidized housing projects. The doctor who pays maximum income-tax rates and loses his Keogh-plan savings to inflation clamors for a federal grant to his favorite hospital or for higher federal outlays for health professions training. The attorney or accountant, the professor, minister or rabbi, in fact, all primary victims of taxation and inflation send their children to public schools or state universities where government pays the lion's share of the educational expenses. And upon retirement, they all are looking forward to the generous benefits of Social Security. After all, they contributed so long to the transfer system, why should they not avail themselves of everything to which they are legally entitled?
In the end, no one knows with certainty whether he has lost or gained from the transfer system. Everyone is waiting for his turn at the public trough, which continues to enjoy popularity and respectability. In the line are to be found some of the primary victims, moaning and complaining about the burden they are expected to carry. But their very presence in the line casts doubt on the sincerity of their complaints, while it gives moral sanction to the waiting line and the benefit trough.

Defending the Mainspring of Economic Well-Being

The true defenders of individual freedom and a peaceful social order neither scramble for the exits nor stand in line for their share of the loot. They do not spend their waking hours scheming and plotting their escape. They are in the midst of the ideological battle. With all their strength and courage they are resisting the transfer order, rejecting its temptations and refuting its spurious arguments.

They readily admit that private income and capital must be preserved for current production and future employment. They even emphasize the moral obligation of the present generation to preserve and promote the economic well-being of future generations. But what would it profit our heirs to inherit our material riches if they lacked the freedom and morality that are the very mainspring of those riches? In the long run, economic prosperity without this mainspring will wither and die like seed sown upon stony ground.

The United States is the ideological, economic, and military bastion of Western freedom and civilization. If it fails, for any reason, civilization must perish. There is no escape.

A Defensible Social Ideal

There is but one defensible social ideal, and that is a world in which every individual is free to work out the inner impulses of the Spirit, without aggression on his part or interference on the part of others. A State which accomplished this simple, primal duty, the protection of all its citizens, would accomplish something greater than has yet been historically recorded, and something which no State, preoccupied with illegitimate and paternalistic activities, is ever likely to accomplish.

HANFORD HENDERSON, "Hands Off" from The North American Review, December 1924
There's an old story worth retelling about a band of wild hogs which lived along a river in a secluded area of Georgia. These hogs were a stubborn, ornery, and independent bunch. They had survived floods, fires, freezes, droughts, hunters, dogs, and everything else. No one thought they could ever be captured.

One day a stranger came into town not far from where the hogs lived and went into the general store. He asked the storekeeper, "Where can I find the hogs? I want to capture them." The storekeeper laughed at such a claim but pointed in the general direction. The stranger left with his one-horse wagon, an axe, and a few sacks of corn.

Two months later he returned, went back to the store and asked for help to bring the hogs out. He said he had them all penned up in the woods. People were amazed and came from miles around to hear him tell the story of how he did it.

"The first thing I did," the stranger said, "was to clear a small area of the woods with my axe. Then I put some corn in the center of the clearing. At first, none of the hogs would take the corn. Then after a few days, some of the young ones would come out, snatch some corn, and then scamper back into the underbrush. Then the older ones began taking the corn, probably figuring that if they didn't get it, some of the other ones would. Soon they were all eating the corn. They stopped grubbing for acorns, and roots on their own. About that time, I started building a fence around the clearing, a little higher each day. At the right moment, I built a trap door and sprung it. Naturally, they..."
squealed and hollered when they knew I had them, but I can pen any animal on the face of the earth if I can first get him to depend on me for a free handout!"

Please keep that story in mind as I talk about Rome and draw some important parallels between Roman history and America’s situation today.

Roman civilization began many centuries ago. In those early days, Roman society was basically agricultural, made up of small farmers and shepherds. By the second century B.C., large-scale businesses made their appearance. Italy became urbanized. Immigration accelerated as people from many lands were attracted by the vibrant growth and great opportunities the Roman economy offered. The growing prosperity was made possible by a general climate of free enterprise, limited government, and respect for private property. Merchants and businessmen were admired and emulated. Commerce and trade flourished and large investments were commonplace.

Historians still talk today about the remarkable achievements Rome made in sanitation, public parks, banking, architecture, education, and administration. The city even had mass production of some consumer items and a stock market. With low taxes and tariffs, free trade and private property, Rome became the center of the world’s wealth. All this disappeared, however, by the fifth century A.D., and when it was gone, the world was plunged into darkness and despair, slavery and poverty. There are lessons to be learned from this course of Roman history.

Why did Rome decline and fall? In my belief, Rome fell because of a fundamental change in ideas on the part of the Roman people—ideas which relate primarily to personal responsibility and the source of personal income. In the early days of greatness, Romans regarded themselves as their chief source of income. By that I mean each individual looked to himself—what he could acquire voluntarily in the marketplace—as the source of his livelihood. Rome’s decline began when the people discovered another source of income: the political process—the State.

When Romans abandoned self-responsibility and self-reliance, and began to vote themselves benefits, to use government to rob Peter and pay Paul, to put their hands into other people’s pockets, to envy and covet the productive and their wealth, their fate was sealed. As Dr. Howard E. Kershner puts it, “When a self-governing people confer upon their government the power to take from some and give to others, the process
will not stop until the last bone of the last taxpayer is picked bare.”

The legalized plunder of the Roman Welfare State was undoubtedly sanctioned by people who wished to do good. But as Henry David Thoreau wrote, “If I knew for certain that a man was coming to my house to do me good, I would run for my life.” Another person coined the phrase, “The road to hell is paved with good intentions.” Nothing but evil can come from a society bent upon coercion, the confiscation of property, and the degradation of the productive.

In 49 B.C., Julius Caesar trimmed the sails of the Welfare State by cutting the welfare rolls from 320,000 to 200,000. But forty-five years later, the rolls were back up to well over 300,000. A real landmark in the course of events came in the year 274. Emperor Aurelian, wishing to provide cradle-to-grave care for the citizenry, declared the right to relief to be hereditary. Those whose parents received government benefits were entitled as a matter of right to benefits as well. And, Aurelian gave welfare recipients government-baked bread (instead of the old practice of giving them wheat and letting them bake their own bread) and added free salt, pork, and olive oil. Not surprisingly, the ranks of the unproductive grew fatter, and the ranks of the productive grew thinner.

I am sure that at this late date, there were many Romans who opposed the Welfare State and held fast to the old virtues of work, thrift, and self-reliance. But I am equally sure that some of these sturdy people gave in and began to drink at the public trough in the belief that if they didn’t get it, somebody else would.

Someone once remarked that the Welfare State is so named because, in it, the politicians get well and you pay the fare! There is much truth in that statement. In Rome, the emperors were buying support with the people’s own money. After all, government can give only what it first takes. The emperors, in dishing out all these goodies, were in a position to manipulate public opinion. Alexander Hamilton observed, “Control of a man’s subsistence is control of a man’s will.” Few people will bite the hand that feeds them!

Civil wars and conflict of all sorts increased as faction fought against faction to get control of the huge State apparatus and all its public loot. Mass corruption, a huge bureaucracy, high taxes and burdensome regulations were the order of the day. Business enterprise was called upon to support the growing body of public parasites.

In time, the State became the prime source of income for most people. The high taxes needed to fi-
nance the State drove business into bankruptcy and then nationalization. Whole sectors of the economy came under government control in this manner. Priests and intellectuals extolled the virtues of the almighty emperor, the Provider of all things. The interests of the individual were considered a distant second to the interests of the emperor and his legions.

Rome also suffered from the bane of all welfare states, inflation. The massive demands on the government to spend for this and that created pressures for the creation of new money. The Roman coin, the denarius, was cheapened and debased by one emperor after another to pay for the expensive programs. Once 94% silver, the denarius, by 268 A.D., was little more than a piece of junk containing only .02% silver. Flooding the economy with all this new and cheapened money had predictable results: prices skyrocketed, savings were eroded, and the people became angry and frustrated. Businessmen were often blamed for the rising prices even as government continued its spendthrift ways.

In the year 301, Emperor Diocletian responded with his famous "Edict of 301." This law established a system of comprehensive wage and price controls, to be enforced by a penalty of death. The chaos that ensued inspired the historian Lactantius to write in 314 A.D.: "After the many oppressions which he put in practice had brought a general dearth upon the empire, he then set himself to regulate the prices of all vendible things. There was much bloodshed upon very slight and trifling accounts; and the people brought provisions no more to markets, since they could not get a reasonable price for them; and this increased the dearth so much that at last after many had died by it, the law itself was laid aside."

All this robbery and tyranny by the State was a reflection of the breakdown of moral law in Roman society. The people had lost all respect for private property. I am reminded of the New York City blackout of 1977, when all it took was for the lights to go out for hundreds to go on a shopping spree.

The Christians were the last to resist the tyranny of the Roman Welfare State. Until 313 A.D., they had been persecuted because of their unwillingness to worship the emperor. But in that year they struck a deal with Emperor Constantine, who granted them toleration in exchange for their acquiescence to his authority. In the year 380, a sadly-perverted Christianity became the official state religion under Emperor Theodosius. Rome's decline was like a falling rock from this point on.

In 410, Alaric the Goth and his
primitive Germanic tribesmen assaulted the city and sacked its treasures. The once-proud Roman army, which had always repelled the barbarians before, now wilted in the face of opposition. Why risk life and limb to defend a corrupt and decaying society?

The end came, rather anti-climatically, in 476, when the German chieftain, Odovacer, pushed aside the Roman emperor and made himself the new authority. Some say that Rome fell because of the attack by these tribes. But such a claim overlooks what the Romans had done to themselves. When the Vandals, Goths, Huns and others reached Rome, many citizens actually welcomed them in the belief that anything was better than their own tax collectors and regulators. I think it is accurate to say that Rome committed suicide. First she lost her freedom, then she lost her life.

History does seem to have an uncanny knack of repeating itself. If there’s one thing we can learn from history, it is that people never seem to learn from history! America is making some of the same mistakes today that Rome made centuries ago.

In many ways, the American Welfare State parallels the Roman Welfare State. We have our legions of beneficiaries, our confiscatory taxation, our burdensome regulation, and of course, our inflation. Let me talk specifically about inflation, which I regard as the single most dangerous feature of life today.

Everyone says he is against inflation. Every president has his war on it. Yet it rages on. Why? For two reasons. One, most people, especially those in high places, don’t really know what it is. And two, an inflationary mentality pervades our society.

Defining inflation properly is critical to our understanding of it. The typical American thinks inflation is “rising prices.” But the classical, dictionary definition of the term is “an increase in the quantity of money.” In this discussion, changing the definition changes the responsibility! If you believe that “inflation” is “rising prices,” and then ask, “Who raises prices?” you’ll probably say that “Business raises prices, so business must be the culprit.” But if you define “inflation” as “an increase in the quantity of money,” and then ask, “Who increases the money supply?” you are left with only one answer: GOVERNMENT! Until we understand who does it, how can we ever stop it?

Why does government inflate the money supply? By far the main reason is that people are demanding more and more from government and don’t want to pay for it. This causes government to run deficits,
which are largely made up by the expansion of money. It follows, then, that inflation will not stop until the American people restore the old values of self-responsibility and respect for private property.

Let me show you how our Welfare State mentality has ballooned the federal budget. In 1928, the federal government spent a grand total of $2.6 billion. In the current fiscal year, it will spend over $530 billion. The accumulated red ink for the past five years is over $200 billion.

I've cited on other occasions a welfare recipient's letter to her local welfare office: "This is my sixth kid. What are you going to do about it?" Implicit in that letter was the notion that the individual's problems are not really his at all. They're society's. And if society doesn't solve them, and solve them fast, there's going to be trouble. I submit that our economy can withstand a few thousand, or even a million people who think that way, but it cannot bear up under tens of millions practicing that destructive notion. Today, what business, what school, what union, what group of individuals is not either receiving some special favor, handout or subsidy from government or at least seeking one? There's no longer any reason to wonder why we have inflation.

According to Dr. Hans Sennholz of Grove City College, the development of the American Welfare State has come in two phases. In the first phase, roughly from the turn of the century to 1960, we relied mainly on ever-increasing tax rates to finance the expensive government programs. The top tax rate went from 24% to 65% under Herbert Hoover and to 92% under Franklin D. Roosevelt. The decade of the 1950s was one of stagnation under these oppressive, capital-confiscating rates. So we had to find a supplementary method to raise the needed revenue. The second phase of the Welfare State began in the 1960s, with a deliberate policy of massive, annual deficits in the federal budget and an addiction to the printing press. The demands to spend for this and spend for that, which I have mentioned above, have merely provided the fuel for these massive deficits.

America's dilemma is certainly of crisis proportions. We face collapse and dictatorship if inflation is not stopped and the growth of government is not checked. But Rome's fate need not be ours. Our problems stem from destructive ideas, and if those ideas are changed, we can reverse our course. A nation that can put a man on the moon can resolve to mold a better future. Let's reject the destructive notions of the Welfare State, and embrace the uplifting ideas of freedom, self-reliance, and respect for life and property.
One of the sad political paradoxes of our times is the simultaneous assault on capital throughout the world and the continual clamor, often from the same sources, for greater worldwide prosperity.

Perhaps the affliction can best be described as "political schizophrenia." Political rhetoric extols the virtues of the good life and greater material abundance for humanity, and yet, in the next outburst, attacks the very foundation of such a society. The demagoguery and nonsense of such political outbursts are most discouraging to those who understand the economic policies required for human progress.

Mankind's evolution into the modern era of the industrial society was not an historical accident. It was, instead, the direct result of forces that brought into existence the private property order and its concomitant free market economy.

The market system of social organization opened to man the full potential of the social division of labor and the efficient employment of the scarce economic resources at his disposal.

The history of material progress relates directly to an increase in productive capacity. Material advancement for mankind simply means, "getting more goods out of the woods!" And from the dawn of human existence this process has been primarily accomplished through the substitution of capital for human energy in the means of production.

What distinguishes a so-called "rich nation" from a "poorer nation" is the abundance of productive capital employed in the social division of labor. The productive output of a worker moving dirt with his bare hands can hardly be compared with the accomplishments of a worker operating a giant bulldozer. The capital tools with which they work.
make the difference. While greater work effort and better work techniques have certainly contributed to greater productive output, the accumulation of ever-greater quantities of capital employed in production has been the essential "key" to prosperity.

The "key" to greater prosperity, therefore, is more capital. Societies become rich because individuals within the society become more productive. And this greater productivity of the individual is attainable only through the effective employment of more capital—multiplying the product of his efforts through the use of tools.

The assault on capital throughout the world today has become a direct attack on man's material prosperity. Even worse is the planned and systematic destruction, through political interference, of the institutions that are essential to the creation of capital. This combination of consuming accumulated capital and destroying any incentive to replace capital is leading to the impoverishment and suffering of millions of people throughout the world.

For an example of what is happening, look at the United States, the "richest" nation in the world today in terms of the material well-being of the people. It attained this enviable status as a result of a lengthy historical record of being "friendly" to the accumulation of capital. Throughout the nineteenth and early twentieth centuries, millions of individuals were drawn to the United States by the vast opportunities for personal economic advancement.

**Phenomenal Growth**

From the period following the end of the Civil War in 1865 until the beginning of World War I, unbelievable change and advancement took place in the United States. The degree of individual freedom that prevailed during this period led to an expansion of economic activity and an accumulation of capital unmatched in human history. Neither before nor since has a more rapid rate of growth been experienced by a group of people than during the twenty years from 1870 to 1890 when the real incomes of the people more than doubled.

During this same period of phenomenal growth in prosperity, entire new industries were born. The oil industry, railroads, electricity, and modern steel making are among the better known examples. Methods of agriculture, which had remained unchanged from the dawn of history, were radically altered. The introduction of capital equipment vastly increased the productivity of the individual farmer in the planting and harvesting of his crops. This remarkable era of economic freedom and improvement also
brought other changes in the structure of life and industry. The productive employment of increasing quantities of capital literally annihilated many ancient and established industries. We may look back now with amusement at some of the individual failures that occurred in those early days, from the prairie schooner to the pony express. But with the individual's freedom to fail came also the chance for success. Man's creative energies were unleashed in such a setting of economic freedom, and the outcome was a material progress that became the envy of the world.

**Reaction to Change**

In 1859 Colonel Edwin Drake successfully drilled for oil in Western Pennsylvania, and the petroleum industry was born. The subsequent competition of kerosene took a heavy toll on the whaling industry of New England. But what electricity later did to the candlestick makers, and the internal combustion engine did to the blacksmiths and horsebreeders was even more devastating to the old ways. The changes imposed by economic progress were dramatic, to say the least.

The point is that this entire transformation of society was made possible only because individuals possessed economic freedom, and were able to freely accumulate and employ the needed capital to compete against existing industry. And while greater prosperity was a direct result, so too was the demise of the old ways. The price of prosperity is always change, and for many the price seems too high.

A reaction to such rapid change may have been inevitable. In any event, such a reaction has been most evident in the United States during these past fifty years. Powerful political forces have assaulted, directly and indirectly, both individual freedom and private property in an attempt to "preserve" the status quo. Disguised as "progressive programs" to benefit "the people," political intervention is consuming the wealth of the citizenry and hampering the incentive to replace it.

The source of the wealth and material abundance of the United States citizen today is to be found in the accumulations of private capital made possible in an earlier era. The continued prosperity stems from the momentum of the past, not from the political intervention of recent years. The losses of individual freedom have been so gradual and subtle that perhaps only within the past decade are there clear signs of a declining standard of living.

It is of the utmost urgency that this development be seen. Given the dynamic history of economic freedom and prosperity that was once the hallmark of the United States, the identity of these recent destructive
forces must be disclosed—at home, as well as abroad. The people of other nations, who would emulate the United States, otherwise might misconstrue these forces to be the causes of our wealth today. To pattern political intervention after the example of the United States government today would be nothing less than a human tragedy. The resurrection of individual liberty and continued material prosperity demands the repudiation of this intervention, and not its expansion.

Capital Accumulation

The "key" to prosperity is capital. To consume more, a people must first produce more, and to produce more requires more and better tools. Real economic growth is a direct consequence of ever-greater quantities of capital being employed in the tools of production.

The greatest service a government can render its citizenry is to safeguard and encourage this process of capital accumulation. Protecting the lives and property of citizens by keeping the peace is absolutely vital to an orderly society. The law thus serves as an instrument of justice. Such a government has always enjoyed the popular support of its citizenry, for in a society of peace and harmony, the individual citizen is freed to produce and serve the consumer through the market.

In the United States today government is far more engaged in plundering property and controlling people's lives than in pursuing its traditional role of protecting life and property. In the name of "progressive government," we see the law being used in the most reactionary way to destroy private capital and human liberty.

The accumulation of capital requires both productive effort and saving on the part of individuals. There is an old adage that "anyone can make money—it's keeping it that is difficult." The point is that saving rather than consuming will occur only if there exists an incentive to do so. Production and saving requires the personal sacrifice of not consuming. Only when the potential for greater future consumption can be clearly seen from saving and working today, will individuals willingly produce and save. As the theoretical economist usually states it,—"all other things being equal, leisure and consumption are preferred over work and saving!"

Government intervention in the United States during the past fifty years has time and again undermined this process of production and capital accumulation. While no one law or policy can be isolated as the cause of our lost freedoms and falling standard of living, the combined intervention is generating a burden that is destroying the material welfare of society.
The manner of government's assault on capital is varied, but of all these actions, nothing inflicts more damage on productive effort, saving, and capital accumulation than a policy of monetary inflation. The insidious effects of inflation disrupt the entire pricing structure of the market, the sole guide for the actions of traders in the marketplace.

The destruction of money through a policy of inflation consumes every form of monetary saving. Individuals quickly learn the bitter consequence of conserving money in the form of bonds, savings accounts, or cash balances. Monetary holdings of liquid capital become nothing but certificates of guaranteed confiscation of wealth.

Inflation Disrupts Market and Consumes Capital

The disruption of the price system through inflation generates awesome losses of capital. Both consumers and producers are led into economic chaos. The false signals of inflated prices alter the allocation of economic resources in production and encourage artificial levels of consumption. The ultimate result is a general impoverishment, as capital is taxed and destroyed.

Inflation imposes a heavy penalty tax on productive activity. Any incentive to employ capital in productive activity is soon lost to the urgent necessity of preserving what little capital remains. Individuals turn to speculation in an effort to survive.

The result is not economic survival, but instead market disruption and capital consumption. Money markets no longer perform the function of serving producers and consumers, but instead become devices for speculators. Long-term capital markets vanish with the creditors, as everyone tries to become a debtor. The order of the day in an age of inflation is to consume capital in "things" before it is consumed by the ravages of inflation.

Inflation's message is clear to all. Increase consumption, save nothing. The outcome is the inevitable destruction of accumulated capital with no incentive to replace it. The tragic price is lost prosperity.

While inflation is one of government's oldest weapons in the assault on capital and productive effort, it is by no means the only tool of such destruction. A multitude of laws, edicts, and policies are joined in the attack.

In the United States, modern tax theory often is more concerned with penalizing capital or redistributing wealth from savers to spenders than with the acquiring of public funds. The federal inheritance tax is a classic example of such a practice, many larger estates being wholly consumed by the tax rather than transferred to the heirs.
The accumulation of private capital and its productive employment is the cornerstone of an advancing market economy. Inheritance taxes have consumed untold billions of dollars that would otherwise have been productively employed. Productive individuals are left with no choice but to consume their wealth. Luxury cars, fancy yachts, and exotic homes have replaced job-creating productive investments. Enjoy it today rather than have it taxed away tomorrow becomes the rule of productive people confronting such confiscatory tax policies.

The Impact of Taxes

The taxation of corporations is another weapon in the assault on capital. While a corporation, as a legal entity, can be a collector of taxes, the burden of corporate taxes must always fall upon the corporate owners, employees, customers, or some combination of these three. The corporation is merely an institutional entity productively employing the capital of its owners. The result of corporate taxation is a political transfer of capital away from private corporate use and productive employment.

The individual income tax is another example of a tax policy that is specifically structured to discourage productive activity and capital accumulation. The percentage rate of taxation on personal incomes is highly graduated, assuring an ever-larger seizure of the private capital of those who are most productive. Wealthy individuals are subject to a Federal income tax rate of up to seventy per cent, a rate that imposes a severe penalty on the expansion of productive capital and work effort.

Perhaps the most subtle tax against capital, in the sense that it silently erodes the personal incentive to save, is the social security tax. This tax transfers wealth from productive workers to the elderly members of society in retirement and thereby reduces the personal concern for one's welfare in old age. The expectation of a government source of income in later years thus leads to a reduction in personal savings.

But inflation and taxation are only the beginning of government's assault on productive capital. The competition for votes among politicians has led to a mass of legislation providing all manner of special-interest political largess. The redistribution of wealth through the political process has become firmly entrenched in the United States. Every sector of society is clamoring for more. Everyone is plundering everyone with the cry that, "we're paying for it, so let's get our fair share." The result is a society of political victims and beneficiaries, all using the political process to further consume private capital.
Such a system breeds politicians rather than statesmen. Politicians, responding to a "now mentality" among voters, win elections. The statesman, expressing concern for the future consequences of such political plunder, is the loser at the polls. The result is that democracy becomes synonymous with demagoguery, a vehicle for the political plunder of capital.

The Welfare State

This political transformation is well illustrated in the United States by the growth of the welfare state. Vast quantities of capital are being transferred today through the political process from those who work to those who don't. Without exception, every welfare reform increases the individual's incentive to choose leisure over work. Low-productivity labor is literally priced out of the market by the welfare benefits from the state.

The withdrawal of welfare recipients from the labor market stalls the further creation of capital. The heavy burden upon the productive persons who support the welfare programs again drains the capital so essential to progress. The bias against work and against the productive employment of savings is a built-in wedge hampering economic growth.

The final assault against capital, and against the very structure of the market economy itself, comes by way of direct controls upon prices and wages. As long as market prices remain free to reflect the actions of traders, the market can absorb massive doses of hostile government intervention. The assault against capital from inflation, taxation, and the redistribution of wealth through the political process certainly reduces the magnitude of productive capital, and thus the material standard of living. But these forms of government intervention do not in themselves destroy the essence of the market process.

The imposition of direct wage and price controls, however, terminates the market price system of allocating economic resources. The economic freedom of buyers and sellers to engage in voluntary exchange on their own terms is denied. The result of such government intervention is the massive destruction of capital and productive effort.

There is, of course, even under wage and price controls, some escape from the economic chaos that the controls inevitably generate. The escape route is by way of "black markets." While "black markets" are merely the practice of freedom of choice among traders when their liberties have been denied by the state, such illegal markets can never attain the efficiency of free and open competition.

A point to remember about
government-imposed wage and price controls is that governments don't control wages and prices, they control people. A price or wage control is simply a disguised way of denying the voluntary choices of traders. The establishment of government-imposed prices or wages below or above the market rate assures either shortages or surpluses, and the loss of freedom.

With a government biased against capital, the direct controls are nearly always established below the market for prices, and set above the market for wages. The result is the certain destruction of capital productively employed and the creation of a permanent barrier to new productive activity.

**Wage and Price Controls**

The imposition of wage and price controls by government always creates an allocation crisis. In the United States today an "energy crisis" exists in the form of uncertain gasoline supplies. The reason is simply explained. The price of retail gasoline is established by government rather than by the voluntary actions of buyers and sellers. And the government-imposed legal price is now less than market prices. With demand exceeding supply at this government-imposed price, arbitrary limits on gasoline sales and long lines before the pump are inevitable.

Price and wage controls symbolize the end of the market economy and individual freedom of choice. Such government interference transforms society from a nation of free traders into a society of regulated consumers and plundered producers. The imposition of direct controls upon the market process is truly the final assault on capital and the private property order.

Far advanced in the United States today is the economic chaos and destruction of capital that government inflicts upon society through inflation, taxation, transfer policies, and direct controls. There are serious threats of private property seizure through nationalization and the erection of economic barriers to international trade. The market economy which had brought forth prosperity in an atmosphere of peace and harmony is becoming a battleground of internal conflict. Bitterness and disillusionment are expressed everywhere one turns in the United States.

If the assault on capital continues, the result will be, not the good life that is enjoyed today, but conflict, hardship, and a return to poverty.

So the people of the United States stand at a point of decision—either to abandon the private property order for socialism, or to return to freedom and the free market. Two points must be clear. First, it must be understood that prosperity can
only come through freedom, and second, that the political institutions of society must support this freedom rather than deny it.

Throughout the world are tens of thousands of individuals who understand this relationship between prosperity and freedom. In addition, literally millions of individuals have been the beneficiaries of the prosperity and material abundance market economies have provided. The world has seen and experienced the good life under freedom. It is inconceivable that such a system of social organization could ever be abandoned for the impoverishment and servitude of socialism.

The intellectual arguments that have been advanced in defense of socialism are bankrupt. Socialism has been a dismal failure wherever tried or found. From the slaughtering of Kulaks by Stalin to the holocaust of Cambodia today, socialism has been synonymous with human misery and death. Socialism is not the wave of the future. It is the sickness of the past.

The way of the future is freedom. The assault on capital is too costly to be continued. There are signs that the intellectual tide has turned in favor of freedom. There are signs of dwindling support for overextended government, as individuals demand to be free.

Freedom will prevail because freedom works. The creative potential of individuals in sovereign control over their own lives and property is an established fact. The hampering of productive people through the assault on their capital will be repudiated. The failure of socialism and overextended government will be the great lesson learned from the twentieth century.

The people of the United States have enjoyed freedom of choice for over two hundred years, and it must never be forgotten that the market society they created was the generating source of the great wealth that exists today. The destruction of the market order, like any social order, occurs slowly. To mistake what is occurring in the United States today as a source of this nation’s wealth and material abundance would be the ultimate human tragedy.

What good life still prevails is in spite of the government policies of these past fifty years, and not because of such intervention. A nation of great wealth may be able to sustain an assault on its capital for a while, but to the poorer nations of the world such an assault would be instantly fatal.

The lesson to be learned is simple. It is that the hope of the future is not to be found in government management of the economy. Future productivity depends upon the individual, and it can be brought forth whenever he is free.
In 1849, the French legislator, Frederic Bastiat, said that the French people are “the dupes of one of the strangest illusions which has ever taken possession of the human mind.” He was referring to the belief that government itself is a primary source of goods and services that can be used to increase the material well-being of the people.

When we are dissatisfied with our lot, said Bastiat in his essay THE STATE, we turn to government to get the products and services we want. He listed various laws and programs-in-aid that the French people were demanding from their government in 1849. Among them were minimum wages, protection from competition at home and abroad, government funds at low interest, free professional education, lower taxes, disaster relief programs, subsidies for both agriculture and industry, old age pensions, and many similar programs that the French people thought their government should sponsor some 130 years ago.

Bastiat continued, “All of us are petitioning THE STATE in this manner... But THE STATE has no means of granting privileges to some without adding to the labor of others.”

Then Bastiat gave us this definition of government: “THE STATE is the great fiction through which everybody endeavors to live at the expense of everybody.” He said that this “great fiction” was doing great harm to the French people and nation.

Could this absurd concept of government—everybody living at the expense of everybody else—ever become prevalent in the United States? Well, today more than 130 million Americans are directly dependent on tax dollars, in one form...
or another for at least a part of their incomes. That's more than half of us.

Included in the 130 million people who are now living at the expense of everybody are local, state, and federal employees and their dependents, armed forces personnel and dependents, everyone (and their dependents) receiving any form of direct cash payment from government, e.g., government pensions of all types and aid to families with dependent children.

Not included are recipients of Medicare and Medicaid, food stamps, and similar “in kind” programs. Including them would result in considerable double counting. Also not included are the millions of persons (and their dependents) who work for private companies under government contracts, even though the source of most of their incomes is government. Nor does the figure include the millions of foreigners who receive direct support from our taxes. Nor does it include those persons whose jobs are based indirectly on government aid programs, e.g., doctors who get a share of their incomes from Medicare patients. Thus the figure of more than 130 million Americans who are totally or partially dependent on government for their livelihoods is surely not exaggerated.

Understandably, the recipients and supporters of these government programs are quick to defend them on both economic and moral grounds, especially moral grounds. Shouldn’t hungry children be fed? Shouldn’t elderly people (most of whom paid Social Security taxes when they were younger) be maintained with some dignity in their old age? Do you begrudge a veteran his pension? Shouldn’t farmers be guaranteed at least a minimum income through parity prices? And so on, through literally hundreds of similar government-administered programs that take resources from people who produced them and give them to people who didn’t.

I'm not here either condemning or defending any of these programs; some of them do provide valuable services. I'm merely pointing out the fact that far more than half of us American people (130 million) are now living totally or partially at the expense of fewer than half of us (90 million). And the number of those who get the money (as well as the amount) is constantly increasing. At some point, the producers will simply refuse to support the non-producers. In truth, they won’t really have a choice in the matter; for there just won’t be enough produced to go around.

I suspect that this breaking-point has already been reached. It’s probably the primary reason for the increasing growth of the “subterranean economy” for exchanging our products and services. This non-
taxed market system of exchange includes "moonlighting" electricians and plumbers and service people in all categories who take their pay in unrecorded cash. Estimates of the size of this cash-and-barter economy range from $200 billion to $300 billion, perhaps as much as 10 to 15 percent of our Gross National Product—and it's growing rapidly. Most of the people who deal in this market are not crooks but law-abiding citizens who are trying to keep for themselves a reasonable proportion of what they produce. That's what the taxpayers are saying to the lawmakers when they vote for "proposition 13's," and demand that their state legislators also endorse a convention for the purpose of amending our Constitution to restrict taxes by putting a limit on federal government spending.

This strange illusion that we can live at the expense of someone else is, I'm convinced, the sole cause of the governmental programs and actions that, in turn, have brought on the disastrous inflation we have. It's simply impossible for all of us to live at the expense of all of us, or even for half of us to live at the expense of the other half. As Bastiat said, government is a construct, i.e., in the area of real goods and services, it produces nothing, but acts merely as a transfer mechanism. And since government produces nothing, it can't give anything to anyone (including even basic police protection) without first taking the required funds from someone else in one way or another.

The surreptitious transfer-method now increasingly favored by our leaders, i.e., taking goods and services indirectly from everyone by the concealed process of printing additional money to buy the goods from private producers, doesn't alter the basic process. In fact, since the added money doesn't represent any production at all, it makes the situation worse by driving up the price of everything that is produced.

The "strange illusion" identified by Bastiat some 130 years ago is at the heart of most of the social and economic ills we American people are now suffering. Before we can deal with our inflation, our shortages, and other related problems, however, we must first understand that our government can't really guarantee a material level of living to anyone—not permanently and with a reliable guarantee, it can't. When we finally accept that fact, we'll close down the government-owned and destructive "money machine" and take whatever measures are necessary to speed up the constructive and privately-owned "production machine" that is the only possible source of increased goods and services for the American people in general.

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Since at least as far back as Plato, many of the world's great minds have devoted themselves to the problems of politics. But they have not come up with any answers that have satisfied more than a narrow and transient majority in some country here or there. Today there are about 150 national governments in the world; but no two operate on exactly the same principles. If a free expression of opinion could be obtained in any one country, it would probably be found that at least a substantial minority was unhappy with some important part of the existing political arrangement or its operation.

We may distinguish at least three major political problems, which have existed since the beginning of time:

1. Should there be a government at all, and if so, exactly what should be the extent and nature of its permitted powers? Should these powers be precisely specified and limited, or is there an indeterminate area between certain minimum and maximum powers that may safely be left to popular choice?

2. Once the proper limits to the province and powers of the state have been decided upon, how can we stop the politicians in office from using their existing powers to extend and increase their powers?

3. By what method should the holders of office and power be cho-
sen? For what terms, and so forth? How should their individual powers be allotted and delimited; and what provision should be made to assure that they responsibly execute those powers and no others?

It will be noticed that the political problem is twofold. It is not only to find what the best arrangements would be for choosing or changing political leaders or their powers, but for assuring that these arrangements are adhered to. This is one of the chief reasons (if not the chief) why the political problem has almost nowhere been better than temporarily solved. The ambition of men for political power has immemorially led them not only to demagoguery and deceit, but to force, war and murder, to achieve and increase it. It is because of this that I have elsewhere raised the question whether the principal problems of politics are in fact solvable. ("Is Politics Insoluble?" _Modern Age_, Fall 1976.)

This is not on its face an encouraging quest. But the answer is so important for the future of mankind (let alone the immediate future of our own country) that we are bound to extend every effort to try to get as near to a workable solution as we can.

One promising procedure is to examine the answers that have been offered historically by the great political thinkers of the past to try to determine where they went wrong or what important problems they neglected to answer. We could do this chronologically beginning with the earlier answers, but I think it would be more interesting if we began with one of the latest answers and tried to find whether it satisfied us, and if not, why.

So I shall begin by examining the answer offered by Professor Robert Nozick of Harvard in 1974 in his book _Anarchy, State, and Utopia_. This book has attracted more attention than any other in the last five years that attempted to solve the problem of the proper province of the state. It won the National Book Award in 1975.

Away from Anarchy

Not least interesting about it is that it begins with a patient and open-minded discussion of anarchy—of the possibility of getting along with no government at all. It considers the suggestion of the New Anarchists, for example, that honest and peaceable citizens could solve the problem of protecting their property and persons by joining and paying dues to private protective associations. Nozick shows how there would tend to grow up competing protective associations, that some of these might be little better than gangster associations, that some would be stronger than others, that it would not give anyone
adequate protection to become a member of one of the weaker associations, and that in time one association would tend to establish a monopoly. But if such an association had the power of excluding some people from membership, or failed to act with complete morality and impartiality, it would be intolerable. Hence society would be forced to adopt a "minimal" state.

Nozick announces his main conclusions on the very first page of his Preface:

"Our main conclusions about the state are that a minimal state, limited to the narrow functions of protection against force, theft, fraud, enforcement of contracts, and so on, is justified; that any more extensive state will violate persons' rights not to be forced to do certain things, and is unjustified; and that the minimal state is inspiring as well as right. Two noteworthy implications are that the state may not use its coercive apparatus for the purpose of getting some citizens to aid others, or in order to prohibit activities to people for their own good or protection."

Now, this conclusion, though it would be regarded as extreme not only by popular opinion but by the great majority of political writers in every country today, is one that has a respectable history, and will be regarded sympathetically by a large number of declared libertarians.

But I am troubled, most of the time, by the kind of arguments by which Nozick reaches his conclusion. Going a little further, I am frequently troubled by Nozick's style. It seems at times almost deliberately obscure. It is interrupted by diversions, digressions, parentheses, involutions, excessive footnotes—by a sort of self-heckling. He constantly confronts us with logic-chopping, with technicalities, and with abstractions without any helpful concrete references or illustrations.

Natural Law

Coming to problems of substance, I am bothered by his explicit rejection of any form of utilitarianism, and his attempt to substitute "natural law" justifications of his position. Here he seems to have been influenced by his Harvard colleague John Rawls—though he rejects Rawls' conclusions in many other respects. But as not only Nozick but an astonishing number of young libertarians have recently been taking this natural-law position, it is worth examining in some detail.

Nozick dismisses utilitarianism because his conception of it, like that of Rawls and others, is essentially a caricature. He sees the utilitarian as a fellow who judges conduct by its immediate effect on the balance of pain and pleasure, and makes a mechanical pain-
pleasure calculus of the results of a particular action, without considering "justice" and other values. One or two of the older utilitarians may have been guilty of giving such an impression, but this has little to do with the doctrine in its modern form.

I have suggested in my book, The Foundations of Morality (1964, 1972), not only that the utilitarianism of Bentham, and even of Mill and Sidgwick, has been in important respects superseded, but that it would increase clarity of thought to abandon the old term entirely. I have recommended substituting the term "rule-utilitism" because it comes much closer to describing a satisfactory moral system.

We should not take or judge an action in accordance with what we think would be its consequences considered as an isolated act. Not only can we never be certain what such consequences would be, but with such a moral code (or lack of code) we would never be able to depend on each other’s conduct, and we would fall far short of that social cooperation by which we most fully promote our own and each other’s ends. Moral action, for the most part, is action in accordance with accepted principles or rules. It is only when each of us can be depended upon to act consistently in accordance with such principles or rules that we can depend on each other. It is only when we can rely on each other to keep our promises, to tell the truth, to refrain from theft, fraud and violence, and to help each other in emergencies, that we can best promote that social cooperation so essential to attaining our individual ends.

These moral rules evolved during the centuries, long before they were explicitly formulated or codified, and certainly long before any moral philosopher explicitly formulated any single rationale or test by which good rules could be distinguished from bad ones or the best from the second best. But the doctrine of utility, first put forward by David Hume and later elaborated by Bentham, Mill, Sidgwick, and others, was the first test that unified and clarified the whole area of morals.

The Pleasure-Pain Balance—An Unsolved Problem

The first attempts to generalize the proper aim of all moral rules—such as rules conducive to promoting "the greatest happiness of the greatest number," proved to have some awkward shortcomings. Was the goal of "pleasure" or "happiness" sufficiently inclusive? Or sufficiently noble? And when an action promoted one man’s happiness—or even a hundred men’s happiness—but at the cost of another man’s pain or misery, by what kind of moral
arithmetic could we determine the net balance? The utilitarians have never satisfactorily solved this problem—but neither has anybody else. Fortunately, because an acceptable moral code prescribes principles or rules of action rather than particular acts, there are very few occasions when the need for such moral arithmetic seriously arises.

More important than this, rule-utilitists are not necessarily bound by any pain-pleasure principle, or even any happiness-maximizing principle. They can simply accept as the principles of moral action those rules that would lead to the most satisfactory or desirable results for society, without trying to be more explicit as to the exact way of measuring such results. Anti-utilitists, rejecting such a criterion, would then be obliged to contend that their substitute criterion should be applied instead, even though it admittedly prescribed moral rules that would lead to less satisfactory or less desirable results for society.

Justice and Utility

One favorite contention of some anti-utilitists is that the utilitarian criterion must be abandoned because it does not include "justice." That this contention is being seriously pressed today is odd historically, because John Stuart Mill devoted the whole last third of his famous essay *Utilitarianism* in 1863 to discussing "The Connection Between Justice and Utility." He concluded that: "Justice is a name for certain moral requirements, which, regarded collectively, stand higher in the scale of social utility, and are therefore of more paramount obligation, than any others."

But those who make "justice" the supreme if not the sole criterion of moral judgment regard it as a requirement that must be met for its own sake, regardless of what consequences it may lead to. The motto of these people is: *Fiat justitia, ruat caelum:* "Let there be justice, though the heavens fall." But the real reason for insisting on justice is to prevent the heavens from falling.

Those who insist that justice is solely an end in itself, and never a means to social peace and cooperation or other ends beyond itself, are also nearly always those who take a simplistic view of it. Everybody is supposed to know what "justice" is: it is simply "fairness", and we all know what is "fair." But through the centuries it has been the main function of thousands of legislators and jurists to decide what is justice both in abstract types of cases and in particular cases and circumstances.

Most of the non-utilitists and anti-utilitists in the past have been champions of Natural Law. The doctrine of Natural Law, it is true, has a very respectable history. It was
promulgated or accepted by Plato and Aristotle, by the Stoics, by St. Thomas Aquinas, by Hugo Grotius and Samuel Pufendorf, by John Locke, by Jean-Jacques Rousseau, and by some of the Founding Fathers when they drafted or defended the American Constitution. But it has always owed a large part of its appeal to its ambiguity. The physical laws of nature, of cause and effect, determine everything, including, in one sense, human action. But this is something quite different from "natural laws" that are supposed to prescribe how men should conduct themselves.

A Nebulous Concept

The central difficulty with Natural Law is that no two of its votaries seem to have been able to agree regarding precisely what it enjoins. For Aristotle it sanctioned the subordination of women to men and of slaves to Athenian citizens. For the Stoics it prescribed equalitarianism. For many it meant the plain dictates of "right reason," though nobody could quite agree regarding what right reason prescribed. For others it meant the "divine will," with even more disagreement regarding what this commanded. Still others derived Natural Law from the law that existed in a "state of nature." But for some this meant savagery and for others a sort of Garden of Eden. According to the Declaration of Independence "the Laws of Nature" made certain "unalienable" rights "self-evident."

Finally, Jeremy Bentham, toward the end of the Eighteenth Century, was moved to exclaim that Natural Law was "nonsense on stilts." In his Principles of Morals and Legislation (1780), he wrote (Ch. 2):

"A great multitude of people are continually talking of the Law of Nature; and then they go on giving you their sentiments about what is right and what is wrong; and these sentiments, you are to understand, are so many chapters and sections of the Law of Nature."

This is not too unfair a description of those who are trying to revive the doctrine of Natural Law even today. They try to deduce its prescriptions from certain moral "axioms" taken from Locke or of their own devising. A typical one goes: "Every man owns himself; therefore _________." It is also clear that some of the rules that the natural-law champions "deduce" are, in fact, disguised or crypto-utilitist rules. Thus John Rawls, an avowed anti-utilitarian, in trying to deduce the principles of justice (in his A Theory of Justice), begins by assuming a society of persons "who in their relations to one another recognize certain rules of conduct as binding;" and "these rules specify a system of cooperation designed to advance the good of those taking part in it (p. 4)." He
goes on to remark that “social cooperation makes possible a better life for all than any would have if each were to live solely by his own efforts” and so on. But rules designed to “advance the good” and make possible “a better life for all” are precisely utilitist rules. The ideal of justice is an inherent part of rule-utilitism, not a separate or competing concept.

No Firm Foundation

The great difficulty with Natural Law, on the other hand, is not only that there is no agreed-upon code, but no agreement on the principles upon which such a code could be constructed. The greater part of the Natural Law votaries are really intuitionists in their moral philosophy.

I apologize for having given so much space to a seemingly irrelevant discussion of the relative merits of utilitist versus Natural Law standards. But it is not only Nozick who explicitly rejects utilitist tests in favor of Natural Law, but an increasing number of young libertarians who have apparently been influenced by him.

So far practically all I have written on Nozick’s book has been negative. Why, then, am I discussing his book at all?

I do this because, while I think that Nozick often fails to base his reasoning on genuine first principles, and while his logic often seems to me unduly technical or irrelevant, he more than makes up for this by many brilliant arguments on special points. I shall cite a few of these.

Nozick is especially good in analyzing the rhetorical nonsense behind many of the leftists’ recent objections to capitalism. A fashionable objection today is that workers lose their self-esteem by being frequently ordered about, under the authority of others unselected by them, and by having to work at tasks that they do not regard as “meaningful.” Nozick points out that even members of a symphony orchestra are constantly ordered about by their conductor, and not consulted about the overall interpretation of their work, but nevertheless retain a high self-esteem.

More seriously, he points out that fragmentation and specialization of tasks are not problems peculiar to capitalist modes of production, but would go with any industrial society. The reason is that they tend to lead to the lowest costs and the highest efficiency and production. Suppose (which is most probable) that dividing a firm’s work force into “meaningful” segments, rotating the workers into different tasks, and so on, could only be accomplished at the cost of less efficiency and production (as judged by market
criteria)? Would the workers be willing to accept lower pay in order to do this more "meaningful" labor? Or would consumers be willing to pay higher prices for the same goods, or get less of them, in order that this more "meaningful" work could be provided? Who would be willing to pay for such a reform, and how much? Would a socialist government forbid "nonmeaningful" work?

**Labor Theory Refuted**

As a more important example, let us take Nozick's refutation (on pages 253 to 262) of Marx's labor theory of value and his general exploitation theories. Similar refutations have been made before, notably by Boehm-Bawerk, but Nozick's is an especially compact one. Marxist theory, he concedes, "does not hold that the value of an object is proportional to the number of simple undifferentiated labor hours that went into its production; rather, the theory holds that the value of an object is proportional to the number of simple undifferentiated socially necessary labor hours that went into its production."

But then, it turns out (though Marx himself never got around to seeing or acknowledging this clearly) that the amount of labor that really is "socially necessary" is determined by the utility and value of the particular commodity that is made! As Nozick concludes: "What is socially necessary, and how much of it is, will be determined by what happens on the market! There is no longer any labor theory of value; the central notion of socially necessary labor time is itself defined in terms of the processes and exchange ratios of a competitive market! . . . One might be left with the view that Marxian exploitation is the exploitation of people's lack of understanding of economics."

**"Distributive Justice"**

I come to my final example. This is Nozick's theory of "entitlements." He has argued that "the minimal state is the most extensive state that can be justified," and that "any state more extensive violates people's rights." He then addresses himself to the argument that a more extensive state is justified in order to achieve "distributive justice."

One trouble with this whole conception, he points out, is that it implicitly assumes that goods have already been "distributed" by some central source or according to some single principle, and that the duty of the state is to redistribute them according to some other "patterned" principle. But this overlooks the whole history of how the present "distribution" of goods came about. "Things come into the world already attached to people having entitlements over them. From the point of view of the historical entitlement
conception of justice in holdings, those who start afresh to complete 'to each according to his _______' treat objects as if they appeared from nowhere, out of nothing."

How did the existing "distribution" of things come about? It came about because some people made the things they now hold, or because they were paid their marginal contribution to output in wages, or because they inherited property, or the objects (or money) were given to them by their parents, their spouses, or their friends. So even if the state made some "patterned" redistribution of wealth—"to each according to his needs," or to each equally—that pattern would very quickly be upset by some people continuing to create more than others, or some people giving freely to others, or some people voluntarily paying well for certain services, or to see or hear a particular professional athlete or performer, and so on. As Nozick sums up: "The socialist society would have to forbid capitalist acts between consenting adults."

The system of entitlements is defensible, he argues, "when constituted by the individual aims of individual transactions. No overarching aim is needed, no distributional pattern is required."

He goes on later to contend persuasively that: "Taxation of earnings from labor is on a par with forced labor (p. 169)."

**Unfinished Arguments**

But in spite of many excellences, Nozick's argument for his minimal state is in the end not quite convincing. A good part of the reason for this is revealed in his own description of his procedure in his Preface:

"Part I justifies the minimal state; Part II contends that no more extensive state can be justified. I proceed by arguing that a diversity of reasons which purport to justify a more extensive state, don't. Against the claim that such a state is justified in order to achieve or produce distributive justice among its citizens, I develop a theory of justice (the entitlement theory) which does not require any more extensive state, and use the apparatus of this theory to dissect and criticize other theories of distributive justice which do envisage a more extensive state. . . . Other reasons that some might think justify a more extensive state are criticized, including equality, envy, workers' control, and Marxian theories of exploitation."

But his book, he goes on, is not "a political tract" but a "philosophical exploration." It does not pretend to be "a finished, complete, and elegant whole," but "a less complete work, containing unfinished presentations, conjectures, open questions and problems, leads, side connections, as well as a main line of argument. There is room for words on subjects other than last words."
No doubt there is. But it is precisely because Nozick has elected to write a book with a rambling and "unfinished" argument, with so many digressions, that many readers will find it unsatisfying and even occasionally irritating, that they will lose the thread of the main argument, and though finding it often persuasive, will in the end not find it quite conclusive.

I am not saying that it could not have been made so. Nozick does convincingly make his argument against anarchy. Others before him have advocated precisely his minimal state, "limited to the narrow functions of protection against force, theft, fraud, enforcement of contracts, and so on." It is an attractive ideal. But it has never been held by more than a tiny minority. If its appeal is ever to be widened to reach an effective number of thought leaders it must be by a broadly understandable but orderly chain of reasoning, without confusing digressions and without serious missing links, that makes its conclusion seem inescapable.

General Rules of Peace and Order

All the laws of nature which regulate property as well as all civil laws are general and regard alone some essential circumstances of the case, without taking into consideration the characters, situations, and connections of the person concerned or any particular consequences which may result from the determination of these laws in any particular case which offers. They deprive, without scruple, a beneficent man of all his possessions if acquired by mistake, without a good title, in order to bestow them on a selfish miser who has already heaped up immense stores of superfluous riches. Public utility requires that property should be regulated by general inflexible rules; and though such rules are adopted as best serve the same end of public utility, it is impossible for them to prevent all particular hardships or make beneficial consequences result from every individual case. It is sufficient if the whole plan or scheme be necessary to the support of civil society and if the balance of good, in the main, do thereby preponderate much above that of evil.

DAVID HUME, An Inquiry Concerning the Principles of Morals
The United States is moving with ever-increasing speed down the path at the end of which each individual is just one small part of an all-important government. One of the greatest shifts in philosophy in this century has been away from the idea that what a man earned was his own, to spend or save at his own discretion. Now, the individual no longer works for himself, but for the horde of tax collectors and bureaucrats "running" the country. The reason is simple—people no longer pay for their own housing, education, medical care; they "charge it to Uncle Sam."

How delightful—if the government were an inexhaustible fountain of wealth. But this is not the case. What the government spends, it must first take out of the pockets of its beneficiaries, by taxing and/or inflating the money supply. As Frederic Bastiat put it, the public is under the spell of "the great fiction, by means of which everyone hopes to live at the expense of everyone else."

There was a time when it was considered a social disgrace to depend on state funds for a livelihood. Today, almost everyone is collecting social security of one form or another. When these programs were instituted the people were led to believe that the "free" services would be paid for out of taxes on the rich. This is called graduated taxation and is based upon the idea that it's not right for one person to earn more than another, no matter what kind and amount of work each does. However, these "soak-the-rich" schemes have led to the liquidation of the wealthy class, and the cost of "free" services has been spread over all the beneficiaries.

It is strange that these ideas should catch on in the very countries that are distinguished from the rest of the world by their mass prosperity. The difference between the developed and undeveloped nations is not the services enjoyed by the wealthy, but in the general standard of living of the mass of people in the

Miss Dillenberg is a recent graduate (12th grade) of the Fairfax Christian School in Virginia.
respective areas. In one, a great variety of goods and services is available to people of all economic strata; in the other, the lives of the masses are marked by a consistent level of deprivation and despairing poverty.

The great message of the Industrial Revolution is that political freedom encourages saving, investment, production and trade as a way to better living. The restraints and entanglements of politics should be avoided in any concerted attack on poverty. Government welfare leads inevitably to a maze of restrictions and regulations to enforce each new law. Every “gift” from government involves controls that stifle production and trade. But the welfare habit is addictive; the more people receive, the more they want.

The main reason for the plausibility of redistributionist ideas is a misconception of the nature of ownership and production and what earning an income means in the framework of a free market. A redistributionist seems to think that goods are “socially produced” and then placed in the common storehouse, to be arbitrarily distributed as incomes. But there is a pattern to the earning of incomes in the free market: the size of the income depends upon the extent to which the individual, in conjunction with other individuals, succeeds in satisfying the wants of his fellow men. Capitalists must use their capital to produce for consumers. Legal ownership of capital goods does not automatically guarantee an income from them. Since, in this context, the fulfillment of consumer wishes is the rationale of the production of consumer goods, it is the mass of consumers who must be regarded as the real economic director of capital.

So, even though legal titles to the thousands of factories in any given country may lie in the hands of a minority, this accumulation of capital is not used for their exclusive benefit but to produce a great variety of goods and services for the majority of people.

The goods and services we consume have been produced for us by our fellow men, in exchange for what we have produced for them. If we wish to consume more, without producing more, someone else must produce more, without consuming more. There is a third method—by seizing what others have produced and forcing them to do without. This is theft, pure and simple, and it’s what is really involved in the redistribution of incomes via state compulsion—progressive taxation to “soak the rich” and “welfare” measures to raise the income of the very poorest. This idea of stealing from one party to give to another involves the massive presumption that any third party (government) can know so much as to be able to judge from whom to take, to whom to give, and
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how much. The government would be virtually taking God's place, and arbitrarily deciding right and wrong.

And there is the inconsistency that the very people who help create those "high" incomes by buying what the "rich" people have produced then propose to "correct" the "unequal" distribution of the market by the political process.

A fairly recent proposal for robbing the industrious and thrifty to subsidize the thriftless and lazy is the so-called NIT, the negative income tax. This insures every family a minimum income, whether it is earned or not. In fact, one in this income bracket may just as well quit working and collect his "wages" anyway. If this were passed through the legislatures incentive to fill the least-skilled and lowest-paying jobs would completely disappear. Some 30 million people would become permanent state pensioners, to be maintained at the cost of the solvent taxpayers.

At each end of the economic ladder an increasing number of people would ask, "Why work?" The beneficiaries of this gigantic welfare system would see very little reason to take an unskilled job, with minimum wages and no prestige, when they could sit at home gossiping with their friends over a six-pack and collect welfare checks.

At the same time, the more ambitious and affluent would see little incentive to work harder or achieve if what they earned would be immediately siphoned off for subsidizing the lazy.

One aspect of freedom is the right to make choices—part of which right is the responsibility and privilege of accepting the results, good or bad. "Big Brother" government would lift this burden from our shoulders if it could. It wants to protect us from ourselves. We should all be just another cog in the machine. Is this what we want?

Every offer of government aid that we accept encourages the government to tax us still more, and to impose still more controls. For every state allowance, we give up a piece of our dearly-bought freedom. We give up the power to choose for ourselves how to spend our money. The government decides what we need or should have.

And what of the old-fashioned idea of Christian charity? Once, it was a function of the church to minister to the needs of the genuinely poor and sick. One of the worst by-products of state welfarism has been the paralysis of our impulse toward charity. For not only has the state usurped this function of the church, and seized our means to be charitable, it has stolen our will to be charitable, too.
It has been more than one hundred and thirty years since *The Communist Manifesto* burst onto the scene during the tumultuous days of unrest and reaction immediately preceding the March Revolution. It passed almost unnoticed except among the more rabid, inmost core of professional revolutionaries. At the time it certainly made little enough of an impression. Dr. Marx’s strident pamphlet did not win for its authors (the ever-present Friedrich Engels shared in its creation) overnight recognition as leading lights of the communist movement. All that came later. But as the book aged, it assumed cyclopean dimensions—giant, intimidating, formidable. Its subsequent reputation has been inflated beyond any contributions it may have originally advanced. But—for good or ill—flawed or not, the *Manifesto* is still a potent force upon the world political scene in this age of the so-called “common
man.” Like the legendary dragon’s teeth of ancient mythology, its dormant fertility retains the seeds of future life. Warriors sprout wherever the message of *The Communist Manifesto* has penetrated.

But warriors loyal to whom? To what cause? In behalf of which current brand of socialism/communism? Which of all the contending utopias is the “true religion?” Upon this matter *The Communist Manifesto* maintains a lordly and indifferent silence.

In this chaotic muddle of claim and counterclaim battle the “true believers,” each asserting his own legitimacy and the apostolic purity of his own descent. Each seeks to promote his own cause and to expose his rivals as the petty bourgeois pretenders that they really are. Socialist turns murderously upon socialist. All heretics must be denounced and liquidated—many are called but few are chosen.

*The Communist Manifesto* was hastily written on the eve of the 1848 German Civil War when the fatherland stood on the brink of chaos and discord. Into the *Manifesto* Marx poured his soul, his hates—above all his hates—his ambitions, his unbribled mysticism, his vitriolic diatribes against the evil as he understood it. It was a work born of blood, desire, and unremitting (or so it must have often appeared) toil. Like all books it was the product of endless, patient, countless hours. One must imagine Marx as he really was: an energetic glutton for almost unbroken study; the relentless devouring of book after book until he had found just the right word, phrase, or idea. His was a Spartan regimen of stoic simplicity, this angry patriarch of economic Prussianism.

**Setting and Background**

On the other hand, there was more to *The Communist Manifesto* than mere “booklearning” and the printed word. *The Manifesto* could just as easily be portrayed as the child of fierce, surreptitious debates in crumbling, rickety garrets, nocturnal discussions in seedy tenements, and of jocular (and, just as often, not-so-jocular) conversations within the myriad little Bohemian cafes that dotted nineteenth century Paris, Brussels, and Cologne.

In what follows, this paper shall critique the economic underpin-
nings (both stated and implied) of The Communist Manifesto. In each section I shall first summarize Marx's evaluation of a given problem followed by my own analysis of the Marxist paradigm. Each section shall deal with a specific topic treated in the Manifesto. In Section I, I shall attempt to unravel the tangled threads of the so-called "commercial crises." By contrasting Marx's "static" model to the dynamic structure of "real life" capitalism based upon the expectations of profit-motivated entrepreneurs, this paper shall attempt to clear up some of the ambiguities that have hitherto existed concerning the functioning of the price structure in periods of serious business decline. (Some overlapping with Section III is necessary here.) This shall involve a rather prolonged delineation of cause-and-effect: something completely ignored by Dr. Marx in his sketchy treatment of "bourgeois" economics. This should be especially relevant in today's harrowing economic atmosphere when the old bugaboos of unemployment, "underconsumption," and "overproduction" are again rearing their unwelcome heads.

Section II examines the notions of class and class struggle. Does man really live at perpetual war with his neighbors (especially those of another "class")? Do "classes" really exist? In the analysis of the class struggle much emphasis will be placed upon the dichotomy between the eternal struggle within the animal world and the world of civilized society—characterized by the division of labor. Marxist polylogism—the theory of different "class logics"—is also briefly considered in Section II.

Section III takes a look at the theory of value in general and the labor theory of value (which Marx utilized) in particular. It is the contention of this section that the market, capitalism, economic depressions—indeed, any of the varied activities of human action—cannot be properly understood without a workable theory of value. Marx, like the classical economists of his day, fell into disrepute over the defective theory of value which he propounded. Section III attempts to establish that all value is subjective—and therefore out of the province of the scientific economist. With a personal, subjective theory of value it becomes pure pedantry to talk about "overproduction" (in the classical, Marxist sense), "surplus value," "capitalistic expropriation," and other such examples of emotional claptrap. (In its treatment of commercial crises, Section I also attempts to lay the labor theory to rest by contending that labor is not homogenous as Marx tacitly assumed. By taking issue with the homogeneity of labor and wages, an
important prop is kicked out from underneath the already shaky platform of Marxist economic theory.)

Section IV is two-pronged. The first problem deals with the efficient allocation of labor in the socialist commonwealth. Deprived of the capitalistic tools of monetary calculation, how can the socialistic board of production provide meaningful production quotas? Indeed, how can it possibly even know what to produce? Is it possible, for example, lacking a labor market in the old capitalistic sense, for the socialistic commonwealth to know whether or not a specific labor project is creating or consuming capital? Secondly, Section IV attempts to ascertain the fate of the individual laborer within the socialist framework. What is the status of the laborer in the Worker’s Paradise?

A brief look into Marx’s Communist Manifesto is now in order.

1. The Commercial Crises

According to Marx, one distinguishing feature of capitalism was the periodic recurrence of commercial crises. Under the direction of the greedy bourgeoisie, factories inundated society with the “epidemic of overproduction.” In this grievous state of affairs:

Society suddenly finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation, had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed; and why? because there is too much civilization, too much means of subsistence, too much industry, too much commerce.²

Thus, the great paradox: society drowns in a sea of wealth, poverty amidst plenty. This poverty and degradation, this “famine” result not in spite of man’s opulence and wealth, but precisely because of it. The wealthier man becomes, the worse off he really is. Wealth can bring nothing but grinding poverty. Man is suddenly faced with “too much wealth,” “too much of the means of subsistence.” This could only happen, Marx assured his readers, because bourgeois society was “too narrow” to comprise the wealth created for them.

Capitalism, then, dies of gluttony. More correctly, capitalistic society dies of hunger induced by indigestion. These “paradoxes” of capitalism were insolvable to Marx. He shrugged them off by saying that capitalism contained within itself the seeds of its own destruction, ³ its


³Ibid., p. 496.
Production, therefore, was nothing other than a juggernaut relentlessly crushing everything in its path. Trade and prosperity were nothing else but the dormant seeds of a future crash. The only refuge from poverty (the effects of the crash) was to abstain from production and trade. In a word, the only refuge from poverty is poverty itself.

**Unanswered Questions in the Marxian Analysis**

Marx did not carry his own arguments to their ultimate logical conclusions. His analysis stopped precisely where the intriguing questions pile up and beg to be answered. For example, one might ask, "Yes, but what makes all this overproduction possible? What prevents the capitalists, motivated by greed as they are, from learning by their past mistakes? At what point does 'production' become 'overproduction'? Overproduction by whom and in relation to what? How is this manifested and discovered in the marketplace? At what point do the effects of overproduction make themselves known to society? What accounts for this sudden 'cluster of errors,' all turning up at the same time?" *The Communist Manifesto* greets all these inquiries with stony silence.

The "overproduction" theory is a most naive view, at best, of the capitalistic mode of production. The contradictory analysis which Marx painted of capitalism can only result in blatant, unexplainable absurdities utterly divorced from the real world of production. It is difficult even to conceive of such a state of affairs as "too much" production, "too much" subsistence, "too much" civilization. The fundamental condition of life is scarcity. The means of production and the ends they can attain are always necessarily limited. They cannot satisfy desires in unlimited abundance. Each product and means of production (including labor) is strictly circumscribed in the tasks and services which they can perform. Unlimited production is impossible.

Scarcity is reflected by desires and wants. However, scarcity is relative. Relative to what? In the market society the relative scarcity of different products is mirrored by price. Prices exist because scarcity exists. When a good is no longer scarce (i.e.,

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*This paper is not concerned with individual value structures. Ultimate value judgments are not the province of the economist. As such, this paper does not take issue with what the market produces (or what the consumer demands) but with how available supplies are allocated once they "hit" the market. In other words, given specific production goals and capacities, is it possible to trigger a commercial crisis by producing more than the populace can consume? (This is not to say no "oughts" exist, simply that they have no place in this specific work.)*
if it is available in unlimited abundance or if demand vanishes) it will not be able to command a price in the marketplace. In other words, its "price" will fall to zero.

"Overproduction"

So, then, what makes "overproduction" possible? The Marxist theory evokes a mental image of a mountain of goods piling higher and higher, being effortlessly kicked out by mindless automatons with a total disregard for reality. This analysis reveals a faulty understanding of the entrepreneur and of his role in the process of production. Like anyone else, the entrepreneur is a human being perhaps no smarter and no duller than anyone else. Like his fellow beings all his action is predicated upon expectations. What are the "expectations" of the entrepreneur? To make a profit. He will be able to continue in his capacity of production only as long as he is able to make a profit.

The Marxist theory begs the question: why would industrialists be so willing or even able to produce when no one either can or will buy their products? How and why, with bulging inventories of unpurchased goods, would assembly belts continue to roll? Continued production under such circumstances would be suicidal and impossible. But capitalists are neither suicidal, overly charitable, nor infinitely rich. The Marxist sees the entrepreneur (or capitalist), however, as a total nitwit, completely unable to adapt to changing circumstances. And whatever else might be said of the industrialist magnate, he is not lacking in versatility. How could such a condition (overproduction) exist outside the realm of fairy tales and propaganda pamphlets? The law of scarcity has never been repealed. The tissue of fallacies must be faced: the theory of overproduction is long overdue for a well-deserved rest.

The Element of Timing

Marx's theory of overproduction overlooked other vital questions of practical significance: how does one account for the critical element of timing? Why, for example, do the forces of overproduction and unemployment dovetail and emerge all at once in The Crash? Why the sudden cluster of errors?

Now there is nothing more certain than that all men are fallible and often err. And, it is only to be
expected that entrepreneurs and capitalists, like other mortals, will certainly make their quota of mistakes. They, too, will occasionally "miss the mark." But is it not a bit ironic that all entrepreneurs (as evidenced by the "crises") just happen to make the same mistake (overproduction) at the same time? What would account for this singular state of affairs? This is a serious omission on the part of Marx. It is as if all were well with the world one day and then is jarred awake the next day to a surprisingly different state of affairs (the crises). One can be pardoned for not taking Marx too seriously in this matter.

There are other problems with the Marxist analysis of "commercial crises." If at some point there has been overproduction, there must be some culprits hiding in the bushes somewhere. These unsavory characters would certainly be worth our bitterest opprobrium and vituperation. Just who is it, exactly, that performs such anti-social deeds? Who is the guilty party? According to Marx, it is the "workers," of course, who produce. They are the sole contributors to the productive process. Since capitalists and bourgeois entrepreneurs are only idle parasites devoid of any economic (productive) significance, it stands to reason that it is the "workers" who have been "overproducing." But which workers? Medical technicians? Broadway actors? Lathe operators? Perhaps chicken pluckers? Plumbers? Maybe garbage collectors? What kinds of goods and services? Just "things in general"? If so, what kinds of things? Perhaps stethoscopes or trigger guards or saddles? Toilet tissue or fingernail clippers? Perhaps book binderies or economic treatises and revolutionary pamphlets? Seminar papers? "Overproduction" of what, by whom, in relation to what?

Homogenous Factors

Marx, like many of his disciples, labored under the delusion that labor, production, and wages were homogenous. All "labor" was alike, all "production" was alike, all wages were the same. This was an unforgivable blunder. Marx was completely wrapped up in his acidic, piecemeal approach to the study of capitalism. He did not have time for such things as detached observation. The Communist Manifesto is not a dispassionate analysis of labor and wages. With his heated invective and imprecation it is not surprising that he so often missed the mark. Because he so slavishly devoted himself to the "exploitation" theory of labor, he was completely helpless when it came to the task of dissecting and analyzing processes and categories.

The truth is that all workers are
not alike; they are not "equal." If labor is "exploited" (how else are the capitalists enabled to accumulate bulging warehouses of unsalable inventories?), precisely what kind of labor? A Robert Redford or a Muhammad Ali? An Elvis Presley? Is the Iron Law of Wages, so gloomily trumpeted by David Ricardo and echoed by Karl Marx, equally grinding upon each and all? How does this fit in with the Marxist theory of overproduction and the Crises? Silence.

The too-much-means-of-subsistence approach has produced a crown of thorns for the more consistent advocates of this doctrine. The remedy which has always enticed and suggested itself to post-Marxist and neo-Marxist economists and ministers of state is to encourage the current political regime and the unions to smash the instruments of production, burn the "surplus" goods, and "plow under" unharvested crops. All this is for the good of the Commonwealth.

A Saturation Point

Perhaps the most fatal fallacy of all implied in the overproduction argument, however, is that only a certain amount of production is desirable, that society can assimilate only a very limited amount of goods. Beyond that point production becomes dangerous and anti-social, resulting in grave ills. What next? Must there be firing squads appointed to liquidate the most vigorous and talented of workers? Or maybe it would be well to award some medal or cash award to those workers who best succeed in stretching five minute coffee breaks to half an hour, or to those who sabotage factory machinery?

The Marxists (and their intellectual cousins) are not prepared to surrender. Is it not true that many companies during the Great Depression of the 1930s were caught with large inventories on their hands? And did not many of these products sit unmoved for many years? Indeed, is it not true that some of these products were never able to be sold? Is this not a vindication of Marx and his theory?

Now, some things must be conceded. The devil, so to speak, must be given his due. It is beyond a doubt that many warehouses bulged with
unmovable goods during the gloomy 1930s. But it is not for the reasons implied in the overproduction argument. The point which most advocates of the "overproduction" theory of economic woes ignore is that almost any product can be sold at some price. In a capitalistic economy supply will always equal demand because prices will always be plumb with demand and supply. If there is an "inventory" or "overproduction" crisis, it can only mean that prices are too high.

**Enforced Scarcity**

This problem prevailed throughout the 1930s because the federal government in Washington imposed rigid, unrealistic minimum price controls upon the economy. This "trapped" many products in warehouses where they eventually rusted, rotted, or became obsolete. In other words, people were not allowed to consume because of minimum price controls. The result was enforced scarcity (the implied Marxist ideal) amid consumable inventories (the "too much" means of subsistence noted by Marx). But why? The market was "overstocked" and "underconsumed" precisely because the market was not allowed to function in relation to the true state of supply and demand. So, sure, conditions might arise in which consumers "underconsume"; but, again, not for the reasons implied and stated by the Marxists and neo-Marxists.

The industrialist has every interest in making sure that the "worker" can "buy the product." When the market, regulated and harassed by bureaucratic nonsense, fails to "deliver the goods," it isn't the fault of those engaged in production. ("That's free enterprise for you" is the smug reply to the paralysis which follows each new hamstringing of the market. "The days of capitalism are numbered," intone the regulators as they fire another broadside at the wobbling edifice.)

It was only when the wage and price administrators refused to allow downward flexibility, thus crippling the market mechanism, that a full-blown depression was ushered in. When prices are forcibly thrown into disjunction, chaos results. When prices are arbitrarily frozen at a disequilibrium, "underconsumption" (thus giving the appearance of "overproduction") is inescapable. This alone could account for the aberration of the Great Depression. A suddenly imposed minimum price control which catches everybody off guard would have the effect of declining business activity and "unwanted" inventories. This alone could account for the "cluster of errors" which crop up all at once. Economic panics and commercial crises are not the conse-
quence of capitalism as *The Communist Manifesto* avers, but the all-too-predictable sequel of Statism.\(^8\)

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### II. Class and Class Struggle

As far as Marx was concerned, all mankind is split into two separate and distinct classes. These two classes are locked in an eternal contest for supremacy and, ultimately, existence.\(^9\) In fact, all the history of civilization and the society of man could be summed up with the idea of class conflict. Marx himself did not formulate this idea of mutual extermination. It had been around for a long time cloaked in many different guises. In this particular doctrine he seems to have been influenced by his old friends, the French socialists.

There was no doubt in Marx's mind that hostility between the classes was both inevitable and praiseworthy. He saw no reason why there should be harmony instead of discord. As members of separate and distinct social entities there could be no question of collaboration between the two. There could not be any question of a "commonweal." What benefited one class *ipso facto* vitiated the well-being of the other. Society, viewed in this manner, could be nothing else but a brutal civil war, a face-off between belligerents.

What Dr. Marx and all his friends contended was true—if one assumes that he was describing the animal kingdom where the "law of the jungle" literally prevails and from which there is no escape. The great error of Marx was to assume that human society was merely a pitched battle but one step removed from the world of animal strife. In the world of animals, specimen is arrayed against specimen, competing in a grim struggle for life's meager necessities. These requisites for continued life are severely limited. Victory in snatching substance from a competitor's mouth spells the difference between continued existence or death by slow starvation and attrition.

When two dogs snarl over an irreplaceable bone, one dog wins and the other loses. One dog receives an extended lease on life, a temporary reprieve from morbidity. The other is that much closer to death's door. With diminishing vitality he must once again take up his quest for a paltry meal. Even the winning dog must retire to lick his wounds and festering sores incurred in battle. In

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\(^8\)For a relevant discussion of the regulated market during the late 1920s and early 1930s, see Murray Rothbard's excellent *America's Great Depression* (Kansas City: Sheed and Ward, Inc., 1963). This book effectively shatters any illusions about the *laissez-faire* character of the decade prior to 1932.

\(^9\)Marx and Engels, note especially pp. 484 and 485.
this world of the animals, ferocity and belligerence are everything. One dies that another might live to battle again.

With man it is different. Under the division of labor—which Marx and the cafe intellectuals detested—each contributes to the process of production (not the snatch-and-grab of the animal world) whereby the human race is enabled to survive. In this man differs from the lower kingdoms of life.

The Iron Law of Wages

In the construction of his model Utopia, Marx was misled by David Ricardo’s specious Iron Law of Wages which carelessly decreed perpetual hunger and privation for the laborer. Ultimately, he would be reduced to such a state of destitution that bare survival would be all he could ever expect for himself and his unfortunate dependents. Armed with this dismal weapon Marx strode forth to do battle with capitalism.

They met on uneven ground. With almost mechanical thoroughness the “sycophants and apologists of world capitalism” mutilated his conscripted ideology. (Years later, tired and reeling under the hammer blows of the unimpressed economists, Marx would try a new tactic: he stifled all criticism by labeling Marxism as “scientific communism.” Opposition vanished.) At any rate, the Iron Law was later discarded as excess baggage. The history of the Industrial Revolution has successfully refuted that saturnine prognostication; even the Marxist theoreticians have retired from its defense.

Marxism asserts that each man’s thinking is determined by his class affiliation. Each individual is, in effect, a prisoner of his class logic, “the will of your class.” From this there is no escape. It is the task of communism to unmask the “sycophants” of capital. It is enough to lay bare the background of one’s intellectual opposition. This will suffice to reveal his class motives. A “bourgeois philosophy” must be rejected simply because a “bourgeois” was its creator. Professor von Mises makes this point about various theories of polylogism:

\[\text{\begin{footnotesize}\text{\scriptsize 11Ibid., p. 501}\end{footnotesize}}\]

\[\text{\begin{footnotesize}\text{\scriptsize 12For an excellent exposition of the doctrine of polylogism (many logics), see Ludwig von Mises’ \textit{Human Action: A Treatise on Economics} (Chicago: Henry Regnery Company, 1949, pp. 75-84).}\end{footnotesize}}\]
They never ventured to demonstrate precisely in what the logic of the proletarians differs from the logic of the bourgeois, or in what the logic of the Aryans differs from the logic of the non-Aryans, or the logic of the Germans from the logic of the French or the British. In the eyes of the Marxians the Ricardian theory of comparative cost is spurious because Ricardo was a bourgeois. The German racists condemn the same theory because Ricardo was a Jew, and the German nationalists because he was an Englishman. Some German professors advanced all these three arguments together against the validity of Ricardo's teachings. However, it is not enough to reject theory wholesale by unmasking the background of its author.\footnote{Ibid., p. 75.}

Marx was impotent in the face of criticism. He was fully aware of his incompetence in refuting the economists' objections to his work. His doctrine of different class logics was a last-ditch attempt to remove the lofty theories of "scientific socialism" from the paltry scrutiny of pedants and "bourgeois" academicians. Marxism did not fare well in the bright glare of intellectual discussion. Better to clothe it in the mysticism of Hegelianism and the "inner voice."

After having drawn and quartered mankind, after having arbitrarily divided it into two armed camps, Marx decreed that absolute conformity within the class structure was inevitable. To prove this, he cited "bourgeois" thinking over against "proletarian" thought. This would assure that each robot act to the "best interest" of his own class. But what is the "best interest" of one's own class and how can it be known? (Even robots must have their instructions.) Did, for example, the capitalist Engels, son of a wealthy industrialist, and the bourgeois Marx, son of a well-to-do lawyer and husband to a scion of the Prussian nobility and landed gentry, act in the "best interests" of their class by authoring The Communist Manifesto and calling upon the workers of the world to unite? Even Marx had to admit that, in fact, the "organization of the proletarians"\footnote{Marx and Engels, p. 493. See also p. 496 where Marx asserts that, "Wage labour rests exclusively on competition between the laborers." (emphasis mine).} are upset by none other than individual competing proletarians. Obviously there are a few such tempestuous individuals within the bourgeois class structure as well. A chink in the armor perhaps?

Marx and his cronies were sure that class consciousness was the only motivation for human action. It was the sole criteria by which individual performance could be interpreted.\footnote{Years later Engels made a rather feeble attempt to deny that Marx places exclusive faith in class determinism. Nevertheless, true or not, that is largely the tone of his published works and recorded speeches. For a typical Marxist statement regarding class determinism, see Marx and Engels, p. 501.} In the overzealous con-
struction of this dubious paradigm Marx completely overlooked the role of nationalism ("The workingman has no country.")

Marx completely overlooked the role of nationalism ("The workingman has no country."), racism, religion, age, sex, and a host of other variables which help in determining man's attitude and outlook. There is, of course, nothing logically impermissible about dividing society up into classes—whether two or two thousand—no matter how arbitrary that division may be. It would be wrong however, to assert that such is the only way of looking at or dealing with civilization.

Nevertheless, not all concepts and propositions regarding classes are equally valid. One may preach (as Marx did) about "class rule" until the cows come home. But mere parroting does not make rhetoric any more of a reality. "Classes" do not govern or hold office; "classes" do not accept bribes; "classes" do not embark upon political campaigns; "classes" do not canvass political districts and solicit votes; individuals do. To equate the actions and identity of one individual with the actions and identity of a "class" is a deplorable and contemptible boner.

III. Value

Marx and others of his day were misled by the labor theory of value propounded by the classical economists. According to this assumption, as Marx correctly noted in The Communist Manifesto, the price of a commodity (including labor) is equal to the cost of production.\textsuperscript{16} An object is only "worth" what "labor" goes into it. Today it is very easy to explode this myth. The truth is, however, that the labor theory of value is still widely held in one form or another by many economists who otherwise lay no claim to the tenets of socialism or to classical economic analysis. These mistaken doctrines have, in their turns, given birth to a host of ills—not the least of which has been a marked hostility to capitalism and its productive structure. This enmity poisons relations between entire nations and large segments of populations within those separate states.

Karl Marx was totally correct in his interpretation of the labor theory of value. For years the apologists of capitalism and free trade pressed this doctrine into the employ of their own peculiar philosophy. It was a well-tooled weapon in their arsenal. Nobody was more surprised than they when the so-

\textsuperscript{16}Ibid., p. 491. "But the price of a commodity, and therefore also of labour, is equal to its cost of production." Labor wages were supposed to decline as the "repulsiveness of the work increases" (p. 491). Further, the "labor theory" is implied in referring to the lower classes as the "working class" (emphasis mine). Only labor could "create capital." (p. 498)
cialists stormed the barricades and wheeled it into an about-face. Adam Smith and his circle of admirers erred when they assumed that *laissez faire* capitalism could be justified by an appeal to this spurious doctrine. As elaborated by Marx, the labor theory was simply a fallacious dogma carried through to its ultimate logical conclusion. The third generation classical economists were shocked and dismayed by the ease with which their own ordnance could be turned upon themselves. Thus, crippled by a crotchety principle for many years, no adequate defense of capitalism could be formulated. As long as "labor" was employed as the cornerstone of value, it proved to be an impossible task.

All value is subjective. There can be no question of any so-called "intrinsic" or "surplus" value. No value can exist independent of the mental act of valuation. There can be no "value" without a "valuer." It is useless and vain to postulate "worth" independent of what conscious individuals are willing to exchange for it. The quest for absolute value is an endless labyrinth. When the Marxian socialists commandeered the labor theory of value and appropriated it for their own cause, they felt as if a great *coup d'etat* had been engineered. But the spoils of war proved to be a bomb with a delayed fuse. In the end it served the socialists no better than it had the economists.

The labor theory of value is an "objective" theory of value. It presupposes Absolute Value, independent of individuals. If it can be established that "value" is a necessary consequence of "labor," then a plausible case might be advanced for supporting the labor theory. In fact, it cannot. One might "labor" for days on end digging potholes in Farmer Brown's turnip patch. His only reward will be a cartridge of buckshot from the wrong end of a shotgun. The inept artist might "labor" many months on a "Mona Lisa" that is "worth" less than the canvas upon which it is painted. On the other hand, the owner of previously unusable property might awaken to find his deed has appreciated in value because of the proposed construction of a superhighway nearby. No labor has been expended.

There can be no doubt as to the untenability of the labor theory of value. If the price of commodity A (including the commodity *labor*) is equal to the cost of production B, what, one may ask, determines the cost of production B? It is no answer to reply: the cost of production B. There is no infinite regression. Sooner or later, one comes upon the original goods and factors of production. What determined *their* value? At this point it will be easy to simply
shrug the shoulders and answer: "supply and demand." But what accounts for supply and demand? This is precisely where the classical economists (including Marx) remained silent.

All value springs ultimately from the subjective valuations of individuals as they make their choices in the daily plebiscite of the marketplace. Without an inner process of valuation the old economic standbys of "supply and demand" could not exist. What else is the market price but supply and demand? What is supply and demand but the individual evaluations of buyers and potential buyers?

There is no appeal, no recourse from the dictates of the customer. In the realm of economics it is pointless to declaim the "real value" of one's pet project, investment, or labor. There is no "real value" in the world of production and trade but what people are willing to obtain by exchange. It is vain to stubbornly argue the "intrinsic" or "real value" of a product which can be "moved" for only a fraction of its overhead.

Marx went to great pains to demonstrate that the workers were dupes enslaved by heartless felons who were forever depriving them of their "surplus value." For the insolence of these capricious capitalists, the dialectical forces of materialism had decreed an apocalyptic day of vengeance, judgment, and retaliation. Then the benighted masses could be set free. The labor theory was a fountainhead of Marx's analysis. He wielded it well. With it he slew many a dragon; he formulated with it the concept of exploitation, of class conflict, and of labor and wages. With its collapse the Marxist structure must collapse as well.

IV. Labor and the Socialist Commonwealth

It is no secret that Marx wanted to abolish capitalism. He decried the "exploitation" of workers by owners and viewed the labor market as little better than a slave auction. As far as Marx was concerned, laborers were the unwitting victims of the callous, hardhearted businessman. He felt it was absolutely deplorable that the laborers "sell themselves piecemeal, are a commodity, like every other article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market."17 The

17 Of course everybody is either directly or indirectly affected by the "vicissitudes" of the marketplace—not just those engaged in daily trade and competition. The crucial question to ask here is: Would all that change under socialism/communism? Is reality any less stern under political regulation of economic necessities and desires than under market production, allocation and distribution?
only alternative, Marx felt, was to abolish the market society.

It is positively true that "laborers" must "sell themselves" in order to survive. Certainly they are subject to the "vicissitudes of competition"—as is everyone engaged in earning his "daily bread." But how would all this change under a communist economy? Specifically, having abolished the structure of the market (including its interlocking relationships between prices, production, and the supply of goods and services), what part would labor play in the socialist commonwealth?

**Production Comes First**

Obviously, the first task of the socialist commonwealth is to provide for production. Labor will be no less a necessity than it had been under capitalism. Once the market and the existing structure of production and distribution have been abolished, what then? How will the administration allot its resources? Upon what will they depend as a reliable guide for future production? Marx himself was silent on these matters. That he had an inkling of the can of worms he opened will be demonstrated later. (Marx was an advocate of communism—not state capitalism. He did not want merely to exchange one tyranny for another. Therefore, there could be no question of a market structure of prices to guide the decisions of the Socialist Planning Board. But as to how those decisions should be arrived at Marx never said.)

Under a "pure communism" there can be no money—and therefore no meaningful structure of prices to direct and allocate the flow of goods and services. Nowhere has man succeeded in abolishing capitalism without immediate chaos. All such ventures are doomed to failure and have always resulted in a hasty retreat to the safer confines of the "mixed economy"—where the administration may enjoy the blessings of capitalism with the bureaucratic trappings of State power and control.

Again, Lenin and his authoritarian successors were fully aware that they had failed to create the communist utopia. For this they had (and have) many excuses and justifications. Someday (they seem to be saying) when greed and venal corruption no longer rule man's heart,

18Lenin, the erstwhile disciple of Marx, learned this bitter lesson for himself in the years following the October Revolution. Lenin's response to the failure of Socialism was a thinly veiled resort to a quasi-market (New Economic Program) which allowed for incentive and the making of rational economic decisions. Further, the basic premises of the NEP were not scrapped by the Soviets after Lenin's death. The Soviet economy merely assumed a more subtle form of State Capitalism—a system which most assuredly relies upon a market structure of prices; in short, the Soviet Union is a "mixed economy," so to speak, not a communist society in the purest sense.
when all these great evils and inequities have disappeared, then the Blessed Day will be ushered in and the pure in heart shall inherit their collectivist paradise. Until then, communist leaders and citizens are forced to play the capitalists' game of money exchange and market prices. The failure is not the fault of world-wide communism, but, rather of the venal capitalists who have sabotaged the global effort of the workers. The point is, however, that for one reason or another, communism has never "worked." Chaos has always followed in its wake, and, barring an elemental change in man's basic nature, it probably always will.

**Efficient Use of Resources**

The communist society must labor and exploit its resources as efficiently as possible. Not only must the Planning Board of Socialist Production determine how and what will be produced when and where, but it must also make vital decisions regarding the procurement of laborers for the projects which it deems most necessary. The utilization, channeling, and allotment of labor goes hand-in-hand with the procurement thereof. How will this be done?

Marx had some notion of the problems involved in the dismemberment of the market and its attendant structure of prices which have hitherto directed and guided entrepreneurs in production decisions. Specifically, what is the nature of labor under a socialist commonwealth? Marx provided some important clues: "Equal liability of all to labor. Establishment of industrial armies, especially for agriculture. Combination of agriculture with manufacturing industries. Gradual abolition between town and country by a more equable distribution of the population over the country."

In short, without a price-allocation system inherent in the market economy, the only viable alternative is an order of "liability" to labor where conscripts are massed into "industrial armies." Laborers will no longer be able to freely select the type and place of employment—the levée en masse will take its place. Labor laws replace market prices. Serfdom replaces free choice and the "invisible hand."

Of course, the "industrial army," as Marx correctly noted, would come under the direct control of its totalitarian leaders. Without the flexibility of the pricing system, this

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19This brings to mind Hitler's National Labor Front under the anti-capitalistic Nazis. Old film clips show row upon row, thousands upon thousands of laborers, young and old, standing at "Present Arms" with shovels and picks—the great "industrial army" of an authoritarian regime.

20Marx and Engels, p. 505.
army will find itself “relocated” from time to time to ensure a “more equable distribution of the population over the country.” Their country cannot have its cake and eat it too. Either it must submit to the “vicissitudes” of the market or succumb to the absolutism of its socialist dictatorship. The question is not: will there or won’t there be “planning”? The only legitimate question to be asked at this point is: “who shall do the planning?”

Presumably (optimistically) the plans of the socialist commonwealth will be made for and in behalf of The Public. Marx spoke quite a lot of “the public.” Such cliches never solve anything. They merely promote a scramble for all the myriads of special interest groups to see who gets to be “the public.” The great problem of the socialist commonwealth is “Le public, c'est moi.”

Conclusion

What might one safely conclude about Karl Marx and his curious tract? What kind of person would it take to write the Manifesto? Marx must certainly have imagined himself as the noble St. George sent to right wrongs and rescue the proletariat in distress. He, Karl Marx, did not tilt with windmills; he prepared to slay dragons. But how real were those dragons which he sallied forth to dismember? How much shadow and how much substance? What was rhetoric and what reality? Which of the Marxist tenets have remained unexploded by the “apologists and sycophants” which Marx so despised?

Karl Marx was not quite the heroic figure about which he surely fantasized. Like another crusader of a distant age, he too was ensnared by his own delusions, the victim of his own fallacies. And, like the ludicrous knight of La Mancha, Marx's own literary page was not gifted with any better perception. Marx and Engels committed their blunders together. Their incessant disparagement of the market society and the dynamic Age of Liberalism has taken its toll. The Marxist fetish for capitalistic windmills rages unabated.

Every prophet must have a Babylone. The spark kindled in Berlin grew throughout his life and raged into a conflagration. With all the holy zeal of the True Believer and the self-righteous authority of an Old Testament patriarch, the sage of Trier endlessly denounced the “oppressive” bourgeois and proclaimed the inevitability of socialism. This jihad (as all jihads are) was holy, just, and irrevocable. The vast multitude would rise up in defiance of their chains and shrug off the
parasitic edifice of landlords, employers, and usurers. This day of liberation would be the death-knell of capitalism and of the expropriation of the many by the few.

**An Appeal to Arms**

Marx was the eternal Prussian, boiling and seething with Teutonic wrath. He had, so to speak, traveled his own road to Damascus, revealed to man the dictates of the inner voice and communed with the Burning Bush. The fervent Dr. Marx was still young when he returned from Mt. Sinai with the burning tablets of the *Manifesto* still smoldering in his affectionate embrace. This dictum was to be the law and schoolmaster which would guide man to the Promised Land, eradicating for all time to come the despicable golden calf of capitalism and "unconscionable Free Trade." The days of Moloch were numbered. 21

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21The imagery is intended; for the gods of an inevitable Armageddon and the Apocalyptic Day of Vengeance do most assuredly lurk between the lines of *The Communist Manifesto*. Marx is merely the privileged servant, a prophet who just happens to be marked out by the blind eye of Destiny. Marx is better informed than his less enlightened fellows, the voice of thunder and lightning sent to mop up the stubborn pockets of bourgeois resistance. Oppression is the theme, retaliation its sacred assurance.

*The Communist Manifesto* is not a sophisticated economic analysis. It is propaganda and must be read as such. The rantings, the genuflections at the altar of "the Public," the "workers," and the "dictatorship of the Proletariat" are served up without grace so to speak. To be sure, *The Communist Manifesto* reflected many of the fallacies of the day. It was a looking glass into the mentality of French Socialism, classical economics, German philosophy, and a moral tradition which stretches back at least to the age of Socrates. The image which stares back at us is the bristling insolence of the armed thug.

*The Communist Manifesto* is an appeal to arms. It calls for blood and death. Hand in hand the twin concepts of fear and faith etch themselves upon the mind of the True Believer. It is not an appeal to reason. Its final argument is the smoking barrel of a loaded gun.

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A Bibliography of primary and secondary sources drawn upon in preparing this paper is available upon request, *The Foundation for Economic Education*, Irvington-on-Hudson, N.Y. 10533.
Americans have long been known to be a charitable people. Unfortunately, government intervention could be changing that. The government has entered and gained monopolistic ascendancy in this field as in so many others. Being charitable makes it a bit difficult for us to speak out against public welfarism, lest we appear to be unconcerned for the needs of the poor. However, there are numerous compelling reasons why we can legitimately decry public welfarism and still maintain—even emphasize—our concern for the less fortunate in our society.

1. Public welfare destroys the personal relationship and interaction which can be achieved through private, local charity. Big government is faceless and cannot express truly empathetic concern for the needy. The human element so essential to aid the poor is sacrificed to computerization.

2. It actually destroys a true sense of genuine charity among the general populace. Charity today is coercively maintained. How many times have you heard complaints about excessive taxation? And what accounts for a very large percentage of our national debt? I used to work in a grocery store and constantly overheard grumbling from the shoppers who were having to pinch their pennies when they observed a heavily loaded shopping cart of choice items being paid for with food stamps. Not only are ill feelings fostered but also there is provided an excuse to shift responsibility when private charities appeal for funds.
"The government has the resources. They will handle the situation."

3. It destroys, through excessive taxation, the capacity of private citizens and organizations to help. Personal income is eroded through re-distributive tax schemes, thus leaving fewer funds for personal charity. Remember the recent uproar over the enormous increase in the Social Security tax? There goes some more money that could have been available for private charity.

4. It undermines personal responsibility and incentive in the poor to help themselves. Welfare funds are addictive. Withdrawal is hard.

5. It promotes a false sense of security among the needy. "The government will always be there to take care of me." "My Social Security will always be available to help me financially." According to the Federal Statement of Liabilities issued by the Treasury Department, the Social Security program has about $4 trillion in unfunded obligations! That's security?

6. It promotes a false sense of equality among minorities. They can either be led to believe they are getting their "fair share" or that they are receiving "remuneration" for past offenses against them. Dependency does not promote equality.

7. It is less efficient than private charity. Private, local charity is true charity: it is voluntary and it is not subject to the bureaucratic filtering process. I have never heard the government or any of its programs praised for efficiency—except by the government and those who head the programs!

8. It promotes conflict among groups clamoring to get their hands on the handouts. Though theoretically (in a Keynesian economic system) fiat money could supply everyone with plenty of money, actually there is at least some restraint upon the government's printing press (thank goodness for election years!). There is never enough money to make everyone happy; therefore, groups fight to get to the front of the line.

9. It can and often does encourage immorality. The government does not have the same degree of religious and moral sensitivity that can characterize private charities. Illegitimate children are one way to gain additional welfare funds. Or if you decide against illegitimacy, in most cases you can get a "free" abortion. Urban renewal programs have long been derided as consistently producing drug culture, crime infestation areas, and family disruption.

10. It is more open to fraud and criminal abuse than smaller, more easily contained, private charity programs. Newspapers are filled with reports of welfare abuse by criminal elements. This serves as an additional "tax" on the truly needy people.
themselves: scarce resources are filtered away from their target.

11. It destroys the incentive to produce among the heavily taxed middle class. Success seems to be subject to undue fines (increased taxation).

12. It represents a large percentage of the federal debt that is monetized in the process of inflation. Price inflation erodes the wealth of the nation and will eventually break the back of the economy. I recall in our local newspaper an interesting—but not surprising—article on the economic plight of our area hospital. This plight was caused by governmental regulations related to welfare. It noted that Memorial Hospital gave “free” medical care valued at $1.2 million in 1973-74, $2.5 million in 1974-75, $4.1 million in 1975-76, and $4.5 million in 1977. The assistant administrator reported that “paying patient charges could be reduced by $50 a day if the hospital did not have to provide free care.” There go more funds that could have been tapped for voluntary charity!

13. It is ironic that the expansionistic monetary policies of the government which are partly necessitated by welfare programs are not only hurting the general well-being of the nation at large but are especially hurtful to those on fixed incomes: the welfare recipients for whom we inflate in order to aid! The government is sadistic: it whips hardest the very people it supposedly wants to help.

14. It coerces medical personnel to give out “free” services as mentioned above. This not only raises prices for the non-welfare populace, but when medical programs are further expanded they cause medical shortages. England’s socialized medicine is a case in point: England suffers from a doctor drain (they can live better elsewhere), over-crowded hospitals (free hospital care encourages hospitalization for light cause), increasingly inadequate medical attention (fewer doctors are serving larger crowds), and so on.

15. It increases statist power. That which controls your property and wealth controls you. A bigger government is more unmanageable, more susceptible to totalitarianism and tyranny. Thus, it aids and abets the erosion of liberty. Higher taxes cut down on what we are able to do, increased regulations (concocted by a powerful state) limit what we are allowed to do.

16. It unmasks “blind” justice. It coercively redistributes the wealth from some in order to favor others—all in the name of social “justice”! Discriminating justice is mandatory injustice.

17. It encourages an increased ignorance in one of the most important areas of life in our population: economics. “Free” programs imply
that wealth is "just there," profits are evil, shortages are contrived, lunches can be free. Our population already suffers a woeful ignorance of economic theory, without interventionist politics setting a bad example.

Yet despite these problems and others that could easily be multiplied, there are certain functions which government could properly perform to care for the needy.

First, the central feature of the government is power. The purpose of this power is to insure the law and order necessary for economic stability and growth. As F. A. Hayek has written in *The Constitution of Liberty*: "There is probably no single factor which has contributed more to the prosperity of the West than the relative certainty of the law which has prevailed here." A wealthier people can better support the needy. The government can promote wealth through law and order.

Second, the government could abandon its redistributive schemes, reduce the burden of direct taxes and inflation, and leave to productive individuals the means and the incentive to help their less fortunate neighbors. Charitable giving is much more efficient than coercive redistribution.

Third, the state can use its judicial power to prosecute criminal and fraudulent abuses of charity.

The state *does* have a concern for the welfare of its population. The only legitimate way and the best way to care for the poor is through encouraging charity in the private sector by the three-fold method outlined above.

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Secure and Enduring

Let us determine that we shall not allow the state to be our master, but that we shall be the masters of the state. The long road of history is lined with the ruins of those states which bought the souls and wills of their peoples by the lure of a granted security, and then led them to ruin by the same mirage. The world does not need one more such ruin. It needs a people who will be really secure and enduring, as far as mortal life is possible—secure and enduring because each member of the society is a person who accepts his and her responsibilities as duties, and asks only that the state act to keep the avenues of freedom open.

RUSSELL J. CLINCHY, "Two Paths to Collectivism"
In the Thirties, when the word "revolution" was being bandied about, Peter Drucker threw cold water on some of the more lively controversies with his observation that the American Revolution was not a revolution at all. It was, he said, a conservative counter-revolution, fought by the colonials to preserve their rights as Englishmen. King George III, a German, was the real revolutionary.

What Drucker, a Viennese, was trying to tell us should have occasioned little surprise. For it was all in Edmund Burke, whose famous speech on the need for Britain's reconciliation with the American colonies we had read in school. Burke regarded the stand of the embattled farmers at Lexington and Concord for what it was, a desperate attempt to hold on to "English liberties." There was no desire to overturn society, to institute a new order.

In the semantic battles of the Thirties, however, we had forgotten that words, over the decades, can come to mean their opposites. Liberalism had come to connote government compulsion. In her engaging biographical study of Edmund Burke and His World (Devin Adair, 143 Sound Beach Ave., Greenwich, CT 06870, 232 pp., $12.95) Alice P. Miller provides an antidote to semantical giddiness: her hero fought against the tyranny of verbal abstractions all his life. It is fitting that Russell Kirk, whose study of Burke was the centerpiece of his trail-blazing The Conservative Mind, should contribute an intro-
duction to Mrs. Miller’s book, for Kirk, in his war against “defecated intellect,” carries on a struggle that is essential if we are to avoid being done in by the abstraction-worshipping ideologues.

But even Russell Kirk, in using the word “conservative” to describe Burke, has added a bit to the semantic confusion. For Burke, in his own historical setting, was a Whig. His antithesis, Dr. Samuel Johnson, was a Tory, and Tories, in England, are usually regarded as conservatives. Since “Whig,” in its original Seventeenth Century connotation, meant “horse thief,” and “Tory” meant “outlaw,” the precise difference between the two great English parties becomes a little mysterious. But Alice Miller, with her own Burkean gift for seeing things in terms of their concrete settings, helps dissipate the mystery. The Whig members of Parliament in Burke’s day included, besides great landowning aristocrats, the new city interests. The Tories were the rural squires. The Whigs believed in keeping the monarchy in its place. The Tories were often blind supporters of the king.

Enterprise and Liberty

Burke, as a Whig, belonged to the new world of Adam Smith. He understood enterprise. Who, better than he, has characterized the New Englanders of the Eighteenth Century as they carried on the whale industry? “Whilst we follow them among the tumbling mountains of ice,” he said, “and behold them penetrating into the deepest frozen recesses of Hudson’s Bay and Davis’s Straits . . . we hear that they have pierced into the opposite region of polar cold . . . Nor is the equatorial heat more discouraging to them than the accumulated winter of both the poles. We know that whilst some of them draw the line and strike the harpoon on the coast of Africa, others run the longitude, and pursue their gigantic game along the coast of Brazil. No sea but what is vexed by their fisheries, no climate that is not witness to their toils.”

The intimate connection between enterprise and liberty seemed plain to Burke. So, in his own world, he was a civil libertarian, which set him apart from Tory conservatives. He happened to be a Protestant, but his mother was a Catholic, and in his youthful experiences in Ireland he had seen too much of the baneful consequences of religious prejudice. The time would come when he would draft for Parliament his Catholic Relief Bill, which would allow Catholics to inherit or buy land and to teach in school without risking life imprisonment. The so-called Gordon Riots which followed passage of Burke’s bill tore England apart, and it was characteristic of Burke that, although he did not
condone rioting in any form, he worried that the rioters might be punished too severely.

**Support of the Colonists**

Burke had attended a Quaker school before going to Trinity College in Dublin, and he had the proper Quaker abhorrence of intolerance. The England of the Gordon Riots might seem a pretty intolerant community, but what strikes the modern reader of the Miller book is the comparatively relaxed attitude that governed in Parliament while the American war was going on. As a partisan of the colonists, Burke risked the imputation of treason. But this did not keep him from insisting that all acts concerning America since 1763 should be repealed. It would be wiser, he said, to make peace with the Americans and allow them to carry even some unreasonable points lest they turn to England's old enemies, France and Spain, for help. The principles of the Americans, he said, "bear so close a resemblance to those which support the most valuable part of our constitution, that we cannot think of extirpating them in any part of his Majesty's dominions, without admitting consequences, and establishing precedents, the most dangerous to the liberties of this kingdom."

Unable to raise troops in England to fight the colonists, King George III had to hire Hessians from Germany. Burke had scathing words for the war zealots who were willing to fight to the last Hessian. "They have all the merit of volunteers," he said, "without risk of person or charge of contribution; and when the unfeeling arm of a foreign soldiery pours out their kindred blood like water, they exult and triumph as if they themselves had performed some notable exploit."

**Limited Government**

Tom Paine mistook Burke's feelings about the American war for being a generalized sympathy for revolutionists of any stripe. So Burke's immediate condemnation of the French Revolution came as a surprise to Paine and his friends. They hadn't pondered Burke's words about "the extreme of liberty." Liberty, he had written, "must be limited in order to be possessed. The degree of restraint, it is impossible in any case to settle precisely. But it ought to be the constant aim of every wise public counsel to find out by cautious experiments, and rational, cool endeavors, with how little, not how much, of this restraint the community can subsist; for liberty is a good to be improved, and not an evil to be lessened."

Burke accurately predicted the course of the French Revolution, which ended in a military dictatorship that plunged all of Europe into
almost two decades of war. The claims of the "National Assembly" to represent all the people of France did not impress him. "A government of 500 country attorneys and obscure curates," he said, "is not good for 24 millions of men though it was chosen by eight and forty millions, nor is it the better for being guided by a dozen of persons of quality who have betrayed their trust in order to obtain that power."

So Burke, the Whig, ended as a conservative—but only as one who would "conserve" the liberties (always spoken of in the plural) that our fathers, in Kipling's phrase, had won for us "long and long ago."
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Descriptive terms which people use are often quite misleading. In talking about modern captains of industry and leaders of big business, for instance, they call a man a “chocolate king” or a “cotton king” or an “automobile king.” Their use of such terminology implies that they see practically no difference between the modern heads of industry and those feudal kings, dukes or lords of earlier days. But the difference is in fact very great, for a chocolate king does not rule at all, he serves. He does not reign over conquered territory, independent of the market, independent of his customers. The chocolate king—or the steel king or the automobile king or any other king of modern industry—depends on the industry he operates and on the customers he serves. This “king” must stay in the good graces of his subjects, the consumers; he loses his “kingdom” as soon as he is no longer in a position to give his customers better service and provide it at lower cost than others with whom he must compete.

Two hundred years ago, before the advent of capitalism, a man’s social status was fixed from the beginning to the end of his life: he inherited it from his ancestors, and it never changed. If he was born poor, he always remained poor, and if he was born rich—a lord or a duke—he kept his dukedom and the property that went with it for the rest of his life.

As for manufacturing, the primitive processing industries of those days existed almost exclusively for the benefit of the wealthy. Most of the people (ninety per cent or more
of the European population) worked
the land and did not come in contact
with the city-oriented processing in-
dustries. This rigid system of feudal
society prevailed in the most de-
veloped areas of Europe for many
hundreds of years.

However, as the rural population
expanded, there developed a surplus
of people on the land. For this
surplus of population without inher-
ited land or estates, there was not
enough to do, nor was it possible for
them to work in the processing in-
dustries; the kings of the cities de-
 nied them access. The numbers of
these "outcasts" continued to grow,
and still no one knew what to do
with them. They were, in the full
sense of the word, "proletarians,"
outcasts whom the government
could only put into the workhouse or
the poorhouse. In some sections of
Europe, especially in the Nether-
lands and in England, they became
so numerous that, by the eighteenth
century, they were a real menace to
the preservation of the prevailing
social system.

Today, in discussing similar con-
ditions in places like India or other
developing countries, we must not
forget that, in eighteenth-century
England, conditions were much
worse. At that time, England had a
population of six or seven million
people, but of those six or seven
million people, more than one mil-
lion, probably two million, were
simply poor outcasts for whom the
existing social system made no pro-
vision. What to do with these out-
casts was one of the great problems

Another great problem was the
lack of raw materials. The British,
very seriously, had to ask them-
selves this question: what are we
going to do in the future, when our
forests will no longer give us the
wood we need for our industries and
for heating our houses? For the rul-
ing classes it was a desperate situ-
tion. The statesmen did not know
what to do, and the ruling gentry
were absolutely without any ideas
on how to improve conditions.

The Start of Mass Production

Out of this serious social situation
emerged the beginnings of modern
capitalism. There were some per-
sons among those outcasts, among
those poor people, who tried to or-
ganize others to set up small shops
which could produce something.
This was an innovation. These in-
novators did not produce expensive
goods suitable only for the upper
classes; they produced cheaper
products for everyone's needs. And
this was the origin of capitalism as
it operates today. It was the begin-
nning of mass production, the funda-
mental principle of capitalistic in-
dustry. Whereas the old processing
industries serving the rich people in
the cities had existed almost exclu-
sively for the demands of the upper classes, the new capitalist industries began to produce things that could be purchased by the general population. It was mass production to satisfy the needs of the masses.

This is the fundamental principle of capitalism as it exists today in all of those countries in which there is a highly developed system of mass production: Big business, the target of the most fanatic attacks by the so-called leftists, produces almost exclusively to satisfy the wants of the masses. Enterprises producing luxury goods solely for the well-to-do can never attain the magnitude of big businesses. And today, it is the people who work in large factories who are the main consumers of the products made in those factories. This is the fundamental difference between the capitalistic principles of production and the feudalistic principles of the preceding ages.

Consumer Sovereignty

When people assume, or claim, that there is a difference between the producers and the consumers of the products of big businesses, they are badly mistaken. In American department stores you hear the slogan "the customer is always right." And this customer is the same man who produces in the factory those things which are sold in the department stores. The people who think that the power of big business is enormous are mistaken also, since big business depends entirely on the patronage of those who buy its prod-
ucts; the biggest enterprise loses its power and its influence when it loses its customers.

Fifty or sixty years ago it was said in almost all capitalist countries that the railroad companies were too big and too powerful; they had a monopoly; it was impossible to compete with them. It was alleged that, in the field of transportation, capitalism had already reached a stage at which it had destroyed itself, for it had eliminated competition. What people overlooked was the fact that the power of the railroads depended on their ability to serve people better than any other method of transportation. Of course it would have been ridiculous to compete with one of these big railroad companies by building another railroad parallel to the old line, since the old line was sufficient to serve existing needs. But very soon there came other competitors. Freedom of competition does not mean that you can succeed simply by imitating or copying precisely what someone else has done. Freedom of the press does not mean that you have the right to copy what another man has written and thus to acquire the success which this other man has duly merited on account of his achievements. It means that you have the right to write something different. Freedom of competition concerning railroads, for example, means that you are free to invent something, to do something, which will challenge the railroads and place them in a very precarious competitive situation.

In the United States the competition to the railroads—in the form of buses, automobiles, trucks, and airplanes—has caused the railroads to suffer and to be almost completely defeated, as far as passenger transportation is concerned.

Capitalism Transformed the World

The development of capitalism consists in everyone's having the right to serve the customer better and/or more cheaply. And this method, this principle, has, within a comparatively short time, transformed the whole world. It has made possible an unprecedented increase in world population.

In eighteenth-century England, the land could support only six million people at a very low standard of living. Today more than fifty million people enjoy a much higher standard of living than even the rich enjoyed during the eighteenth-century. And today's standard of living in England would probably be still higher, had not a great deal of the energy of the British been wasted in what were, from various points of view, avoidable political and military "adventures."

These are the facts about capitalism. Thus, if an Englishman—or, for that matter, any other man in any country of the world—says today to
his friends that he is opposed to capitalism, there is a wonderful way to answer him: "You know that the population of this planet is now ten times greater than it was in the ages preceding capitalism; you know that all men today enjoy a higher standard of living than your ancestors did before the age of capitalism. But how do you know that you are the one out of ten who would have lived in the absence of capitalism? The mere fact that you are living today is proof that capitalism has succeeded, whether or not you consider your own life very valuable."

**Development of Factory System**

In spite of all its benefits, capitalism has been furiously attacked and criticized. It is necessary that we understand the origin of this antipathy. It is a fact that the hatred of capitalism originated not with the masses, not among the workers themselves, but among the landed aristocracy—the gentry of England and the European continent. They blamed capitalism for something that was not very pleasant for them: at the beginning of the nineteenth century, the higher wages paid by industry to its workers forced the landed gentry to pay equally higher wages to their agricultural workers. The aristocracy attacked the industries by criticizing the standard of living of the masses of the workers.

Of course—from our viewpoint, the workers' standard of living was extremely low; conditions under early capitalism were absolutely shocking, but not because the newly developed capitalistic industries had harmed the workers. The people hired to work in factories had already been existing at a virtually subhuman level.

The famous old story, repeated hundreds of times, that the factories employed women and children and that these women and children, before they were working in factories, had lived under satisfactory conditions, is one of the greatest falsehoods of history. The mothers who worked in the factories had nothing to cook with; they did not leave their homes and their kitchens to go into the factories, they went into factories because they had no kitchens, and if they had a kitchen they had no food to cook in those kitchens. And the children did not come from comfortable nurseries. They were starving and dying. And all the talk about the so-called unspeakable horror of early capitalism can be refuted by a single statistic: precisely in these years in which British capitalism developed, precisely in the age called the Industrial Revolution in England, in the years from 1760 to 1830, precisely in those years the population of England doubled, which means that hundreds of thousands of children—who would have died in
preceding times—survived and grew to become men and women.

**Trade Brings Improvement**

There is no doubt that the conditions of the preceding times were very unsatisfactory. It was capitalist business that improved them. It was precisely those early factories that provided for the needs of their workers, either directly or indirectly by exporting products and importing food and raw materials from other countries. Again and again, the early historians of capitalism have—one can hardly use a milder word—falsified history.

One anecdote they used to tell, quite possibly invented, involved Benjamin Franklin. According to the story, Ben Franklin visited a cotton mill in England, and the owner of the mill told him, full of pride: “Look, here are cotton goods for Hungary.” Benjamin Franklin, looking around, seeing that the workers were shabbily dressed said: “Why don’t you produce also for your own workers?”

But those exports of which the owner of the mill spoke really meant that he did produce for his own workers, because England had to import all its raw materials. There was no cotton either in England or in continental Europe. There was a shortage of food in England, and it had to be imported from Poland, from Russia, from Hungary. These exports were the payment for the imports of the food which made the survival of the British population possible. Many examples from the history of those ages will show the attitude of the gentry and aristocracy toward the workers. I want to cite only two examples. One is the famous British Speenhamland system. By this system, the British government paid all workers who did not get the minimum wage (determined by the government) the difference between the wages they received and this minimum wage. This saved the landed aristocracy the trouble of paying higher wages. The gentry would pay the traditionally low agricultural wage, and the government would supplement it, thus keeping workers from leaving rural occupations to seek urban factory employment.

Eighty years later, after capitalism’s expansion from England to continental Europe, the landed aristocracy again reacted against the new production system. In Germany the Prussian Junkers, having lost many workers to the higher-paying capitalistic industries, invented a special term for the problem: “flight from the countryside”—Landflucht. And in the German Parliament, they discussed what might be done against this evil, as it was seen from the point of view of the landed aristocracy. Prince Bismarck, the famous chancellor of the German
Reich, in a speech one day said, "I met a man in Berlin who once had worked on my estate, and I asked this man, 'Why did you leave the estate; why did you go away from the country; why are you now living in Berlin?""

And, according to Bismarck, this man answered, "You don't have such a nice Biergarten in the village as we have here in Berlin, where you can sit, drink beer, and listen to music." This is, of course, a story told from the point of view of Prince Bismarck, the employer. It was not the point of view of all his employees. They went into industry because industry paid them higher wages and raised their standard of living to an unprecedented degree.

**Living Standards under Capitalism**

Today, in the capitalist countries, there is relatively little difference between the basic life of the so-called higher and lower classes; both have food, clothing, and shelter. But in the eighteenth century and earlier, the difference between the man of the middle class and the man of the lower class was that the man of the middle class had shoes and the man of the lower class did not have shoes. In the United States today the difference between a rich man and a poor man means very often only the difference between a Cadillac and a Chevrolet. The Chevrolet may be bought secondhand, but basically it renders the same services to its owner: he, too, can drive from one point to another. More than fifty percent of the people in the United States are living in houses and apartments they own themselves.

The attacks against capitalism—especially with respect to the higher wage rates—start from the false assumption that wages are ultimately paid by people who are different from those who are employed in the factories. Now it is all right for economists and for students of economic theories to distinguish between the worker and the consumer and to make a distinction between them. But the fact is that every consumer must, in some way or the other, earn the money he spends, and the immense majority of the consumers are precisely the same people who work as employees in the enterprises that produce the things which they consume.

Wage rates under capitalism are not set by a class of people different from the class of people who earn the wages: they are the same people. It is not the Hollywood film corporation that pays the wages of a movie star; it is the people who pay admission to the movies. And it is not the entrepreneur of a boxing match who pays the enormous demands of the prize fighters; it is the people who pay admission to the fight. Through the distinction between the employer and the employee, a distinc-
tion is drawn in economic theory, but it is not a distinction in real life; here, the employer and the employee ultimately are one and the same person.

There are people in many countries who consider it very unjust that a man who has to support a family with several children will receive the same salary as a man who has only himself to take care of. But the question is not whether the employer should bear greater responsibility for the size of a worker's family.

The question we must ask in this case is: Are you, as an individual, prepared to pay more for something, let us say, a loaf of bread, if you are told that the man who produced this loaf of bread has six children? The honest man will certainly answer in the negative and say, "In principle I would, but in fact I would rather buy the bread produced by a man without any children." The fact is that, if the buyers do not pay the employer enough to enable him to pay his workers, it becomes impossible for the employer to remain in business.

The Meaning of Capitalism

The capitalist system was termed "capitalism" not by a friend of the system, but by an individual who considered it to be the worst of all historical systems, the greatest evil that had ever befallen mankind. That man was Karl Marx. Nevertheless, there is no reason to reject Marx's term, because it describes clearly the source of the great social improvements brought about by capitalism. Those improvements are the result of capital accumulation; they are based on the fact that people, as a rule, do not consume everything they have produced, that they save—and invest—a part of it.

There is a great deal of misunderstanding about this problem and—in the course of these six lectures—I will have the opportunity to deal with the most fundamental misapprehensions which people have concerning the accumulation of capital, the use of capital, and the universal advantages to be gained from such use. I will deal with capitalism particularly in my lectures about foreign investment and about that most critical problem of present-day politics, inflation. You know, of course, that inflation exists not only in this country. It is a problem all over the world today.

An often unrealized fact about capitalism is this: savings mean benefits for all those who are anxious to produce or earn wages. When a man has accrued a certain amount of money—let us say, one thousand dollars—and, instead of spending it, entrusts these dollars to a savings bank or an insurance company, the money goes into the hands of an entrepreneur, a businessman,
The owner of producer’s goods in the frame of a market economy is forced to employ them for the best possible satisfaction of the wants of the consumers. He forfeits his property if other people eclipse him by better serving the consumers. In the market economy property is acquired and preserved by serving the public and is lost when the public becomes dissatisfied with the way in which it is served. . . . By the instrumentality of the profit-and-loss system, the owners are forced to deal with “their” property as if it were other peoples’ property entrusted to them under the obligation to utilize it for the best possible satisfaction of the virtual beneficiaries, the consumers.

enabling him to go out and embark on a project which could not have been embarked on yesterday, because the required capital was unavailable.

How Capital Creates Jobs

What will the businessman do now with the additional capital? The first thing he must do, the first use he will make of this additional capital, is to go out and hire workers and buy raw materials—in turn causing a further demand for workers and raw materials to develop, as well as a tendency toward higher wages and higher prices for raw materials. Long before the saver or the entrepreneur obtain any profit from all of this, the unemployed worker, the producer of raw materials, the farmer, and the wage-earner are all sharing in the benefits of the additional savings.

Whether the entrepreneur will get something out of the project depends on the future state of the market and on his ability to anticipate correctly the future state of the market. But the workers as well as the producers of raw materials get the benefits immediately. Much was said, thirty or forty years ago, about the “wage policy,” as they called it, of Henry Ford. One of Mr. Ford’s great accomplishments was that he paid higher wages than did other industrialists or factories. His wage policy was described as an “invention,” yet it is not enough to say that this new “invented” policy was the result of the liberality of Mr. Ford. A new branch of business, or a new factory in an already existing branch of business, has to attract workers from other employments, from other parts of the country, even from other countries. And the only way to do this is to offer the workers higher wages for their work. This is what took place in the early days of capitalism, and it is still taking place today.

When the manufacturers in Great Britain first began to produce cotton
goods, they paid their workers more than they had earned before. Of course, a great percentage of these new workers had earned nothing at all before that and were prepared to take anything they were offered. But after a short time—when more and more capital was accumulated and more and more new enterprises were developed—wage rates went up, and the result was the unprecedented increase in British population which I spoke of earlier.

Theory of "Impoverishment"

The scornful depiction of capitalism by some people as a system designed to make the rich become richer and the poor become poorer is wrong from beginning to end. Marx’s thesis regarding the coming of socialism was based on the assumption that workers were getting poorer, that the masses were becoming more destitute, and that finally all the wealth of a country would be concentrated in a few hands or in the hands of one man only. And then the masses of impoverished workers would finally rebel and expropriate the riches of the wealthy proprietors. According to this doctrine of Karl Marx, there can be no opportunity, no possibility within the capitalistic system for any improvement of the conditions of the workers.

In 1865, speaking before the International Workingmen’s Association in England, Marx said the belief that labor unions could improve conditions for the working population was “absolutely in error.” The union policy of asking for higher wage rates and shorter work hours he called conservative—conservatism being, of course, the most condemnatory term which Karl Marx could use. He suggested that the unions set themselves a new, revolutionary goal: that they “do away with the wage system altogether,” that they substitute “socialism”—government ownership of the means of production—for the system of private ownership.

If we look upon the history of the world, and especially upon the history of England since 1865, we realize that Marx was wrong in every respect. There is no western, capitalistic country in which the conditions of the masses have not improved in an unprecedented way. All these improvements of the last eighty or ninety years were made in spite of the prognostications of Karl Marx. For the Marxian socialists believed that the conditions of the workers could never be ameliorated. They followed a false theory, the famous “iron law of wages”—the law which stated that a worker’s wages, under capitalism, would not exceed the amount he needed to sustain his life for service to the enterprise.

The Marxians formulated their theory in this way: if the workers’ wage rates go up, raising wages
above the subsistence level, they will have more children; and these children, when they enter the labor force, will increase the number of workers to the point where the wage rates will drop, bringing the workers once more down to the subsistence level—to that minimal sustenance level which will just barely prevent the working population from dying out.

But this idea of Marx, and of many other socialists, is a concept of the working man precisely like that which biologists use—and rightly so—in studying the life of animals. Of mice, for instance.

**Improved Conditions Depend on Sound Economic Policies**

If you increase the quantity of food available for animal organisms or for microbes, then more of them will survive. And if you restrict their food, then you will restrict their numbers. But man is different. Even the worker—in spite of the fact that Marxists do not acknowledge it—has human wants other than food and reproduction of his species. An increase in real wages results not only in an increase in population, it results also, and first of all, in an *improvement in the average standard of living*. That is why today we have a higher standard of living in Western Europe and in the United States than in the developing nations of, say, Africa.

We must realize, however, that this higher standard of living depends on the supply of capital. This explains the difference between conditions in the United States and conditions in India; modern methods of fighting contagious diseases have been introduced in India—at least, to some extent—and the effect has been an unprecedented increase in population but, since this increase in population has not been accompanied by a corresponding increase in the amount of capital invested, the result has been an increase in poverty. A country becomes more prosperous in proportion to the rise in the invested capital per unit of its population.

But you have to remember that, in economic policies, there are no miracles. You have read in many newspapers and speeches, about the so-called German economic miracle—the recovery of Germany after its defeat and destruction in the Second World War. But this was no miracle. It was the application of the *principles of the free market economy*, of the methods of capitalism, even though they were not applied completely in all respects. Every country can experience the same "miracle" of economic recovery, although I must insist that economic recovery does not come from a miracle; it comes from the adoption of—and is the result of—sound economic policies.
In the August issue of *The Freeman* I pointed out that, in the division of the part of the gross income of the corporations available for the employees and for the stockholders, the employees got the lion’s share. In 1977, for example, the last full year for which the figures were then available, the employees got 89.4 per cent of the division and the owners were credited with net profits after taxes of only 10.7 per cent. They did not actually receive that much, but dividends amounting to only 4.5 per cent of the combined total.

This division, I went on to show, was in no way unusual, but in fact typical of the division over the years. In the whole thirty-year period from 1949, the employees received an average of 88.1 per cent of the two-way division, the stockholders were credited with an average of 11.9 per cent: the actual dividends they received came to only 5.3 per cent. And in the last ten of those thirty years, contrary to what newspaper headlines, union leaders and political speeches during the period would lead one to expect, the average division was even more in favor of the employees. In those ten years employees had been getting an average of 90.2 per cent of the combined total available for division between the two groups, and stock-

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Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Baron's*, *Human Events* and many others. Among the more recent of his numerous books are *The Inflation Crisis and How to Resolve It* and a revised edition of *Economics in One Lesson*. 
holders an average of only 9.8 per cent.

So much for the previous record. The percentages I have been citing are calculated from the corporation earnings of the nation as compiled by the Bureau of Economic Analysis of the U.S. Department of Commerce and published in its monthly Survey of Current Business. The final figures for calendar 1978 are now available, as they were not when my August article was written. What do they show?

For the last thirty years the employees of this country’s corporations have been receiving an average of eight times as much from them as has been credited to the stockholders.

The reader will recall that a few months ago, when preliminary figures of corporate earnings in 1978 were first appearing, they were being roundly denounced by politicians and by some Administration leaders as not only excessive but as shocking, “obscene,” and even “disastrous.” It is true, as might have been expected in such an inflationary period, that in dollar amount they rose to record levels. The profits after taxes of the nation’s corporations rose in 1978 to $111.3 billion, compared with $94.7 billion in 1977, itself a record year for profits in dollar terms.

But these figures have to be seen in their full context. For the compensation of employees of the country’s corporations, in dollar terms, also rose in 1978 to the highest level on record—$884.9 billion compared with $776.9 billion in 1977. So the employees in 1978 received 88.8 per cent of the total available for both, compared with 11.2 per cent credited to the stockholders. The stockholders were actually paid in dividends only $42.1 billion, or 4.2 per cent of the total available for employees plus stockholders.

It will be noticed that this division does not differ very markedly from that in 1977 or the average in the last ten years. The percentage distributed in dividends actually fell below the 4.5 per cent average of the preceding ten years.

Any government action that seriously reduces profits must diminish employment and payrolls as well.

What is most striking about all these facts is their complete contrast not only with leftist propaganda but with prevailing public assumptions. Frequent polling by the Opinion Research Corporation, for example, has found that the consensus of most Americans is that the corpo-
rate stockholders get about 75 per cent of the two-way division of gross earnings and the employees only about 25 per cent. Judging by their statements, this must also be close to the assumption of the Washington bureaucrats. And millions of Communists throughout the world still adhere to the Marxist myth that labor under capitalism is paid the merest fraction of what it helps to produce and is forced to accept just enough to stay alive and reproduce its numbers.

The truth is that—when recalculated to allow for the distortions of inflation—corporate profits are still far too low for the health of the American economy.

Though corporate wages in 1978 were eight times corporate profits after taxes, though wages made up 76 per cent of the national income and profits only about 7 per cent (really much lower if accounting procedures were permitted by the IRS to make full allowance for inflation) it was the latter figure that was denounced as "obscene" and "disastrous."

This demagogic hatred of profits has in fact done immense harm to the American economy, and above all to the workers. For payrolls and profits, as statistics have shown year by year over the last half century, go up and down together. They are interdependent, and causally tied. The amount and outlook for profits determines employment and new investment. The way to encourage employment is to encourage employers. The way to increase real wages is to increase productivity; the way to do that is to encourage investment; and the way to do that is to encourage adequate profits.

The result of our actual policies is that our average annual percentage increase in productivity in the period from 1960 to 1977 was lower than that in Japan, in France, in Germany, in Canada, and in Britain. Our rate of capital investment between 1966 and 1976, as a percentage of GNP, was also lower than in any of these countries.

The lesson ought to be clear. □


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Most of the opinion polls tell us that inflation is the public’s Number One worry. We shouldn’t need the pollsters to tell us that. We can listen to the complaints in the lines at the supermarkets, read the headlines in newspapers, or hear the pronouncements of business leaders and political candidates. Inflation is a terrible cancer that must be brought under control, we are constantly warned, or we face a bleak future and perhaps an economic disaster.

But what causes inflation? Many economists and savants tell us that inflation is a very complex problem with neither a single cause nor a single solution. Few economists would dare deny that arbitrary government expansion of money and credit produces inflation. Yet, there seems to be a universal desire to bring in other alleged causes: the greed of unions and businessmen, government regulations, rising oil prices, and even such matters as lowered American productivity and reduced capital investment.

What is behind all this confusion about inflation? It grows out of the same character defect that causes inflation in the first place. That character defect is dishonesty, and it has seduced a whole nation. But events may eventually force us to accept inflation as a dishonest human action that can be avoided if people have the will and the understanding to do so. Nor is inflation a complex problem when one is prepared to see it as a moral issue rather than simply as political or social phenomena.

A steel company executive named Enders M. Voorhees pointed to the moral problem of inflation in a 1950 speech entitled, “Wanted—Dependable Dollars.” Even then, corporate financial officers in Mr. Voorhees’ position were discovering that inflation distorted business cal-

Mr. Barger is a corporate public relations executive and writer in Toledo, Ohio.
culations and made future business planning a nightmare. In the same speech, he unashamedly showed a preference for the terms “dependable dollars” or “honest money” rather than such terms as “sound money” or “gold standard.” He had harsh words for “printing-press money,” i.e., money created by government manipulations. But why were we beguiled by “printing press” money and why were we unable to stop inflation? Mr. Voorhees concluded, “In the end we may discover that it is our own deficiency in moral stamina that is to blame, and that the printing-press operators are merely reflecting our own attitudes.” (emphasis added)¹

Mr. Voorhees was politely saying that character defects get in the way of efforts to stop inflation. He could have gone on to say that dishonest money is produced by dishonest people who are trapped by greed, fear, and weakness. This would be a very strong statement, but the facts bear it out. Inflation begins with an expansion of the money supply which immediately produces benefits for certain people while causing losses for others. In general, people on fixed incomes and holders of bonds, loans, and savings accounts are cheated, while borrowers, property owners, and inflation-wise speculators show gains.

**Lying and Cheating**

Lying and bland promises are an essential part of the inflation program. The public is constantly told that inflation will be brought under control, for it is important that most of the victims be unaware of what is going on. Still, a student of inflation is finally forced to believe that the public wants to go on believing in the inflation game. The old saying, “You can’t cheat an honest man,” may have some relevance to the way we are cheating and being cheated by inflation.

It would be unfair to say that the current generation of Americans is less honest than earlier generations that somehow were able to maintain an “honest” or “dependable” dollar. And for that matter, it would even be unfair to say that Americans are more dishonest, say, than the Germans or Swiss who have been able to maintain the strength of their currencies. Our problem, as Americans, is that we have been practicing a *selective dishonesty*. While often insisting on rigorous honesty in other matters, we have accepted the dishonest practices that produce inflation. Then we have gone further in this deceit and have attributed the shrinkage of the dollar’s buying power to conditions that are really

the effects of inflating. This tends to deflect attention from the actions that dilute the market value of money and ought to be stopped.

**Needed: An Acceptable Definition**

One of our most disturbing problems is that professional economists do not agree in their definitions of inflation. One of the most widely accepted definitions of inflation is that it is a rising general level of prices.\(^1\) Another popular definition of inflation is “too much money chasing too few goods.” Actually, more honest and precise than either of these definitions would be an explanation of the actions that cause prices to rise generally or bring “too much money” into existence.

The public should understand that a widespread drought may result in temporarily higher prices for food, relative to prices of other things. But that is not the same as a government action that arbitrarily produces more paper money and credit and results in a persisting general increase in prices.

Why do professional economists employ such deceptive and misleading definitions of a condition that could prove to be a terminal illness for our way of life? One reason for this dishonesty is that the need to maintain “sound” or “honest” money was badly ridiculed and discredited in the early 1930s and since then has never been defended except by a few economists. There is also something about inflation that promotes demands for centralized government control, which many economists advocate. Finally, the Keynesian deficit spending programs endorsed by many economists make inflation unavoidable.

Yet another argument against “honest money” is that it is a return to the gold standard, which had its severe critics and was often looked upon as a means of keeping money scarce and concentrating power in the hands of eastern bankers. Actually, honest money could take several forms and could be backed by metals and commodities other than gold. It is even possible to conceive of a privately-issued currency without any specific backing other than the assets of the bank or company which offers it. A gold standard will soon collapse if it is seen as a hindrance to progress rather than a way of protecting the public.

**Effects Seen As Causes**

In the general dishonesty about inflation, most experts make the error of blaming inflation on conditions that are really the effects of expanding the money supply. Business leaders like to focus on “cost-push” inflation, for example, with unions as the villains. According to

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this argument, monopolistic unions are able to impose increased costs on business which must eventually be passed through as price increases. If unions would only be less greedy, cost-push inflation could be kept under control.

Union leaders and their staff economists seize on the same argument, usually with the twist that inflation is caused by unwarranted price increases, excessive profits, high executive salaries, and monopolistic or oligopolistic enterprises. Both unions and management, in making such arguments, play directly into the hands of politicians who would like to institute wage-price controls. Despite the fact that wage-price controls are virtually unworkable and result in a bureaucratic nightmare, the demand for them is kept alive by the persistent belief that unions cause inflation by raising wages or management cause the same condition by increasing prices.

Professional economists could perform a great service by rooting out the fallacies in these beliefs. They could show, for example, that raising either wages or prices without corresponding expansion of the money supply will result in unemployment; there is less demand for either labor or goods if wages and prices go up with no equivalent increase in available money. With no expansion in the money supply, workers who demand too much or businesses which raise prices above the market would merely lose out to competitors.

**Blaming Government Regulations**

Inflation commentators have recently discovered another culprit in producing inflation: the high costs of government regulation. This has been useful to managements protesting the costs of meeting factory emission regulations or of making government-required product changes. There are good reasons to oppose these regulations and to deplore the costs of meeting them. It is false, however, to say that costly government regulations cause inflation.

The economic effect of a government regulation is exactly the same as a wage increase or any other cost, including higher oil prices. It is something that must be included in the prices of the goods or services being offered by the company. Taxes are in the same category. And if the firm’s customers will not accept the increased prices, the company either will go out of business or will divert its production to lines that can be marketed profitably.

But regulations in themselves do not cause inflation. They do cause higher prices of certain products. These higher prices are mistakenly called inflationary, when they really reflect higher costs. The customer
who must pay these higher prices will make equivalent reductions in other purchases.

Is Low Productivity a Cause of Inflation?

Low productivity is still another suspect in causing the inflation mess. With lower-priced imports flooding the country, there is increased concern about conditions that adversely affect American productivity. One of these conditions is the high cost of wages and benefits which raises unit costs of American goods. There is also deepening concern about the decline in capital investments. It is alleged that our own plant capacity is becoming obsolete and inefficient in comparison with the plants of foreign producers. Meanwhile, prices of most manufactured goods are going up. But with higher productivity, prices would tend to stabilize, or at least the increases would not be so large.

Here again, low productivity is blamed because it supposedly increases the unit costs of certain products. Productivity itself has nothing to do with causing inflation, nor can it stop the process. The best spur to productivity is the producer's desire to capture a larger share of the market and to increase his overall productivity. Few producers are likely to increase their efforts simply to fight inflation.

But there is a very serious deception in the effort to use higher productivity as an inflation-fighter. This deception comes from defining inflation as a general rise in prices. Theoretically, an annual increase of four per cent in the money supply would not result in a general price rise if there also was a four per cent improvement in productivity. Prices would probably remain at the same level.

This would not mean, however, that inflation had been stopped. It would only mean that its effects had been concealed. For, without an arbitrary expansion of the money supply, the four per cent improvement in productivity would have gone to certain workers, owners, and customers, as wages, dividends, or lower prices. So increased productivity only makes inflation less visible, and perhaps more acceptable politically. But it is not the answer to inflation.

The End of Dishonesty

We can probably expect more dishonesty about inflation until events force us to change our ways. There is reason to believe that the American people become very worried when inflation passes the double-digit level. While this does not lead to a complete understanding of the problem, it does cast doubt on some of the glib explanations and solutions being offered. Unfortunately, the most recent surge in inflation was
attributed to higher oil prices, when in reality the OPEC nations who raise their crude prices do so to protect themselves from the continuous inflating of the American dollar.

Yet, honesty or truth about money must always have its day; even the inflationists know that. As Ludwig von Mises explained, inflation cannot go on endlessly. "If one does not stop in time the pernicious policy of increasing the quantity of money and fiduciary media, the nation's currency system collapses entirely. The monetary unit's purchasing power sinks to a point which for all practical purposes is not better than zero." Still, Mises believed that money and credit expansion could be stopped in time if people had only the will and the understanding to do so.3

Hans F. Sennholz, an economist who studied under Mises, has been less optimistic about the future of the dollar. In his view, two-digit inflation will be ended only by the advent of three-digit inflation. He also has suggested that American inflation may end in a frenzied, hysterical spending debacle not unlike that which overtook Germany in 1923.

But whether the landing from dishonest money is soft or hard, Americans will some day become more honest about the causes and effects of inflation. We will become courageous enough to demand honest, or dependable, money.

And we should not be too hard on ourselves when we finally learn how we have been deceived about the nature of inflation. Mr. Voorhees, in his plea for dependable dollars, pointed out that it seems to be those people who have had bitter personal experience of living under bad currencies who most appreciate good currencies and are willing to make some sacrifices to secure and maintain them. He was probably referring to the West Germans, whose bitter experiences of 1923 probably taught them the value of strong, honest, dependable money.

We have had no experience similar to Germany's runaway inflation of 1923. Let's hope we don't have to endure such a disaster, which some observers thought was a worse calamity for Germany than their losses of World War I. But adversity, if it cannot be avoided, can at least be put to good use. In the case of an inflationary collapse, it could teach us honesty. As Sennholz says, "Affliction is a school of virtue that may correct levity and interrupt the confidence of sinning. But how long and how often must man be afflicted before he learns the lesson?"4


IN AMERICA today there seems to be near universal awakening to the fact that something is wrong. Individuals in vast numbers are no longer inspired to excel in their respective fields of endeavor.

Business leaders fault labor, OPEC, government, imports and employee apathy. Labor blames business, government, OPEC, and the low wages paid in exporting countries. Rank and file citizens generally believe government, OPEC, labor, business and lousy working conditions to be the primary culprits. Government suspects business, OPEC, foreign ingenuity, lack of respect for the dollar abroad and malingering personnel on production lines. (Labor controls too many votes to be faulted by those who have to stand for election from time to time).

Every cognizant individual old enough to remember when the zest for life was, of necessity, honed to a fine edge is fully aware that the intangible known as the American will has, in fact, diminished perceptibly. The only thing I can't understand about the case of diminishing will—and it really bugs me—is so many people asking why.

One of the few things I know for an absolute certainty is why the American will (that seems to be the accepted term used, no doubt, to avoid complicated nomenclature) is less vivacious, aggressive, and steadfast than it once was—why so many individuals feel little, if any, responsibility for themselves, their job, family and government. I know why because I was there when it

Mr. Raley is a free-lance author, speaker, philosopher from Gadsden, Alabama.
happened, saw the seeds of irresponsibility planted and observed the first bitter fruits of that harvest.

Let me say at this point that I have never known or learned to think of an average person. The people I meet, get to know, learn to like or dislike, are all individuals and a surprisingly large number of them are by no means devoid of will. On the other hand relentless encroachment on freedom of choice, innumerable restrictive regulations on enterprise and the fact that people have learned that losers, as well as those who never see the starting gate, have equal recourse to one or more government wealth-sharing program tends to, more or less, dull the once fine cutting edge of America's will to excel.

In January 1933 I found it necessary to drop out of school. Dad was having a difficult time just feeding the family so I decided to move to my granddad’s farm in Appalachia where I could, hopefully, earn my own living. Being in my middle teens at the time, I even expected to save enough money to return to school.

The old farm was in a steep narrow valley and, except for a few small level plots, the productive soil had washed away many years before. This was not particularly important to me since I didn’t have the means to cultivate the land anyway, but I did find innumerable ways to make a living. I learned to hunt and trap animals for their fur, dig medicinal roots, especially ginseng, and where to sell them; find and rob wild bees; pick and market wild berries; and numerous other ways to earn money.

As a matter of fact I had a ball in Appalachia, lived well after the first few weeks and actually accumulated enough in the process to return to school. I was, therefore, really just a transient who learned from the local residents what I needed to know to attain my appointed goal, and then I moved on.

Everyone in the area must have been well below poverty level if there was a poverty level in those days. But the people who lived in the larger valleys and owned more level land seemed to be doing fairly well. It was the real poor folk, however, who lived in the ridges and small eroded valleys where I was, and were almost as poor, that I came to know and admire. These were the hustlers who parlayed their meager crops with what they could earn from other sources to sustain their families. In my opinion—and I've had a love affair with anthropology since the fifth grade—man, living in an organized society, has never been more free and independent than those people were. They accepted full responsibility for themselves and their families; no one expected
anything from a source other than their own efforts.

Sometime that summer the government programs started. An agent came through offering to pay farmers from eleven to twenty-one dollars an acre, depending on how good he judged their cotton to be, to plow up all or any part of it. Most farmers plowed up some part of their crop. With cotton selling for about five cents a pound and the area's history of low productivity, it was the practical thing to do.

The difference in payment caused considerable resentment among neighbors, however, since in midsummer most farmers think their crop is as good as the best and better than the rest. I had put in a small crop that year after all by plowing for an elderly gentleman in exchange for the use of his mule and plow, a day for a day. Since I had only three acres of cotton, I didn't destroy any of it. I did get a preview, however, of how government programs would be administered when the agent paid his cousin top money for seven acres of very poor cotton while offering or paying at or near the bottom level to most everyone else.

Next came the commodity program designed by the "philanthropists" in Washington to feed the poor better than they could feed themselves while reducing the mountains of surplus commodities. The program seemed to work well in that it achieved these goals. No doubt its sponsors were quite pleased with themselves. But I still hurt when I remember what it did to most of the people who participated. In retrospect, these first ripples of government intervention were very small indeed in relation to the tidal waves that have followed. However, they were that first step of a long journey, a foot in the door that had heretofore been strictly private, the first pitch of a whole new ballgame.

At first only a few of the more indolent signed up to receive commodities. Then, as others saw their neighbors eating better without effort than they could eat by scratching as hard as they could, more and more people capitulated. It was like watching trees in a virgin forest fall and knowing they would never grow quite so tall again. Envy and resentment played a major role, along with nagging spouses. But for whatever reason, when individuals signed up for commodities they seemed to become different people, lose the essence of their zest for life.

Everyone in the area must have been eligible to receive commodities. At first, only a few signed up so the people who had accepted the job of distributing them were forced to get out and beat the bushes in an effort to find people who would take the mounting piles of food off their
hands. I happened to be at a friend's house one day—we had cut a bee tree and were dividing the honey—when a commodity agent came by looking for prospects. He explained that the food was piling up and that he had to move it to hold his job. When we declined his offer the agent asked my friend point-blank why we refused; and I doubt to this day that a better answer could have been given.

"I don't do nigh as good a job supporting my family as I would like to do," he said, "but I well know whose job it is." That, I believe, is a classic example of the will, once so prevalent, that built America—the will so many people are hoping their fellow citizens can recapture in this age.

By the time I left Appalachia it was easy to detect participants in the commodity program just by talking with them. People who had been eager to help cut a bee tree, dig a load of rhododendron and ferns to sell, or any of the numerous projects that offered some small remuneration, were no longer interested after being on commodities for a while. More than this, their thinking changed perceptibly. Americans, since the Revolution, had felt responsible—not to government but for government—in the same sense that they felt responsible for themselves and their family. As individuals accepted or were forced to participate in various programs, they changed positions, in their own mind, placing government in the parent role of primary authority and responsibility. In less than two years, fully one-third of the people in the area were accepting government handouts in lieu of individual will.

The things I saw happen in that remote region were, of course, being acted out in every nook and corner of these United States. As the years passed, more and more people became addicted to an ever-increasing number of government programs. Industrial workers protected by powerful unions with unrealistic contracts, obtained in many cases with the aid of government pressure, often do no more than dabble at their work. Extra effort and ingenuity is not necessary to hold a job; as a matter of fact, motivation is often frowned on by fellow workers where just drifting with the flow has become the norm. After all, if the company goes broke, the employees can always draw their pennies.

Since the stone of necessity no longer keeps a cutting edge honed on individual will the American economy has been forced to draw more and more on that reserve we hillbillies are wont to call gut fat—capital, labor, technology and motivation invested before the American will was inhibited by government
handouts and restrictions. In those days a man was responsible without recourse for his own house. He could invest his means in a business venture knowing that as the owner he could hire acceptable personnel, direct operations, enjoy the fruits of success, or suffer loss if the venture was a failure. The people employed by such a man knew they could do their job well and stay on the payroll, possibly moving to a better position if the business prospered; or they could fail to show incentive and find themselves terminated.

A long-time friend of mine has been associated with railroads all his working life. He and I were discussing this gut-fat proposition recently and he ventured the guess that if a railroad were built from scratch today, rights of way included, the builder having to contend with all the regulations and restrictions prevalent at this time, it would cost at least one hundred dollars to ship a peck of wheat bran, on said railroad, from St. Louis to Chicago. No doubt my friend exaggerated somewhat, but I would be unwilling to promote such a project hoping to prove him wrong.

With American productivity deteriorating progressively, rank and file citizens as well as leadership in government and business are voicing grave concern about the erosion of this element known as the American will. Even coming late in the game as it has, when our place in the sun is much less secure than it once was, this near universal awakening should be good for the country. I must admit, however, that I would be a great deal more elated if cognizant adults would quit "playing like" they don't know what's causing the trouble. This breed has been known to pour water on a drowned man in a sincere effort to revive him.

Grover Cleveland

The lesson of paternalism ought to be unlearned and the better lesson taught that while the people should patriotically and cheerfully support their Government, its functions do not include the support of the people.

Every thoughtful American must realize the importance of checking at its beginning any tendency in public or private station to regard frugality and economy as virtues which we may safely outgrow. The toleration of this idea results in the waste of the people's money by their chosen servants and encourages prodigality and extravagance in the home life of our countrymen.
Despite the fact that the economic regulation of transportation has been an unmitigated disaster from the very beginning, substantive reform has been negated at every juncture. Worse still, each succeeding crisis has instead served as an excuse to aggravate the ills of existing government interventions by enacting even more regulations. These further interventions have been "justified" on the grounds that the consequences of deregulation would be too gruesome to contemplate. Removal of government controls would place the transportation industry and its customers at the mercy of the market. And we all "know" how horrible that would be.

Well, perhaps we don’t know how horrible it would be. After all, we cavalierly entrust our survival to essentially unregulated markets for food, clothing, and shelter. Transportation, though, we are assured, is different. One could hardly argue with that, if for no other reason than that it has been treated as different through government policy for nearly 100 years. It is a sobering thought to consider that a mere mountain of bizarre and absurd government rules and regulations is all that stands between the consumer of America and the menace of competition in transportation.

Given the professed importance of rail transportation to the "public interest" one might have anticipated that public policy would have paid greater heed to the financial health of the industry. Strangely,
though, the importance of rail service has spawned curious theories of one-sided obligations.

The theory of the railroads’ obligation to serve begins innocently enough with the rather bland assertion that railroads are different from other businesses. While this is true, it hardly follows that railroads can exist outside the constraints of economics that face every human enterprise in a world of scarcity. Rail service is not guaranteed merely because it is necessary or useful. Rail service, like any other economic good, requires resources. Yet, what are we to make of government decrees that railroads may be required to operate at a loss? Or that such mandated losses do not constitute a form of confiscation?

Ostensibly, the losses incurred in performing the vital public service of expending scarce resources on unused or underused rail service are to be made up by cross subsidy. The idea is that some other part of the rail system will bear an inordinate portion of the costs by excessive charges levied against its customers. However, both economic theory and experience indicate that cross subsidization doesn’t work. Jacking up rates in excess of full cost invites competition to take away the disfavored customers. This is precisely what has happened in the transportation industry.

The government can force the railroads to suffer losses on little-used routes, but cannot deliver on the promise of higher profits elsewhere. The result is that despite the legislated “fair” rate of return of 5½% promised by the Transportation Act of 1920, the railroad industry has enjoyed a return of less than 5% since 1929, and less than 4% since 1955. Even these anemic earnings overstate the return on investment because no adjustment is made for the effects of inflation. The impact of inflation is revealed in the insufficient reserves set aside for capital consumption. Since depreciation is based on historical cost rather than replacement cost, the yearly amount allowed for depreciation reserves will, when the time for replacement arrives, amount to too little to replenish the worn out track and equipment. Meanwhile, money which should have been accumulated to serve this purpose has been reported, and taxed, as income.

**Railroad Earnings**

The magnitude of the impact of inflation is indicated by the estimated differences in return for the fifteen largest railroads (based on 1977 revenues) for selected years since 1960. As can be seen from the table, after adjustment for inflation, the return on investment never exceeded 3%. Worse yet, by 1977 the return was a pathetic .2% (two tenths of one percent).
IMPACT OF INFLATION ON INVESTMENT RETURNS FOR FIFTEEN RAILROADS, 1960-1977

Year | Based on Reported Earnings | After Inflation Adjustment
---|---|---
1960 | 3.3% | .8%
1965 | 4.7% | 2.8%
1970 | 3.9% | 2.2%
1975 | 3.6% | .2%
1977 | 4.7% | .2%

Sources: Moody's Transportation Manual and Survey of Current Business (Bureau of the Census). The reported financial results were adjusted using the implicit price deflators for rail structures and equipment and the estimated proportion of asset life remaining.

The 15 railroads used in the sample were: Burlington Northern; Southern Pacific; Santa Fe; Union Pacific; Norfolk & Western; Missouri Pacific; Seaboard Coast Line; Louisville & Nashville; Baltimore & Ohio; Southern Railway; Illinois Central & Gulf; Chesapeake & Ohio; Chicago & Northwestern; Chicago, Rock Island & Pacific; St. Louis-San Francisco.

Such low rates of return are clearly inadequate to sustain anything close to existing levels of rail service regardless of the legislated "obligations to serve." Under such conditions, the shift of capital out of the railroad business becomes inevitable. Since capital is a limited resource, those opportunities which offer better rates of return go to the head of the line. Almost anything beats the return yielded by rail investments. It should come as no surprise, then, that the management of railroad firms would seek to diversify out of the rail business.

Some degree of concern has been voiced that the diversion of rail retained earnings to non-rail investments will weaken the capacity to provide rail services. There can be little doubt that the trend is away from rail investment and that this must inevitably reduce the capacity of the rail system. Far from being a sinister threat to the public welfare, however, this shift of resources from potential rail investment to other lines of business is a pragmatic response to a more urgent order of consumer needs. Channeling resources to these more urgent needs is a prime example of the exercise of socially responsible corporate management. Since resources are limited, it is desirable that they be put to their best use. The venture into non-rail lines of business by railroad firms is a reaction to, not a cause of, low returns in the rail industry.

Signals for Change

Low return on investment is a social signal indicating that consumers want less of the particular product or service offered and more of some other product or service. Railroad management would be misusing the resources under their control if they were to ignore this signal. Perhaps the signal is less
than completely valid given the fact of heavy governmental intervention in the business. It is quite possible, even likely, that this intervention, itself, has played a key part in reducing returns and diverting resources out of railroading. If legitimate high order of urgency needs for rail service are not being met, we must look to the constraints imposed by public policy for an explanation, not fault railroad management for pursuing sound investment opportunities through diversification.

It may be that the low return in regulated industries results from the old theory that such industries, having an "assured" level of profit written into law, were less risky, and therefore, would normally be expected to experience low rates of return. In recent years, though, it has become painfully obvious that the "assured" level of profit all too often has proven a ceiling rather than a floor. Consequently, at the same time that the internal rate of return on rail investment has been declining, the return on investment demanded by securities holders has been increasing.4

**Capital Requirements**

Investors looking to the future are unimpressed by the regulatory authorities' concern with insuring that firms recover historical costs. Stock prices have been bid down below tangible book value, effectively cutting the regulated firm off from new equity capital. Access to external sources of capital may be critical to the railroad industry in the years immediately ahead. The U.S. Department of Transportation has estimated the railroad industry will require $16 billion in outside capital between 1980-1985 in order to maintain the existing level of service. Unless the rate of return on rail investment improves markedly in this period, the public interest can be best served by reduction of service and disinvestment in low-yielding rail facilities. In this way, resources that would be underutilized on lightly traveled rail lines could be redirected to society's more urgent needs.

It is unreasonable to expect railroads to continue to invest money at such low rates of return. This realization has spawned a number of subsidy proposals. In 1970 the Rail Passenger Service Act established Amtrak—a government-owned and operated passenger service. In 1976 the Railroad Revitalization and Regulatory Reform Act led to the formation of Conrail—a government-owned and operated freight service. The 1976 Act also set up procedures whereby unprofitable branch lines could receive subsidies to retain rail service. While it is true that government subsidies could improve the return on investment from the perspective of the
railroad firm, the subsidy, since it is a transfer payment, does nothing to improve the total return on society's limited resources. In fact, since the funds for subsidy must be drawn from investments with higher rates of return, the net social benefit of the transfer is negative. That is, fewer goods and services in total will be available than if the transfer were not made.

Paying the Price

Two general policy directives provide the guidance for Interstate Commerce Commission regulation of transportation. On the one hand, the Commission is bound to prevent rate discrimination. On the other hand, the inherent advantage of each mode is to be preserved. To begin with, "preventing" and "preserving" are innately conservative activities. Even if such activities were appropriate when first instituted, time would inevitably render them less and less satisfactory. As it is, though, the directives are based upon fallacious economic doctrine and are representative more of wishful thinking than practical policy.

The social prejudice against rate discrimination springs from the notion that it is unfair to charge different prices to different buyers for the "same" service. The early examples of rate discrimination involved circumstances in which a railroad might charge a lower rate for a long-haul than for a short haul. The lower rate is to be distinguished from a mere quantity discount. The long-haul total charge would amount to less than a short-haul charge, sometimes over the same track. Superficially, using estimates of average costs to provide service, it can appear "unfair" that a short-haul which should cost less to supply, has a higher price tag. The problem with this line of reasoning is two-fold. First, no two buyers of rail service are purchasing identical service. Second, the reported "cost" of providing a service, even if it can be accurately determined, may be relatively unimportant in establishing the price of any specific transaction.

Transportation is purchased in terms of origins, destinations, and time periods. Even goods moving between the same two points may require different handling in terms of quantity, time of year, hour of the day, and the like. The service provided cannot be uniformly divided into equivalent units, such as ton-miles. Yet, this is precisely what regulation has led to. The imposition of this type of price control can have two kinds of results: none and bad. In the instances where the regulated price exactly matches what would have been the free market price, the regulation will have no impact. In the far more frequent instances where the decreed price is
either higher or lower than what the market price would have been, undesirable consequences will result.

**Wasteful Controls**

In the cases where the controlled rate exceeds what would have been the market rate, traffic will be diverted to a second best alternative. This leads to inefficient use of resources, as the second best alternative will almost certainly be at a higher cost. At the same time, the loss of revenue occasioned by the diversion will reduce the incentive and capacity of the firm to produce and provide the first best alternative. This phenomenon is demonstrated when the regulatory authority prohibits rate reduction by insisting that a move must cover fully allocated costs. Given the high proportion of fixed to variable costs typical in the railroad business, this regulatory approach prevents the realization of certain economies of scale, places the railroad at a competitive disadvantage, lowers total economic output, and increases the aggregate expenditure of resources.

In cases where the controlled rate is less than what would have been the market rate, uneconomic demand for the service will be stimulated. If the rate control were the only intervention, the suppliers of the service would seek to withdraw from the market. Unfortunately, further regulatory impositions usually prevent this from taking place. Railroads are frequently required to retain service which cannot earn enough to pay its own way. The retention of such "vital" services is not without its attendant social cost. The resources expended at a loss are thereby unavailable for more useful employment.

Furthermore, the alternative modes which could have provided economical service are prevented from making a contribution toward a net societal profit. This regulatory approach is especially insidious. The preservation of lightly traveled branch lines is the readily observable effect. What is not seen is the sacrifice of more beneficial alternatives. In this case, certain diseconomies are enforced, leading to a weakening of other rail services, lower total economic output, and wasteful consumption of scarce resources.

The 1940 Transportation Act instructed the Interstate Commerce Commission to preserve the inherent advantages of each mode under its jurisdiction. As anyone familiar with economics knows, the market, left to itself, will promote efficiency. As resources seek the highest rates of return, the "inherent advantages" of any operation will most assuredly be employed. Since the economy is dynamic, today's "inherent advantages" may be tomorrow's outmoded techniques. Instructing the ICC to preserve the inherent advantages of
each mode in 1940 has had the unhappy result of retarding progress.

That this preservation policy has stifled innovation is demonstrated by the historical record. The ICC's persistent adherence to full cost allocation, as exemplified in "Rail Form A" costing rules, has killed off several rail car innovations. The required average cost basis for rate making would not permit rates low enough to generate the volume needed to support the innovations. Interstate Commerce Commission rigidity resulted in some classic instances of delay in the introduction of rail inventions, including retarding the spread of unit train technology for over 40 years.\(^5\)

**Who's to Blame?**

The railroad industry and its managers have often been chided for lack of imagination. It is sometimes claimed that the poor rates of return enjoyed by the industry are a result of this lackluster management. But which is cause and which effect? The poor returns on investment are directly traceable to regulatory policy. In turn, poor investment return reduces the resources available for innovation. Finally, the necessity to have changes in business operations approved by a group of politically appointed Commissioners must frustrate whatever innovative urges may arise. The fact that business is dynamic and forward looking, while the process of regulation is deliberative and static, poses a serious threat to the survival of the railroad industry.

The magnitude of the social cost of railroad regulation is enormous. One author called the welfare loss "huge" and "certainly greater than all of the welfare losses from pure enterprise monopoly combined."\(^6\) In 1969 the social cost of railroad regu-
loration was estimated at between $2.7 and $4.1 billion per year. Given the rampant inflation of all costs since that time, especially rail inputs which have increased in cost faster than the more general consumer price index, a reasonable estimate of the current social cost of railroad regulation would range from $5.5 to $8.0 billion per year.

Conclusion

There can be no question but that regulation of the railroads has led to higher overall transportation costs, serious resource misallocation, and sacrificed alternatives. Public policy has made the economic pie smaller by its intervention into the transportation industry. That this result could be in the "public interest" seems ludicrous. Yet, promoting the "public interest" is the reputed goal of public policy. Two explanations come readily to hand. It may be that various "private interests" may manipulate public policy to their own advantage. Alternatively, it may be that the makers of regulatory law fail to anticipate the consequences of their actions.

Wherever the truth may lie, the observable consequences of economic regulation of the railroad industry are demonstration enough that the current system not only imperils the railroads, but has a negative net impact on the general welfare. This in itself should be sufficient evidence that deregulation will benefit both the railroads and the U.S. economy.

---FOOTNOTES---

1 Arizona Corporation Commission vs. Southern Pacific, 87 AZ 310.
2 Northwest Pacific Railroad vs. ICC, 288 F. Supp. 690.
The awarding of grades is often the most distasteful task faced by teachers on any level. To some extent, the grading process automatically puts a barrier to learning between student and teacher. This is especially true on the senior high school and college levels. The student may hesitate to say what he thinks because the instructor may mark him down for heretical ideas, i.e., disagreeing with the instructor. This fear is all too often based on the student’s experience.

The student-teacher relationship that most appeals to me is the one developed a millennium or so ago by the Saracens. We know those people as the “bad guys” in the Crusade capers of our European ancestors.

Anyone who wanted to teach in the old Saracen civilization could do so, if he could find someone who wanted him as a teacher and who would pay for his services. Jew and Christian and Moslem, black and white, all participated. Race and religion were not barriers to entry into this serious business of learning, either as a teacher or as a student.

The teacher was not licensed or certified to be a teacher, and he didn’t license or certify anyone as a student. There were no academic requirements for admission into this learning process. The student and teacher just made an arms-length bargain acceptable to both. If the student became dissatisfied with his teacher, he simply found another teacher who pleased him more, in much the same manner that you and I change swimming instructors or piano teachers. When the student had learned as much as he wanted to learn, he left. He, and he alone, made the decision, precisely as a present-day student in a commercial language school decides when he has learned as much as he is willing to pay for.

No formal examinations were given in those ancient centers of learning. No degrees were awarded.
No academic records were kept. Thus the only power possessed by the teacher in the old Saracen tradition of education was the power of logic and persuasion. He didn't have a "magic marking pencil" loaded with an unlimited number of A's and F's as we instructors do today.

The students could hardly riot against the Saracen education establishment. There wasn't any. And, apparently, those centers of learning (universities) were generally free from supervision and control by government. Nor were there any academic accrediting associations which, of course, cannot precede but must necessarily follow the establishment of a formalized educational system.

The physical plant (the actual buildings) of those places of learning were sometimes provided by the religious authorities, sometimes by government, sometimes by commercial interests on a rental basis, sometimes by the same commercial interests on a "for free" basis dictated by self-interest, sometimes by individuals (teachers and others) who used their homes as classrooms, and sometimes the students and their teacher just met for discussions in some public coffee house. Sometimes the physical plant was a combination of all of these, located around a library that had developed in much the same way as the rest of this center of learning or university.

The supporting services—food, lodging, medicine, social life, and so on—were provided by persons who profited directly from supplying the product or service.

Those universities continued to grow and develop over the centuries into renowned centers of learning with, apparently, almost no academic formality or authoritarian supervision. In some respects (but certainly not in all respects) many of the medieval universities of Europe were patterned upon that old Saracen concept of education.

In today's world, there is not any academically successful arrangement that's quite like the ancient Saracen method of teaching and learning. The concept of the "University Without Walls" that showed much promise a few years ago was based somewhat on that philosophy, as was the "Open University" sponsored by the British government. While several educational institutions still endorse that concept in various forms, most of the experiments seem inevitably to revert to traditional assignments and grading procedures. Only the mechanical methods of delivery deviate much from the norm, e.g., teaching by TV or the mails or weekend classes on campus and such. Also, more "nonaccredited" teachers may be used.

The closest development to the old Saracen concept of education today
is found in various educational "centers" (for the study of something) which are supported by a combination of industry, foundations, universities themselves, religious organizations, and interested individuals—and sometimes by government, directly and indirectly—but which are not positively controlled by an "establishment" of any sort. In these communities of scholars, it is often difficult to determine who is teacher and who is student, and they sometimes change positions overnight. The feature most closely akin to those old Saracen universities is the fact that no examinations are given, no degrees are awarded, and the only academic records kept are the publications of students and teachers.

Those few communities of scholars, however, are essentially outside of the academic system typified by our degree-granting colleges and universities. I do not know of even one accredited educational institution that does not, in one way or another, grade the students who are candidates for degrees; nor can I visualize any acceptable way of avoiding this arrangement in today's world. The grade may be merely pass or fail. And it may be based on independent study or classroom work or various other possible arrangements. But always, where academic credit is involved, grades are required. And we teachers—with our inevitable magic marking pencils—are inescapably responsible for awarding the grade. We must decide—that is, we cannot possibly avoid deciding—criteria for high grades and low grades. There is simply no way around this arbitrary authority of the teacher (me) over his students (you) in our formalized educational system.

Even so, if you would still like to study with my help, welcome. I assure you that I find students in general most stimulating, that I have a recognizable philosophy of living in our real world, and that I would enjoy sharing with you my extensive experiences (both successful and unsuccessful) in the business world, in the writing and speaking world of communications, and in studying and living abroad and in various sections of the United States. And, of course, I'll be pleased to react to whatever experiences and ideas you care to share with me, publicly in class or privately in my office.

Naturally, I will do whatever I can to help you learn whatever you desire to learn (or must learn) while you are fulfilling the academic requirements for your degree from this university. I will also do all I can to help you earn the highest possible grades. That's important too.

Finally, please remember that I'm not so insecure that I need to put people down. So speak up.
Many economists, journalists, and publicists spread the view after World War II that we now know how to prevent depressions. The claim was that the government could prevent depression by manipulating the money supply, altering the tax structure, providing employment, and "stimulating" the economy. If these, and like measures, were undertaken judiciously, depressions were supposed to be avoidable.

The evidence is mounting that such is not the case. The United States has been in the throes of depression for most of the 1970s, a depression which threatens to deepen and shows no signs of going away. All the devices which were supposed to prevent depression have been extensively employed, but to little or no avail. In fact, there is good reason to believe that the very measures supposed to prevent depression are prolonging and deepening it. But to grasp the full implications of this we need a new or different concept. I suggest we view what is happening to us as "Permanent Depression." And we may look to Soviet Russia, Communist China, Castro's Cuba to see where that road leads.

Permanent Depression is that condition which exists when there is involuntary underemployment of land, labor, and capital to satisfy human wants. Permanent Depression may be great or small. It may be so small that its direct effects would be experienced by only a few people. Or, it may be so massive as to erupt in what will be recognized as a Great Depression engulfing

Dr. Carson has written and taught extensively, specializing in American intellectual history. His recent series in The Freeman, World in the Grip of an Idea, is being published by Arlington House.
peoples around the world. But whether massive or tiny, whether apparent to everyone or knowable only as potentiality, Permanent Depression exists wherever there are obstacles which result in involuntary underemployment of land, labor, and capital to satisfy human wants. It is a depression because less is produced than otherwise might have been. Goods are less plentiful than they might have been. Prices are higher than they might have been. Human wants go unsatisfied, and to the extent that the condition is involuntary it is a depression.

Why not simply "underemployment . . . ," it may be asked? It is true that any underemployment of resources would result in less than full production. But if the satisfaction of human wants is the goal of the activity, voluntary underemployment must be permitted. Saving, leisure, and possession for convenience and enjoyment are human wants—any of which may occasion underemployment. To formulate the matter otherwise would involve the contradiction of sacrificing the wants of some to satisfy the wants of others. So long as the wants of all are in play, there is no reason for describing the resulting condition as depression. Whereas, if the underemployment is involuntary, the satisfaction of wants is clearly being reduced, i.e., depressed.

This brings us, too, to the cause of the Permanent Depression. The cause is implicit in the word "involuntary." The cause is that force has been intruded into human activity so as to place obstacles in the way of production. Force in one form or another is the only plausible explanation of involuntary activity or inactivity. Although the use of force may be variously motivated and be used for any number of objects, it can have only two origins. It must either be exerted by outlaws or through the agency of government. Since it is the business of government to apprehend and restrain outlaws, the proximate cause of Permanent Depression is government, either through failure to perform its function or by positive acts of compulsion.

Discouraging Production

Governments can and do cause Permanent Depression. Indeed, they are directly the usual cause and the only bodies who could make it permanent. Nothing is easier to accomplish than for government to bring on Permanent Depression. All it has to do is to adopt measures which have the effect of discouraging production. A review of the history of the world would show that as soon as any government has consolidated its power over a people—gained a monopoly of power—it has in one way or the other gone about
the task of discouraging production. In our era, governments have not only discouraged production but also encouraged consumption, thus deepening and broadening the Permanent Depression. The movement to do this is now world-wide, but let us restrict our account largely to the United States.

For several decades now—indeed, for the better part of a century—the leaders of the United States have been acting on the basis of a profound economic error. It is not a new error, but it has been given impressive academic credentials over the past century. The error can be stated this way, though it is not usually put so bluntly or directly: \textit{The way to prosperity and national felicity is to discourage production and encourage consumption.} Stated so generally and baldly, the fallacy of the proposition may show through. But that is not how we ordinarily confront it. It is usually advanced in some particular application, and down where each of us lives, the proposition has great appeal.

Let me illustrate. Everyman is usually firmly convinced that he knows the solution to his economic problem, if he has one. The problem is this, as he sees it: There are too many producers of the goods he produces or too many providers of the services he provides. Which of us is immune to this notion? I know—don't argue with me on this one—that there are too many writers. No doubt, I would know with equal clarity if I were a real estate salesman that there are too many of those. In like manner, the managers of Chrysler Corporation can see that too many automobiles are being produced. Or, to turn the problem around, there are too few customers for the goods and services we have to offer. The solution is obvious. Have government discourage production—at least that of the others—and encourage consumption—at the least of whatever it is I have to offer.

\textbf{Say's Law}

The error in these beliefs is by no means obvious, certainly not in the particular applications. Yet it is a prescription for Permanent Depression. That measures based on the error would lead to depression was pointed out nearly two centuries ago by J. B. Say. The corrective to the error was stated in what has come to be known as Say's Law.

J. B. Say was a French economist, a contemporary, more or less, of Adam Smith. His economic treatises were published in the early years of the nineteenth century. His works never attained the renown of Smith’s. Today he is remembered, if at all, for the economic law which is joined to his name. And even the law has fallen into disrepute among many economists, for reasons that
may be apparent when it has been examined. Various claims have been made to its refutation, but that is easier said than done.

Say’s Law is usually stated this way: “Production creates its own demand.”1 I know of no general law more infelicitously stated. It is subject to all sorts of misinterpretations. It must be immediately qualified in order to get to its meaning. To wit: The act of production does not create demand. It is only when what has been produced is offered in the market that it becomes demand. Even that is not obvious. Moreover, not just anything that is produced and offered in the market becomes demand. Only those commodities or that labor which is wanted will become demand. Nonetheless, that production creates its own demand may be the most direct and effective way to state the law.

Some propositions which undergird Say’s Law need to be stated in order to establish its validity. The most important is this. In the absence of a medium of exchange, or money, if you will, supply is demand and demand is supply. This can be readily demonstrated by a simple barter situation. Suppose that I grow tomatoes and my neighbor grows bell peppers. My family having set up a clamor for bell peppers, I approach my neighbor with the proposal that I will give him twelve of my tomatoes for twelve of his peppers. He consents, and the exchange is made. Clearly, my supply of tomatoes constituted the demand for his peppers. In like manner, his supply of peppers constituted his demand for my tomatoes. It is not difficult to see, either, that it was my production of the tomatoes that created the effective demand for the peppers.

The Use of Money in Trade

It was Say’s contention that the use of money in effecting exchanges does not fundamentally alter the situation. Fundamental they may not be, but there can be no doubt that the use of money changes some things. When money is used in transactions, supply and demand assume separate guises. It becomes possible to calculate price levels. Demand comes to be expressed as money and supply as goods. An opening occurs for monetarist illusions that demand can be increased by increasing the money supply. Even so, Say maintained that it is only an illusion that money is ever anything more than a medium through which goods are exchanged for goods. He put it this way: “Money performs but a momentary function in this double exchange; and when the transaction is finally closed, it will always be found, that one kind of commodity has been exchanged for another.”2

John Stuart Mill noticed that
there is another difference which comes into play when money is used. There is, he said, "this difference—that in the case of barter, the selling and buying are simultaneously confounded in one operation; you sell what you have, and buy what you want, by one indivisible act, and you cannot do the one without doing the other. Now the effect of the employment of money, and even the utility of it, is, that it enables this one act of interchange to be divided into two separate acts or operations; one of which may be performed now, and the other a year hence, or whenever it shall be most convenient." The seller "does not therefore necessarily add to the immediate demand for one commodity when he adds to the supply of another."3

The Timing of Trade

What occurs may be described this way. The demand which arose from a product at some time in the past is transferred into money in which it may be said to reside until another purchase is made. But this is a never ending process, so long as the money remains in circulation, so that at any given time some of the demand resides in the medium through which exchanges are made. None of this changes the validity of the fundamental axiom, as Mill affirms: "Nothing is more true than that it is produce which constitutes the market for produce, and that every increase of production... creates, or rather constitutes, its own demand."4

Say's Law impressed and was accepted by many of the greatest economists of the past two centuries. David Ricardo affirmed and applied it. John Stuart Mill, as just noted, accepted it as axiomatic. Say's works provided an important part of the foundation for Frederic Bastiat's writing. Amongst our contemporaries, William H. Hutt has declared "that the Say Law stands once again inviolate as the basic economic reality in the light of which all economic thinking is illuminated."5 Moreover, it is a self-evident truth whose validity may be tested and proved by all who have some understanding of the world in which we live.

"Production creates its own demand." We have now arrived at the point, perhaps, where we can affirm the importance of the word "production" in the statement of the law. However misleading it may be on first encounter it is nonetheless the key to the significance of Say's discovery. Production is the road to prosperity, the law informs us. If there is a fall off in demand, the way to increase it is to increase production. If supply is declining the way to signal demand is by production.6 The only limit on the degree of potential prosperity, Say was telling us, is whatever limits there may be
to productivity of what is wanted.

The way to create Permanent Depression can now be restated. It is to act on the premise of the reversal of Say’s Law. Reversed, it can be stated this way: Consumption creates its own supply. Although no one to my knowledge has phrased the proposition that way, it is the necessary premise for much that is believed. The notion of a general overproduction of goods is premised upon it. In like manner, it is the underlying premise of all notions that the economic problem is to stimulate consumption. So far as programs to discourage production and encourage consumption have an economic premise, it is the one arrived at by reversing Say’s Law.

Barriers to Commerce

Even a brief survey of government programs will give some indication of how deeply involved the United States is in discouraging production and encouraging consumption. Indeed, such policies are not entirely new in this country. The protective tariff was a fixture in the United States in the latter part of the nineteenth century. Although proponents of the protective tariff have often advanced it as a device to encourage production, it does not have that effect. So far as it works, it discourages domestic production by denying some of the foreign market to American products. If domestic producers are enabled to supplant foreign producers as a result of the tariff the true significance is that Americans produce less, and at higher cost, than if their resources had been directed to that production which Americans could do most efficiently. Foreign loans, much used in the twentieth century, have the economic effect of encouraging foreign consumption at the expense of domestic, and discouraging production for the domestic market.

But it is in the twentieth century that so many devices have been adopted to encourage consumption and discourage production. Since it would take a massive catalogue to detail them all, it will be possible here to touch only on some of the broad categories.

All redistributionist programs, whatever the motives for enacting them, have the effect of encouraging consumption and discouraging production. This is so whether it is school lunch programs, food stamp programs, urban renewal projects, CETA, government operated educational institutions, welfare payments, or what have you. Redistribution takes away from potential saving and investment and allots the money where it is likely to be spent for consumption. Thus, it discourages production by making it more difficult to accumulate capital with which to produce. The progressive income tax is not only a redis-

distributionist measure but also one which patently discourages production and, depending on how it is spent, encourages consumption. All payments made to the idle have the effect of discouraging production and making the recipient a consumer only.

**Inflationary Distortions**

The effects of inflation—increase of the money supply—are somewhat more complex. On the face of it, much of the increased money supply is an encouragement to production, for it may be spent on plants, machinery, and productive equipment. But this is misleading. Inflation encourages the consumption of capital or productive equipment, not production as such. It sends false signals into the market by leading to a general rise in prices, leading to indiscriminate increases in production, many of which are unwarranted. Inflation, then, tends to encourage consumption, encourage indiscriminate production, and hence to discourage the concentration on producing what is most wanted, which is that portion of production which contributes most to prosperity.

Price controls have the general effect of encouraging consumption and discouraging production. And such controls are rampant in the United States today. Minimum wages, whether established by law or by unions, whether called minimum wages or salaries or wages prescribed in a civil service structure, are price controls. Moreover, wage price controls discourage production. They do so, in the first place, by reducing the number who might be employed in production—causing unemployment. In the second place, where the unemployed are paid, either in unemployment compensation or as welfare, there is an encouragement to consumption unmatched by production. Maximum prices are widespread today, on domestic oil, on much of transportation, on milk, on gas, and for hundreds of other goods and services. So far as these prices are below what they would be in a free market, they discourage production and encourage consumption.

Many sorts of government controls discourage production without themselves encouraging consumption. Government monopolies discourage production. The monopoly which the United States Postal Service has over the delivery of first class mail, for example, prevents others from entering the field and providing the service. The virtual monopoly which governments have of schooling discourages others from entering that field. Indeed, all government licensure and franchising discourages production. "Licen- sure," Milton Friedman has said, "is a special case of a much more gen-
eral and exceedingly widespread phenomenon, namely, edicts that individuals may not engage in particular economic activities except under conditions laid down by a constituted authority of the state. Such activities are usually justified on the grounds that they protect the public by maintaining standards, but whether they do or not, by restricting entry they discourage production.

Costly Regulations

Government regulation of industry, whatever its aim, discourages production. Quality controls, environmental controls, safety regulations, prescriptions for labeling, and so on are just so many difficulties in the way of producing goods. Government prescribed record keeping and reporting to government are discouraging to production. They raise the cost of producing and keep from the market myriads of products.

Generally speaking, governments in the United States do not avowedly aim to discourage production today. For a while in the 1930s, and to a lesser extent in the 1940s and 1950s, there was a conscious effort to limit production. Nowadays, however, production, per se, is not the avowed object of government control. It is even usually admitted, perhaps reluctantly, to be a good thing. But the government does often avowedly encourage consumption and by so doing proclaims that consumption, in effect, creates its own supply and leads to prosperity.

J. B. Say wrote precisely to the point. He said "that the encouragement of mere consumption is no benefit to commerce; for the difficulty lies in supplying the means, not in stimulating the desire of consumption; and we have seen that production alone, furnishes those means... For the same reason that the creation of a new product is the opening of a new market for other products, the consumption or destruction of a product is the stoppage of a vent for them." He goes on to point out, of course, that the consumption of a product is not an evil, for it is the end for which the production was done. But then, neither does the consumption itself contribute one whit to any further commerce.

It is an evil, however, he said, when consumption begins to exceed production. What then happens: "the demand gradually declines, the value of the product is less than the charges of its production; no productive exertion is properly rewarded; profits and wages decrease; the employment of capital becomes less advantageous and more hazardous; it is consumed piecemeal... because the sources of profit are dried up. The labouring classes experience a want of work; families before in tol-
erable circumstances, are more cramped and confined; and those before in difficulties are left altogether destitute.\textsuperscript{9}

That is an apt description of what is happening in the United States today, though it was written nearly two hundred years ago. We are inclined to ascribe our difficulties today to inflation. Undoubtedly, inflation is an important part of our difficulty, but it is not at the root of the trouble. Our trouble stems from acting as if consumption creates its own supply, from turning Say's Law upside down. We have been encouraging consumption and discouraging production. Every effort in that direction contributes to the breadth and depth of a Permanent Depression. When restrictions on production have proceeded far enough Permanent Depression emerges as the kind of depression we recognize from the past. Except, the underlying Permanent Depression may have been transmuted into a visible permanent depression.

Say's Law points away from Permanent Depression. It points toward, if not Permanent Prosperity, at least to as great prosperity as is possible for man. What is government's proper role in this prosperity? John Stuart Mill put it this way: "The legislator has to look solely to two points: that no obstacle shall exist to prevent those who have the means of producing, from employing those means as they find most for their interest; and that those who have not at present the means of producing, to the extent of their desire to consume, shall have every facility afforded to their acquiring the means, that, becoming producers, they may be enabled to consume."\textsuperscript{10} In short, government should remove its obstacles to production and take what measures are appropriate to it to facilitate production. Then, all may consume at will, and as they will, what they have produced themselves, or acquired from others with their production.

\textbf{FOOTNOTES—}
\textsuperscript{1}For a more complete statement of its implications, see Henry Hazlitt, \textit{The Failure of the New Economics} (New Rochelle, N.Y.: Arlington House, 1973), pp. 35-37.
\textsuperscript{3}John Stuart Mill, "On the Influence of Consumption on Production" in \textit{ibid.}, pp. 41-42.
\textsuperscript{4}\textit{ibid.}, p. 44.
\textsuperscript{6}No one is relieved by Say's Law from applying intelligence to production, of course. It is necessary to determine what is wanted and to go about producing it efficiently if production is to become effective demand and profitable.
\textsuperscript{8}Say, \textit{op. cit.}, pp. 20-21.
\textsuperscript{9}\textit{ibid.}, p. 22.
Interventionist?
Who me—Free Market Mama?
Confession being good for the soul, I’ll have to admit that I almost slipped—consciously at that—into an interventionist role.
And, candidly, had the reverse order of the following story occurred, I would have.
It happened when a 25-cent toy stamper (it inked pairs of black feet on any surface it touched) went through a price rise of some 1100 percent within a few hours in our home.
The stamper was given to Jim Dixon by his grandmother. His buddies were enchanted when he decorated them with little black feet.
Their mothers may have been somewhat less delighted, but Jim Dixon was a trendsetter with fellow first graders. Therefore, the item had even more appeal.
Jim is a special friend and favorite of my three sons. They are with him in Sunday School and around the neighborhood. Last year he and Callan were in kindergarten together. Russ (Callan’s twin) was in first grade with him this year. Big Brother Eason, a second grader, also thinks Jim is cool. The stamper represented the last word to all of them.
So when Russ came home and announced that he had just purchased the stamper for one dollar, I noted that he had made a willing exchange in a “seller’s market.” He

Barbara Hauser Bryan is a mother “mostly” and freelance writer in Roanoke, Virginia.
could not have been happier. Jim realized he had struck a good bargain, so we all grinned.

About an hour later, Callan emptied his piggy bank and told me that he had to have enough money for 28 pieces of bubble gum. He said he only had enough “cents” for 23 pieces.

Assuming that he wanted everyone (20 classmates, hmmm?) in his class to have a piece, I offered him a window-washing job for a dime. Using the best of Tom Sawyer technique, he engaged Nicky and Wilson forthwith and managed it with great dispatch.

Soon he left with his full complement of cash. The story extends slightly because the convenience store clerk quite accidentally shortchanged him. With his finest eyes-just-above-the-counter aplomb he returned to the store and evened the score. Soon the bubble gum had been turned over to its new owner.

That person, it turned out, was his twin brother Russ, who for the bubble gum and two one-dollar bills released title to the stamper.

The story might have ended there. Nobody was interested in my suggestion that we telephone Jim’s grandmother to ask where she had bought the feet stamper. Big Brother, usually shrewd and definitely well-heeled, entered the picture.

Simply because of his status as first-born, he had amassed a much fatter passbook savings account than his siblings. And, frankly, he gets a little horsey about his couple of hundred extra dollars.

Anyway, supply and demand being what they were that day, he and Callan wound up in a fascinating trading session. When we sat down to dinner, they had already agreed that Eason would fork over three dollars for the one-of-its-kind (at least in our house at that minute) item.

Knowing beyond question that he held all the cards, Callan savored his rare upper hand by playing wishy-washy. He said he might change his mind. He thought about upping the ante. He even said he might trade back with Russ and get his money returned.

We noted with three dollars he could repay himself and buy more
than 28 pieces of gum. Eason was becoming nervous.

(At that point they counted the bubble gum and Russ The Casual learned that he had been shorted by three pieces which Callan admitted to sharing with his fellow window washers.)

My only intervention was to compliment them on their practice of free market economy. We did discuss supply and demand—and rampant inflation. And, I did suggest that a bargain struck should be honored. Translated: Callan shouldn’t weasel out if Eason really wanted to pay that exorbitant figure—with his educated eyes open.

Had the reverse occurred—Eason preying upon Callan who would have hoodwinked Russ who would foist the stamper off on Jim—I would have envisioned all kinds of repercussions. And I probably would have intervened to save my face and to keep peace with the Dixons.

As far as I can tell, all four boys in the story are still smiling.

Jim’s banker father must be proud of him. Russ and Callan have worked out a rental agreement with Eason so that they still have access to the black feet—for 10 cents an hour. Eason guards the thing with his life.

And Mom?

Well, so far I’ve found black feet stamped all over my car’s Virginia license plate, the top of our living room fan, our back door neighbor’s usually spotless child’s face (“He said he wanted it there!”) and the front of the bathroom door.

Perhaps I may end up paying for permitting that demonstration of “free” enterprise.

If we can get the point across with elbow grease, scrub on!

If You Make a Promise, Keep It

Social chaos has no better ally than broken promises. Children not brought up to keep their word will be the authors of treaties written not to be observed; they’ll run for office on bogus platforms, cancel gold contracts, use the political means to expropriate property; they’ll sell their souls to gain fame or fortune or power. Not only will they fail to be honest with their fellow men; they will not even heed the dictates of their own conscience. On the other hand, children brought up to keep their promises will not go back on their bond. Integrity will be their mark of distinction!

LEONARD E. READ
It must bring Leonard Read a lot of quiet satisfaction to see that the methods he has extolled in his many books have had their effect. He believes in the power of the example—in his new book, *The Freedom Freeway* (Foundation for Economic Education, $6.00), he quotes Albert Schweitzer: "Example is not the main thing in influencing others. It is the only thing." The Read example is to work on the perfection of his own understanding and to carry on from there in both writing and speaking. He says our times demand statesmen, but he leaves active politics to others. The average politician is not a prime mover; it is the man of ideas, working for the long pull, who is the final influence on government.

At the recent European regional meeting of the Mont Pelerin Society in Spain, Leonard Read, a thoughtful observer who limited himself to a single succinct speech about private education, had the living endorsement he wanted for his way of exercising social leverage. The final Mont Pelerin session was an impromptu discussion of Margaret Thatcher’s chances for turning England back to the freedom philosophy of Cobden and Bright and Adam Smith. Mrs. Thatcher, who campaigned for the restoration of incentives, has her opportunity to transcend politics for statesmanship. But she would never have become Prime Minister on a freedom philosophy platform if it hadn’t been for four individuals who happen to be Mont Pelerin members and devotees of the Read mode of conduct. They are, respectively, Professor Friedrich Hayek who was the Mont Pelerin founder, Antony Fisher, Ralph—or Lord—Harris, and Arthur Seldon. They were all in the room together at the Madrid and Salamanca sessions in Spain.

Over the years the four had formed a Readean chain. In 1946, when the British were turning their backs on Winston Churchill in favor of adopting the Labor Party
socialism of Major Clement Attlee,
Antony Fisher, then out of the Royal
Air Force, went to Professor Hayek
for advice about getting into politics.
Hayek, fresh from writing The Road
to Serfdom, gave Fisher some things
to think about that seemed para­
doxical. The way to affect politics, he
said, was to stay out of politics.
Work on ideas, Hayek told Fisher;
get them into the marketplace.

Ideas at Work

So Fisher worked on ideas. He
first took the practical precaution of
making a considerable sum of
money in the chicken business, one
of the few businesses that had been
overlooked by Attlee’s planners.
Then he subsidized an organization
called the Institute of Economic Af­
fairs in London, putting the effe­
vessent Ralph Harris in charge to
overwork himself until he managed
to find a compatible sidekick, Ar­
thur Seldon. For the better part of
thirty years Harris and Seldon is­sued a stream of freedom philosophy
publications. The IEA pamphlets
often seemed to fall on stony ground.
But Margaret Thatcher read them,
and so did Sir Keith Joseph, now
England’s Secretary of State for In­
dustry. IEA ideas became the new
Conservative agenda. And one of the
first things Mrs. Thatcher did on
attaining office was to make Ralph
Harris a Lord.

It was as if four men had acted out
the sequence that is suggested in the
essay on “Resolution: A Freedom
Imperative,” which is one of the
many good ones in the new Read
book. “In what respect is freedom a
problem?” Read asks in this essay.
“Personal experience has given me
the answer. For 45 years my prin­
cipal aim has been to understand and
explain how freedom works its won­
ders . . . The dedicated aim—resolu­
tion—of many people working for
freedom has resulted in thousands of
tiny break-throughs . . .” And, after
some characteristically humble
words about how little he knows,
Read says what he does know: “Our
end—the Blessings of Freedom—is
but the flower of good seeds we
plant; our objective has no other
means of attainment. Your and my
role? Exemplarity! ‘Example is the
school of mankind; they will learn at
no other.’”

Like most of us in this benighted
twentieth century, Leonard Read
had to come by his wisdom the hard
way. He seldom gets personal, but
once in a while autobiography in­
trudes in a Read essay. He confesses,
in “Perseverance: A Key to Free­
dom,” that in 1929 he was taken in
by Herbert Hoover’s demand for
wage and price controls. That was
Republican doctrine at the time. In
the subsequent New Deal days, when
Franklin Roosevelt acted on
Hoover’s advice, Read, as Manager
of the Western Division of the U.S
Chamber of Commerce, supported the N.R.A., with its wage and price controls in all the big industries that had enrolled under the banner of General Hugh "Iron Pants" Johnson's Blue Eagle. It was Fascism of a peculiarly American sort, but the U.S. Chamber of Commerce and the National Association of Manufacturers accepted it. "Copycat Read!" so the Old Self Read says of the Young Self Read of 1933.

**Copycats of Socialism**

Leonard Read mentions some of his fellow copycats of the early Thirties. One of them, described as a "brilliant economic thinker" in general, advocated rent control—"A naive position he later overcame." Another, a "so-called conservative President of the United States," endorsed the Harvard professor, a "mentor" of the younger Read, who wrote: "Government must do for the people that which they cannot do for themselves." "This specious counsel," says the mature Read, "spawned countless copycats and made a substantial contribution to the socialistic mess we are now experiencing." Few people, so Read reflects, can do much of any single thing for themselves. But the division of labor steps in to make government action quite unnecessary. The mature Read wonders how "the 16,000,000 elected or appointed officials—federal, state and local—who doubtless know even less than the rest of us, will do for us what we cannot do for ourselves! If this isn't politico-economic balderdash, pray tell, what is?"

It is characteristic of Leonard Read that when he quotes an intelligent remark or bit of poetry or pertinent aphorism, he always names the person he is quoting. The name index of *The Freedom Freeway* would do justice to a Ph.D. in philosophy. But when Read tells us about his fellow copycats of New Deal socialist days, he mercifully fails to identify them. Read doesn't believe in getting people's backs up. Good psychology suggests to him that if you attack a person by name, or otherwise subject him to embarrassment of any kind, it is more difficult to convert him to what Russell Kirk calls Right Reason.

So Leonard Read's books become soft sells. The quality of his phraseology is not strained, it fall-eth as the gentle rain from heaven. Read follows what is an operationally sound technique, one which, in the hands of his British counterparts, has brought the Conservatives—really, the classical liberals—back into the seats of power. The same technique will, in time, send the necessary signals to Washington, D.C.

When he has finally achieved his aim and no longer has any worries about getting people's backs up, I
hope Leonard Read will write an autobiography that names names. He can tell fascinating stories about people who have made gaudy mistakes in judgment. He tells about keeping a journal. Does he name names in that? For one, I would like to know. Meanwhile, I am quite content to absorb Leonard Read on such subjects as the "socialization" of sin (socialism itself), and the "menace of meddlers." Read may not name his sinners or his meddlers, but he is surely convincing about the evil of the unnamed culprits’ deeds.

RESTORING THE AMERICAN DREAM
by Robert J. Ringer, with a Foreword by William E. Simon
(Published by QED; distributed by Harper & Row, Publishers: New York) 1979 320 pages • $12.50 cloth


HORROR stories about waste and fraud in government are nothing new. Proponents of a free market economy have always been the most vocal in explaining the destructive nature of government intervention, be it printing press money, regulation of business, tariffs, or whatever else government does beyond its proper role of protecting every individual’s right to life, liberty, and property. Still, it is always encouraging when someone lucidly exposes the emperor without his clothes.

Recently, we have had several superb accounts warning of the dangerous power the state has amassed during the 200 years since our Founding Fathers created a government of "limited and enumerated powers." One such warning was A Time For Truth (reviewed in The Freeman, August, 1978), former Treasury Secretary William E. Simon’s candid account of his experiences in Washington.

The latest warning of the threat presented by a concentration of governmental power comes from Robert J. Ringer in his new book, Restoring The American Dream. Ringer, author of two previous bestsellers, sees in today’s government many resemblances to the collectivist states of George Orwell’s 1984, Aldous Huxley’s Brave New World, and Ayn Rand’s Atlas Shrugged. “Today one feels the ether of these books in the air,” he writes. “Rational people know that there is something wrong. There is tension and uncertainty. There is ill will. There is fear. . . . Government-inspired nothink and doublethink have desecrated the American Dream.”

The book is frightening, but contains a glimmer of hope. It is frightening when Ringer forcefully
describes the grim realities and consequences of the transition from government by the people to government for the benefit of those in power. He exposes the tactics used by government to maintain and expand control over people: "... democracy, though it has many disadvantages for powerholders, seems to be the most practical way to maintain control, because it gives the illusion of consent."

There are various ways, Ringer points out, by which a democratic government may reinforce its control; the most successful being inflation. Government can hide the costs of the generous benefits it grants potential voters by creating new paper money rather than levying direct taxes. Government officials then blame workers and businessmen for the unpleasant consequences of this inflation—higher prices and a lower standard of living. This enables the politician to have his cake and eat it too—he takes credit for granting benefits to voters (even though consumers are forced to pay for them in the form of higher prices) while continually pointing the finger at business and labor for the painful consequences of inflation. As Ringer says, "... inflation is the one government scheme, above all others, that must be demystified if the American Dream is to be restored."

Ringer's reason for hope is borrowed in part from Simon's book. It is the belief that the American people would insist upon positive change "if they understood the situation." Therefore, Ringer's objective is to explode the myths of statism in a manner which enables the layman to understand the basic principles of individual liberty and the threat presented by collectivism.

With respect to inflation (although I believe Ringer would assert the same in regard to the whole interventionist mess) he states, "... the only hope that remains is that a great majority of Americans will come to understand the colossal inflation swindle for what it is and insist upon reform. To say the least I rate that a long shot. But at least it's a shot." We must hope Ringer is wrong on the method, for if our task is to get a majority to understand the situation, it will be a most difficult battle to win. In fact, Ringer calls himself "a pessimist trying hard to be an optimist." Fortunately, we have writers of Ringer's ability to state the case in a manner which those outside the intellectual community can comprehend.

By writing for a general audience, however, Ringer has made an unnecessary sacrifice of the philosophical justifications for some of his statements. This is unfortunate, since Ringer has demonstrated an ability to explain complex argu-
ments in a lively and understandable manner. As it is, there are some claims that need either further clarification or additional support to give them legitimacy.

At times Ringer needs to be more precise. It appears as if he has let sentences slip in that cause confusion and seem to be contradicted by passages that follow. For example, Ringer puts great emphasis on what he calls a Natural Law: "each man owns his own life and therefore has the right to do anything he wishes with that life so long as he does not forcibly interfere with the life of any other man" and refers to it throughout the book. However, when first discussing the concept, he develops it as merely "an opinion" which he chose—seemingly out of thin air—as his initial premise. Yet, he goes on from this point and the reader discovers this "opinion" to be a "no-compromise principle."

Furthermore, this Natural Law involves morality. If we seek an end whose "attainment requires a violation of the rights of even one man, then the end has been achieved through immoral action." But wait. Upon further reading we find Ringer slipping a sentence into his discussion on welfare that states, "Rational men realize that there is no such thing as absolute morality." The reader is left asking whether this concept of Natural Law is an absolute moral principle and, if so, how Ringer arrived at it. This confusion is unfortunate, since Natural Law is the foundation for the freedom philosophy Ringer develops. Because this concept is so important, Ringer should clarify what he means by "absolute morality" and develop the justification for his "Natural Law" premise. This is particularly important if he hopes the lay audience for which he is writing will grasp this basic premise.

These shortcomings, however, are more than outweighed by the clarity, excitement, and provocative nature of the book. You wish every government bureaucrat would read it. Ringer offers a variety of suggestions of what can be done to restore the American Dream. The most important is to "... be consistent on the issue of human freedom." In other words, don't give up freedom for the tempting handouts offered by expedient-minded politicians.

Bill Simon dedicated his book, in part, "to my children, so that they can never say, at some future time 'why weren't we told?" Ringer, like Simon, has cleared away the camouflage disguising government's true nature. The message is clear. Because we have books like Restoring The American Dream we can never say at some future date, "Why weren't we told?"
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Prepared by BETTINA BIEN GREAVES of the Foundation staff

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